S. HRG. 107–904

DEPARTMENTS OF VETERANS AFFAIRS AND HOUSING AND URBAN DEVELOPMENT AND INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2003

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

UNITED STATES SENATE

ONE HUNDRED SEVENTH CONGRESS

SECOND SESSION

ON

H.R. 5605/S. 2797

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, 2003, AND FOR OTHER PURPOSES

Corporation for National and Community Service
Department of Housing and Urban Development
Department of the Treasury
Department of Veterans Affairs
Environmental Protection Agency
Federal Emergency Management Agency
National Aeronautics and Space Administration
National Science Foundation
Neighborhood Reinvestment Corporation
Nondepartmental witnesses

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WEDNESDAY, MARCH 6, 2002

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

The subcommittee met at 9:35 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Barbara A. Mikulski, (chairman) presiding.

Present: Senators Mikulski, Kohl, Johnson, Bond, Shelby, Craig, Domenici, and Stevens.

DEPARTMENT OF VETERANS AFFAIRS

STATEMENT OF HON. ANTHONY J. PRINCIPI, SECRETARY OF VETERANS AFFAIRS

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OPENING STATEMENT OF SENATOR BARBARA A. MIKULSKI

Senator MIKULSKI. Good morning, everybody, to the Subcommittee Veterans, Housing, and other Independent Agencies. We will come to order.

Today we have the opportunity to listen to Mr. Secretary Anthony Principi, to present to us the appropriations request from the administration on behalf—on behalf of the administration for the Department of Veterans Affairs.

This is a wonderful day in the sense that we welcome you, Mr. Principi——

Mr. PRINCIPI. Thank you.

Senator MIKULSKI [continuing]. An old and dear friend. And it is also Senator Bond's birthday.

And I am not going to tell any more. But, Senator Bond, you know we, on the committee, love you. You know, we Democrats are just crazy about you.

You are our little muffin here today.

Senator BOND. Thank you very much.

Senator MIKULSKI. That is just about the calorie count you and I are supposed to have for all——

Senator BOND. I can only eat a quarter of it.

Senator MIKULSKI. I know you are—kind of a caffeine-kind of guy.

Senator BOND. Yes, yes.

Senator MIKULSKI. No one ever thinks you are decaf; that is for sure.

Senator BOND. No.

Senator MIKULSKI. But let me also present this to you this morning and just say, Senator Bond, you are the cream in my coffee.

Senator BOND. Thank you. I am deeply honored. Thank you.

Senator MIKULSKI. Now are you not glad we have gotten in a good mood to talk to you?

PREPARED STATEMENT

Really, Senator Bond, you know that I think the world of you. And I really enjoy so much our collegial relationship. And I would like to take this time to wish you a happy birthday and lots of good health and may you get all of your birthday wishes, including the very, very best allocation for our subcommittee.

[The statement follows:]

PREPARED STATEMENT OF SENATOR BARBARA A. MIKULSKI

I am very pleased to welcome VA Secretary Principi to the Subcommittee. It is appropriate that we are beginning our 2003 process with Secretary Principi, because keeping our promises to our nation's veterans is this Subcommittee's highest priority. We look forward to another productive year working with Secretary Principi and his team.

My goals for this hearing are two-fold. First, we must ensure that the 2003 budget keeps the promises we made to our veterans. And second, we must make sure the VA is a good steward of taxpayer dollars—so that our veterans and the American people get the most for their hard earned money.

The budget requests $57 billion for veterans' benefits and services: $29 billion for entitlements, and $28 billion for discretionary programs that are under this Subcommittee's jurisdiction. This is a $3 billion increase in discretionary funding over 2002.

Promises made must be promises kept.

This year's request for medical care is $25.5 billion—a $2.6 billion increase over 2002. It includes $1.5 billion that the VA expects to collect from third-party health insurance and co-payments from veterans, as well as $800 million in retirement liability accruals as proposed by the Administration.

So by our math, the real increase in VA medical care over 2002 is $1.4 billion—excluding collections and accruals.

In the last three years, the Subcommittee has provided large increases for medical care—$1.7 billion in 2000, $1.3 billion in 2001, and $1 billion in 2002, to encourage more veterans to enroll in the VA system, and to provide them with the medical care they deserve. At -a time when high private health insurance and prescription drug costs are really straining our elderly on fixed incomes, we can only expect that the Subcommittee will be urged to continue these increases.

That is why I am very concerned about two major issues affecting veterans' medical care.

First, I am perplexed and perturbed that the VA tells us it has a $400 million shortfall in 2002. The VA–HUD Subcommittee provided $350 million above the President's request for VA medical care to ensure that promises made to our—our nation's veterans can count on the Subcommittee to keep promises. But the Subcommittee needs to be able to count on the VA to provide accurate budget estimates, and I am now very concerned about the VA's ability to count.

Second, I am very troubled about a proposal in this budget to require certain veterans to pay a $1,500 deductible for medical care. VA tells us that most of our "Priority 7" veterans—those who are not disabled as a result of their service, and who make more than $24,000 per year—have private insurance that will pick up the tab. But that doesn't mean much to the veteran who was lucky enough to avoid being injured in battle, and who now makes a hard earned living in a small business that doesn't provide him with health insurance.

I am very concerned that a $1,500 deductible will leave some veterans without any health care at all. Especially in today's climate—where the private sector is abdicating its responsibility so frequently—we must protect those who use the VA system as a safety net. There are many flaws in this deductible proposal, but the worst is that VA can't tell us for certain how many veterans it will effect, because it has a dismal performance of collecting insurance information from our veterans. We have many concerns about the $1,500 deductible proposal, and I hope Secretary Principi can answer our tough questions.

Instead of proposing deductibles to shift the healthcare burden onto our veterans, the VA should be finding ways to improve what our veterans and taxpayers are owed from private insurance companies. We need to do more in this area, and I want to know what the VA is doing to ensure that our veterans and taxpayers get what they are owed.

We understand that collections from veterans will also increase because the prescription drug co-payment has been increased from $2 to $7. Many of my veterans in Maryland have been surprised by this increase, and I would like to know how the VA decided on $7, and if there are plans to make further changes the copayment.

Also in the area of prescription drugs, I believe that the VA can provide us with some very valuable lessons learned as we continue to look for a Medicare prescription drug benefit. The VA spends almost $3 billion each year on drugs, and its benefit program could serve as a model for the future. I'd like the Secretary to tell us about the benefits that VA provides and how it develops its formularies so that we can build upon this expertise.

On the other hand, unfortunately VA still has a way to go on waiting times. Veterans still have to wait too long to see a doctor.

And on the benefits side, while the VA has made progress in reducing its claims processing time, 165 days is still unacceptable. I know Secretary Principi wants to reduce processing time to 100 days by 2003, and I am interested in learning how he plans to do this.

Finally, I also want to be sure that the VA is taking care of its own caregivers. A recent Gallup poll found that nursing is the most respected profession in the United States. Yet this country is facing a nursing shortage that we're working hard to address. I'd like to know what VA is doing to recruit, retain, and improve working conditions for its nurses.

Again, I welcome Secretary Principi to his second appearance before the Subcommittee and I look forward to hearing his testimony.

Senator MIKULSKI. With that, Mr. Principi, why do you not go ahead and proceed with your testimony?

STATEMENT OF ANTHONY J. PRINCIPI

Secretary PRINCIPI. Thank you, Madam Chairwoman.

Senator Bond, Senator Johnson, it is a great pleasure to be with you.

And I, too, wish you a very, very happy birthday, Senator Bond. It is always good to come up here on birthdays.

I am very pleased to have this opportunity to present our budget request to you and am grateful to the President for his support. We are requesting $58 billion for veterans' benefits and services, $30.1 billion for entitlement programs, and $27.9 billion for discretionary programs; an increase of $6.1 billion over our 2002 enacted level.

Let's look specifically at our medical program. First, I think it is important to back out accounting transfers, so that the budget proposal does not appear to include any smoke and mirrors or increases due to a proposed deductible. The real apples-to-apples increase is 7 percent for medical care, a $1,570,000,000 increase. I will talk a little bit more about that increase and the challenges we face in health care.

Next, we are requesting an increase of $17 million for burial services, a $94 million increase for our Veterans Benefits Administration to continue the great work that our people are doing in reducing the claims backlog, and a $64 million increase for capital programs. We have a robust medical research program. We are requesting an increase that would bring our appropriation to $409 million. Combining our $401 million subsidy from medical care funding with the funds we receive through grants from universities and other Federal agencies with our appropriation, we will have a $1.46 billion program in medical research that we are very, very proud of.

VA'S MEDICAL CARE PROGRAM

With the funds allocated for medical programs, members of the committee, we will be able to treat nearly 4.9 million veterans in the coming fiscal year. That is a 3.3 percent increase over fiscal year 2002. But it does not tell the whole story. Clearly, we have seen such a phenomenal growth in workload over the past several years. The growth has been somewhat staggering since eligibility reform went into effect in 1996 and we made the important transition to primary care and community-based outpatient clinics. Our growth rate has been 38 percent in priorities one through six. But

the real story is the growth in priority seven, which has grown 500 percent since 1996.

In 1996, priority 7s represented 3 percent of our workload. Today they represent 33 percent of our workload. And that number will grow to over 42 percent by the end of the decade. The cumulative cost for priority 7s alone, just this one category, is $20 billion between 2003 and 2007. In 2007 it will consume over $5 billion a year of our budget.

So, we have grown in priority 7s from 200,000 veterans in our system to over 1 million in 2002. And I believe patients are coming to us for many, many reasons. I think there are some national policy issues involved here. Veterans seek our care because we have a very, very fine benefit package from primary to nursing home care, including the very, very important pharmacy benefit that we provide.

Of course, more outpatient clinics have been opened. We have 622 now, across the country. Just as depicted in the movie, "If you build it, they will come," well, we have built them, we have opened them, and they have certainly come. And I think our quality is clearly so much better today. Our customer satisfaction is good. We are not perfect, but we are doing good work.

Those factors, coupled with HMO's, and Medicare HMO's closing down, or no longer offering a pharmacy benefit, and the fluctuating economy in some parts of the country, have resulted in that increase in workload. That increase is something that we need to deal with. I have been very, very honest in saying that, notwithstanding this record requested increase in medical care funding, without some actions by the Congress or by me as Secretary, to either limit enrollment, or to require a greater sharing in the cost of their care by priority 7s, or enactment of Medicare subvention, or without increased collections for medical care cost recovery, we will not have enough money to treat all of the veterans who come to us in open enrollment. A lot of the changes that took place in 1996 were premised on Medicare subvention, which never happened.

I need to state for the record, because it is an important policy issue that all of us have to grapple with to ensure that the quality remains high, that the access times to get into clinics are not reasonable. We see longer and longer wait times in some parts of the country, which is unacceptable and not good quality of care. We are not meeting the expectations people have of us, and we need to grapple with that issue.

$1,500 DEDUCTIBLE PROPOSAL

The service-connected and some of the poor feel that they are being squeezed out in some areas of the country, so there are some warning signs on the horizon. After looking at all of the options available to me, I opted for a deductible where priority 7s would share in the cost of their care, rather than closing off enrollment.

The deductible does not operate like a regular deductible. No one is asked for money out-of-pocket at the beginning before the care is provided. We will bill insurance companies for every dollar of that deductible, and we will charge veterans without insurance a percentage of reasonable charges.

The bottom line is we need to work with the members of this committee and the House committee to devise a solution to this problem, whether the deductible is modified or we look at other steps that we can take to ensure that we manage our growth and maintain high quality care.

GRANTS FOR VETERAN EMPLOYMENT

We are also requesting a transfer in funding of $197 million from the Department of Labor for the Veterans Employment in Training Service Program. Though this program has not worked as well as it should at the Department of Labor, that is not an indictment of the people in the program. I think it is more an indictment of the system.

Veterans in the age group of 20 to 24—those recently discharged from the military having served their Nation honorably, have a 9.6 unemployment rate compared to the general population of 4.2 percent. In 20 States, fewer than 11 percent of the veterans who go to the employment service for help were place in suitable jobs. We have over 500,000 veterans who are unemployed today, a third of whom have been unemployed for more than 15 weeks.

I believe that VA, which has been entrusted with caring for veterans as its sole mission, could manage this employment program very well by making it outcome-based, performance-based, and putting it into the continuum of programs we have for veterans through vocational rehabilitation education, and other programs. I support this transfer because I think it is good for veterans. I would commission a task force, comprised of the stakeholders, to help me identify how we can establish this new program in VA and how it should work.

VETERANS BENEFITS ADMINISTRATION

On the benefits side of the house, I am pleased to report to you that we are making progress on reducing the claims backlog. In January of this year, we set a record in the number of claims we decided: 62,536. That record was broken in February; we decided 62,900 claims. That compares to 29,036 in January of a year ago, and 28,900 in February a year ago. So, we have doubled our productivity and our accuracy rate remains at an all-time high.

PROCUREMENT REFORM TASK FORCE

We are looking at how we manage the VA. I have established a procurement reform task force to provide me with recommendations on how we can be better procurers of goods and services. Outside of Defense, we are probably the largest procurement department in government, with purchases of $5 billion annually in goods and services. I think there is an awful lot of room for improvement. I now have the report on my desk, and I intend to implement the recommendations to standardize and use national contracting volume discounts to improve the bottom line so that we have more money for veterans.

ENTERPRISE ARCHITECTURE

We did the same with our Information Technology Program, and established an enterprise architecture strategy implementation and governance plan with an information technology board to help us end stove-pipe design, development, and procurement of IT. Under the leadership of Dr. John Gauss, our new CIO, we will make some real progress in that area.

NATIONAL CEMETERY ADMINISTRATION

With regard to our national cemetery system, we are in the process of opening 6 new national cemeteries across the country. They are in different phases of development. Due to the aging of the World War II population, interments are at an all-time high in our national cemeteries. We have to ensure that we have space to honor those who served their Nation in uniform.

PREPARED STATEMENT

We have great challenges, Madam Chair, Senator Bond, members of the committee. But I am convinced that we are on the right road. And working together, I think we can overcome the challenges that we face.

Thank you very much.

[The statement follows:

PREPARED STATEMENT OF THE HONORABLE ANTHONY J. PRINCIPI

Madam Chair, and members of the Committee, good morning. I am pleased to be here today to discuss the President's 2003 budget proposal for the Department of Veterans Affairs (VA) and tell you about the significant progress we are making on behalf of the Nation's veterans.

Our budget reflects the largest increase ever proposed for veterans' discretionary programs. It ensures more veterans will receive high-quality health care, that we will provide more timely and accurate benefit claim determinations, and that we will maintain a dignified and respectful setting for deceased veterans. Our proposal reflects the debt of gratitude we owe to those who have served our country with honor. It also signals our enduring commitment to the men and women in uniform who today defend our freedom many miles away.

We are requesting $58 billion for veterans' benefits and services—$30.1 billion for entitlement programs and $27.9 billion for discretionary programs. This is an increase of $6.1 billion over the 2002 enacted level. Our budget increases VA's discretionary funding by $3.1 billion over the 2002 level, including medical care collections. Increases for specific programs are as follows: $2.7 billion for medical programs; $17 million for burial services; $94 million for the administration of veterans' benefits; and $64 million for capital programs and other departmental administration.

Our budget request includes $197 million for a new grant activity that replaces programs currently administered by the Department of Labor and $892 million for certain Federal retiree and health benefits as proposed by the Administration's Managerial Flexibility Act of 2001. Excluding these new activities, our budget for discretionary programs reflects an increase of $1.9 billion, or 7.8 percent over last year's funding level.

MEDICAL CARE

For Medical Care, we are requesting budgetary resources of $25 billion, including $1.5 billion in collections. This amount includes $793 million for accrual for certain Federal retiree and health benefits and $260 million in increased collections related to the proposed legislation deductible initiative. Under current law without the impact of these two variables, the Medical Care increase is $1.5 billion—comprised of $1.4 billion in increased appropriations and $158 million in increased collections. This increase when combined with the $1.1 billion impact of the deductible proposal, equals $2.7 billion, the amount of the medical care increase that would be needed

to support the projected 6 percent increase in 2003, which is 290,000 more veteran health care system users without the enactment of the deductible proposal.

Madam Chair, we are focusing on improvements needed to our billing and collection from third party insurers. While we have doubled our collections in the past couple of years, we know we need to do more. In a collaborative effort with an external contractor, we have identified 24 actions that will yield significant enhancements to our ability to collect revenue. While many of these actions require time and investment, we have already begun improvements to the revenue collection process. I have directed that we begin the process of consolidating billing and collection services, and that we explore the cost and benefits of outsourcing these services. In addition, we are aggressively pursuing insurance identification by obtaining new HIPAA compliant software to facilitate exchange of medical information with non-VA entities. We are also mounting increased veteran and employee awareness and training campaigns. Further, we have developed a web-based performance metrics program that is used by central office and medical center staff to monitor and evaluate the critical steps in the revenue cycle. Following the original implementation of reasonable charges in September 1999, we have implemented two updates. Work is nearly complete on the next reasonable charges update, which we expect to publish in the Federal Register as an Interim Final Rule and implement during Spring 2002. We expect to collect over $1 billion this year with continuing increases in 2003 and beyond. We are committed to maximizing our revenue opportunities from this source.

VA has experienced unprecedented growth in the medical system workload over the past few years. The total number of patients treated increased by over 11 percent from 2000 to 2001—more than twice the prior year's rate of growth. For the first quarter of 2002, we experienced a similar growth rate when compared to the same period last year. The growth rate for Priority 7 medical care users has averaged more than 30 percent annually for the last 6 years, and they now comprise 33 percent of enrollees in the VA health care system. Based on current law, this percentage is expected to increase to 42 percent by 2010.

I am proud that an increasing number of veterans are choosing to receive their health care in the VA system. Despite this success, we have much to accomplish. Patient access to our medical facilities must be improved and this budget reaffirms our commitment to do so. Our goal is for veterans to receive non-urgent appointments for primary and specialty care in 30 days or less, while being seen within 20 minutes of their scheduled appointment. We have included an additional $159 million in our request to work toward this goal.

Madam Chair, I know you agree that VA's health care system should maintain timely, high quality care for service-connected and low income veterans and remain open to all veterans. To effectively manage participation in the system, we are proposing a $1,500 medical deductible for Priority 7 veterans. With no change in policy, the cost of care for Priority 7 veterans would grow from $1 billion in 2000 to over $5 billion in 2007. To assure that rising workload does not dilute the quality of care, Priority 7 veterans are being asked to pay for a greater portion of their health care than in the past. We are recommending that these veterans be assessed a deductible for their health care at a percentage of the reasonable charges up to a $1,500 annual ceiling. This is not a standard deductible that must be paid upfront and veterans' insurance may cover all charges. If all projections, funding levels, and the new deductible are realized, VA anticipates continued open enrollment to all veterans in 2003 without detriment to our traditional core patients—those with service-connected disabilities and lower incomes.

VA is working to meet the challenges in long-term care for veterans. However, we believe that a literal interpretation of Public Law 106–117, the "Veteran's Millennium Health Care and Benefits Act of 1999" will result in less than optimal solutions for increasing our long-term care capacity. The number of individual veterans who received care in VA increased from more than 3 million veterans in 1998 to more than 4 million veterans in 2001, due primarily to VA's efforts to expand access for primary care. During that same time period, efforts have been made to meet the increased demand for long-term care. Although the average daily census in VA nursing homes declined, veterans mandated under Public Law 106–117 to receive such care are being served in VA and contract community nursing homes. VA is also supporting a significantly increased census of veterans in State veterans nursing homes. At the same time, VA has been expanding care for veterans in home and community-based extended care, consistent with the mandates of Public Law 106–117. Indications we have received from veterans show that they are pleased with options providing long-term care closer to home, as well as alternatives to more traditional skilled-nursing environments. We look forward to working with Congress to pursue the best options to provide veterans with long-term care.

Our rapidly aging veteran population requires more health care services. Our request includes $817 million to address this rising demand. These funds will support our emphasis on access and service delivery, pharmaceutical support, prosthetics, CHAMPVA for Life, and information technology. Management savings of over $316 million will partially offset resource needs. For example, I am establishing a program across the VA system that will implement "best practice" standards for dispensing and prescribing pharmaceuticals.

The 2003 budget supports our cooperative efforts with the Department of Defense (DOD) to improve Federal health care delivery services. Over the past year, we have undertaken unprecedented efforts to improve cooperation and sharing in a variety of areas through a reinvigorated VA and DOD Executive Council. VA and DOD entered into a Memorandum of Understanding (MOU) in December 1999, with the objective of reducing contract duplication. The first addendum to that MOU resulted in the conversion of DOD's Pharmacuetical Distribution and Pricing Agreements (DAPAs) to reliance on VA's Federal Supply Schedule (FSS) contracts for pharmaceuticals, which was completed in December 2000. The second addendum is an agreement to convert DOD's DAPAs for medical/surgical products to reliance on VA's FSS. This effort was completed in December 2001. To address some of the remaining challenges, the Departments have identified four high-priority items for improved coordination: veteran enrollment, computerized patient records, cooperation on air transportation of patients, and facility sharing instead of construction.

MEDICAL AND PROSTHETIC RESEARCH

VA's clinical research program is funded at the highest level in history with a partnership of government, universities and the private sector. Over $1.46 billion will be invested in 2003: $409 million in direct appropriation; $401 million in support from the VA Medical Care appropriation primarily in the form of salary support for the clinical researchers; $460 million from Federal organizations such as DOD and NIH; and $196 million from universities and other private institutions. This investment will allow VA to expand knowledge in areas critical to veterans' and other citizens' health care needs including schizophrenia, diabetes, further implementation of cholesterol and other guidelines, aging, renal failure treatment, and clinical drug treatment evaluations. This investment is relevant to the medical needs of the entire Nation and will enhance future quality of life.

CAPITAL ASSET REALIGNMENT FOR ENHANCED SERVICES (CARES)

We continue our effort to transform the veterans' health care system under the Capital Asset Realignment for Enhanced Services (CARES) initiative. We are evaluating the health care services we provide, identifying the best ways to meet veterans' future medical needs, and realigning our facilities and services to meet those needs more effectively.

Madam Chair, this initiative is not a perfunctory exercise. The CARES process has already had a significant impact on our planning process. Last week, I announced my decision on realigning VA health care facilities in VISN 12. For example, we will shift inpatient services to a remodeled Chicago West Side Division, and maintain a Lakeside Division multi-specialty outpatient clinic in the downtown area. The Hines VA Medical Center will be renovated, including the Blind Rehabilitation and Spinal Cord Injury Centers. Sharing opportunities between the North Chicago VA Medical Center and the adjacent Naval Hospital Great Lakes will be enhanced.

CARES is critical to the future of VA health care. It will allow us to redirect funds from the maintenance and operation of facilities we no longer need to direct patient care. I am prepared to make the difficult choices necessary to ensure accessible care to more veterans in the most convenient and appropriate settings. We will complete CARES studies of our remaining health care networks within two years. Any savings that result from CARES will be put back into the community to provide higher quality care and more services to veterans. Changes will affect only the way VA delivers care—health care services will not be reduced.

MAJOR AND MINOR CONSTRUCTION PROGRAMS

For all capital programs (construction and grants) this is the largest request since 1996. Specifically for major construction, new budget authority of $194 million is requested. We are requesting funds for four seismic projects in exceptionally high-risk areas: two in Palo Alto, one in San Francisco, and one in West Los Angeles, CA. These projects involve primary care buildings and a consolidated research facility—all of which will be part of any service delivery option resulting from the CARES process. Seismic improvements will ensure veterans and their families, and VA

staff, will continue to be cared for, and work in a safe environment. The 2003 Major request also addresses critical National Cemetery needs. Resources are included for new cemeteries in Pittsburgh, PA and Southern Florida and a columbaria and cemetery improvements project at the Willamette National Cemetery, OR. Design funds are provided in the amount of $3.4 million for the design of new cemeteries in Detroit, MI and Sacramento, CA. We are also requesting funds to remove hazardous waste and asbestos from Department-owned buildings, perform an emergency response security study, reimburse the judgment fund, and support other construction-related activities.

To date, we have received $80 million in Major Construction funding to support the design and construction of projects that result from CARES studies. Our Major request for 2003 includes $5 million to continue efforts to realign our facilities.

New budget authority in the amount of $211 million is requested for the Minor Construction program. Particular emphasis will be placed on outpatient improvements, patient environment, and infrastructure improvements. A total of $35 million is earmarked for CARES-related design and construction needs. These funds have been proposed to allow VA to immediately implement CARES options that can be accomplished through the minor construction program (i.e., capital projects costing more than $500 thousand and a total project cost less than $4 million). In addition, $20 million is dedicated to a newly created category to fund minor seismic projects, which will allow VA to further address its seismic corrections needs.

VETERANS' BENEFITS

For the administration of veterans' benefits, we are requesting $1.2 billion and an additional 125 employees over the 2002 level. The President has promised to improve the timeliness and quality of claims processing. Last year, I established a claims processing task force to recommend changes that would improve the time it takes to process claims. The results of that task force, as well as implementation plans, have been presented to me and we have already begun to execute many of the recommendations.

I have set a goal of reaching 100 days to process compensation and pension claims by the summer of 2003. While the annual average number of days for these claims is projected to be 165 for 2003, we expect to achieve the 100-day goal by the last quarter of the year. Four months ago, we began a major effort to resolve 81,000 of the oldest Compensation and Pension claims. A key element of this effort involves a "Tiger Team" at the Cleveland Regional Office that will tackle many of these claims over an 18-month period. The team became fully operational in November 2001. Additionally, consolidation of pension benefit maintenance at three sites will allow VBA to free up employees to focus on rating compensation claims.

At the same time we are reducing the time it takes to process claims, we continue to improve the quality of claims processing. During 2003, the national accuracy rate for compensation and pension claims is projected to grow to 88 percent—a significant improvement from the 59 percent rate evidenced in 2000. This budget contains $3.5 million to support 64 additional employees dedicated to the Systematic Individual Performance Assessment (SIPA) initiative. This is an important contribution to enhance internal control mechanisms and bring accountability to the accuracy of claims processing.

This budget provides additional staff and resources to continue the development of information technology tools to support improved claims processing. Over the last several years, VBA has developed and implemented major initiatives, established cooperative ventures with other agencies, and used technology and training to address accuracy and timeliness. This budget continues to focus on initiatives in these high payoff areas. For example, this budget requests $6 million in support of the Virtual VA initiative. This effort, when complete, will replace the current intensive paper-based claims folder with electronic images and data that can be accessed and transferred through a web-based application.

Our budget also addresses the mandate to ensure that Montgomery GI Bill (MGIB) education benefits provide meaningful transition assistance and aid in the recruitment and retention of our Armed Forces. Recent legislation has improved these benefits and our priority is to deliver them as efficiently as possible. I am pleased to report that the Imaging Management System (TIMS) is now functioning in all four Regional Processing Offices. The electronic folders that result from this effort have expanded access points, improved data access, and enhanced customer satisfaction. This budget requests $6.2 million to develop and install the Education Expert System (TEES). Among other benefits, this expert system will enable us to automate a greater portion of the education claims process and expand enrollment

certification. In 2003, we will continue to improve the accuracy and timeliness of education claims and improve blocked call rates.

Madam Chair, I would like to take this opportunity to mention one of VA's great success stories—the administration of more than 4 million insurance policies in force. The American Customer Satisfaction Index (ASCI) and the University of Michigan conducted a study of the insurance death claims process and the satisfaction of beneficiaries who received awards. This study gave the VA's insurance program a score of 90 on a scale of 100. This is one of the highest scores ever recorded for either government or private industry. This budget provides funding to continue the Insurance Center's history of excellence. Our request includes a paperless processing initiative, which improves timeliness and quality of service while reducing the cost to policyholders.

NEW VETERANS EMPLOYMENT GRANTS PROGRAM

Veterans represent a unique and invaluable human resource for American society and the economy. Service personnel leave the military knowing they have made a vital contribution to their country. Veterans want to continue making meaningful contributions as they return to civilian life. However, in 21 States, fewer than 10 percent of veterans between the ages of 22 and 44 were placed in employment after seeking job search assistance from State service providers; during 2001, there was an average of 519,000 unemployed veterans, and in the same time period, 32 percent of unemployed veterans experienced 15 or more consecutive weeks of unemployment.

America's labor exchange market has evolved in the time since the foundation for current programs was laid. This budget proposes legislation that will allow VA to create a new competitive grant program to help veterans obtain employment. VA is working with the Department of Labor (DOL), veterans' service organizations and others to propose a veterans' employment program tailored to the needs of 21st century veterans seeking assistance in finding suitable employment. The details of the legislative proposal to implement this initiative are not yet final. If authorized by Congress, the new program will broaden our ability to assist veterans with employment and training services. Our first priority will be serving unemployed service-connected disabled veterans and those recently separated from military service. We will also help other veterans searching for employment. Our budget request for discretionary programs includes $197 million for the grant initiative.

We have the flexibility to design a program that will incorporate elements currently contained in the DOL grant program—transition assistance; disabled veterans' outreach; local veterans' employment representatives; and homeless veterans reintegration. Veterans look to the VA for education benefits, home loan assistance and, in some instances, rehabilitation and employment, medical care and compensation benefits in the transition years after leaving active duty. Later in life, many veterans may return to the VA for health care and ultimately burial benefits. Adding an enhanced employment opportunity program to the spectrum of care and services provided by VA would provide veterans with a single access point to a full continuum of benefits and services throughout their lifetime.

I know there are many questions left unanswered regarding this new program. We are in the process of finalizing our legislative proposal within the Administration and will submit it to you in the near future. At that time, we will be prepared to address your questions in greater detail.

NATIONAL CEMETERY ADMINISTRATION

The budget proposal includes $138 million to operate the National Cemetery Administration. The request preserves our commitment to maintain VA's cemeteries as National shrines, dedicated to preserving our Nation's history, nurturing patriotism, and honoring the service and sacrifice of our veterans. It provides a total of $10 million to continue renovation of gravesites, as well as clean, raise, and realign headstones and markers.

As noted earlier in my testimony, our budget request for Major Construction includes funds for the development of two new national cemeteries in the vicinity of Pittsburgh, PA and Miami, FL. Operating funds also are requested to prepare for interment operations in 2004 at these two locations and to begin interment operations at new cemeteries at Fort Sill, OK, and near Atlanta, GA.

MANAGEMENT IMPROVEMENTS

Madam Chair, last year I stated my commitment to reform VA's use of information technology. I am pleased to report that we have made substantial progress in this area and will continue our reform efforts. As VA moves forward with implemen-

tation of the One-VA Enterprise Architecture developed in 2001, we will manage information technology resources to account for all expenditures and ensure our scarce resources are spent in compliance with this Enterprise Architecture. A strong program is under development for Cyber Security. We are re-engineering our IT workforce to ensure we have the proper skill sets to support our program needs. I have recently approved a comprehensive change in how we manage our IT projects to ensure they deliver high quality products, meet performance requirements, and are delivered on time and within budget.

VA is bringing enterprise-wide discipline and integration of our telecommunications capability to increase security, performance, and value. Command and control capabilities are being established to support the Department in times of emergency. Electronic government will be expanded and internet capabilities will be enhanced to improve the delivery of services and the sharing of knowledge for the benefit of the veteran. All of these efforts will focus on meeting the objectives of the President's Management Agenda.

We are pursuing other important initiatives that will promote better management practices throughout the Department. For example, I recently convened the VA Procurement Reform Task Force to examine our acquisition process and develop recommendations for improvement. The Task Force has presented 60 recommendations to accomplish several major goals that will enhance our ability to: 1) leverage purchasing power; 2) obtain comprehensive VA procurement information; 3) improve VA procurement organizational effectiveness; and 4) ensure a sufficient and talented VA acquisition workforce. Mandatory use of the Federal Supply Schedule, reorganization and elevation of the VHA logistics function to more quickly standardize medical and surgical supplies, and establishment of a National Item File are some of the more prominent recommendations being made in order to maximize savings in our medical care procurements. We are well on our way to achieving savings and increased effectiveness in VA's acquisition arena.

Finally, our 2003 request includes funds for a new Office of Operations, Security and Preparedness (OS&P). Since the tragic events of September 11, 2001, we have made substantial investments to address the Department's security and preparedness, and to meet our primary and critical emergency response missions. VA is the only pre-deployed nationwide health care system. We must be prepared for any disaster response. OS&P will play an important role in the Federal government's continuity of operations in the event of an emergency situation. The new office is formed with the specific intent of improving VA's ability to respond to any contingency with minimal disruption to services for veterans and their families. This office will coordinate all VA involvement with the Office of Homeland Security, FEMA, the Department of Health and Human Services and DOD.

Madam Chair, that concludes my formal remarks. Although many challenges lie ahead, I am proud of the accomplishments that have taken place over the past year. Our budget request for 2003 is a good budget for veterans and positions us for continued success. I thank you and the members of this Committee for your dedication to our Nation's veterans. I look forward to working with you. My staff and I would be pleased to answer any questions.

SENATOR MIKULSKI'S COMMENTS

Senator MIKULSKI. Well, thank you very much, Mr. Secretary, for that testimony and really the very serious both policy and appropriations issues that are raised in the course of appropriations testimony to policy and the changing nature of the enrollment in the veterans health care system.

In my enthusiasm for wishing Senator Bond a happy birthday, we did not go to opening statements. But also, I am just going to ask unanimous consent that all Senators' opening statements go into the record. And then we can move very promptly to questions, knowing that other subcommittee hearings are pressing other colleagues.

I would also like to ask unanimous consent that the letter from the veterans organizations that—every year they do an analysis of the Veterans Administration budget request. They do an outstanding job and, I believe, a service to the Nation. Their covering letter to the committee and appropriate people, I would like to have

those introduced into the record just as their views. And then we will be meeting with them separately on another occasion.

[The information follows:]

LETTER FROM THE INDEPENDENT BUDGET

JANUARY 7, 2002.

The Honorable GEORGE W. BUSH,
President of the United States, The White House, Washington, DC.

DEAR MR. PRESIDENT: On behalf of the co-authors of The Independent Budget, AMVETS, Disabled American Veterans, Paralyzed Veterans of America, and the Veterans of Foreign Wars of the United States, we are writing to strongly urge your Administration to fully fund veterans' medical care spending to $24.5 billion in fiscal year 2003.

The brave men and women called to service after the tragic events of September 11, to defend our interests here and abroad, will be tomorrow's veterans. We implore you to ensure that these service members and those who have served before them in defense of our nation will have the health care and benefits they have earned and deserve from the Department of Veterans Affairs (VA).

The fiscal year 2002 VA medical care budget falls $1.5 billion short of what is recommended by The Independent Budget. We are extremely disappointed that the Administration and Congress have gone forward with a VA appropriation that will not even fund the pending mandated wage increase for VA's employees. We are especially concerned about reports of VA facilities having significant waiting lists for initial services once a veteran is enrolled in the system, as well as closed enrollment at some hospitals. Most disturbing are reports of severely disabled veterans having to wait for health care services and specialized services such as home health care.

We understand that VISN directors were recently informed health care allocations for fiscal year 2002 include a two percent "efficiency" cut. One medical center director reported his VISN must slice $80 million from its budget to help make up for the deficit in the budget. He added that the VISN was required to submit its plan to reduce spending to the VA by December 28, 2001. It is outrageous that hospital directors, already struggling to meet demand, are now being forced to make further cuts. New mandates coupled with an insufficient budget, will undoubtedly result in rationed health care and closed enrollment. VISN directors will have no choice but to close beds, consolidate services, and reduce the number of full-time employees. This two percent cut could equate to a loss of 13,000 full-time employees. This pressure on the system will especially hurt sick and service-connected disabled veterans and affect their access to timely health care.

We appreciate the Administration's decision to provide additional funding to allow the Department to continue to enroll all veterans in its health care system for next year. Unfortunately, the fiscal year 2002 budget shortfall and continued open enrollment have stretched the Veterans Health Administration to its limits, making it extremely difficult for VA to provide timely, quality health care services veterans deserve. Current spending is a least $400 million below needs according to Secretary Principi. We understand the deficit is actually closer to $750 million if you factor in inflation and maintain workload at current levels. At the very least, in order to continue enrollment of all veterans, Congress and the Administration must find the additional funds necessary to address this shortfall.

Without additional funding, VA is unable to meet veterans' health care needs and provide the high quality care it is capable of delivering. The Veterans Health Administration (VHA) is a national treasure, responsible for training most of the nation's medical care workforce. It is also responsible for great advances in medical science due to VA research. These advances in medical science have benefited all Americans, not just veterans. Finally, VHA is the most cost-effective application of Federal health care dollars. Research shows VHA provides care for at least 25 percent less than comparable Medicare services. Given the proper resources, VA can effectively function as a backup to the Department of Defense during a time of conflict or to the Federal Emergency Management Agency during a national emergency. Therefore, it is an excellent investment, and it makes good fiscal sense to keep this system functioning well, especially now while our nation is at war. Our treasured way of life and freedom is a result of the sacrifices and commitment made by the men and women serving in our armed forces.

The Administration can no longer ignore the serious financial problems VA is now facing and its negative impact on sick and disabled veterans. Mr. President, the Administration must increase VA medical care spending to $24.5 billion in fiscal year

2003 to ensure a secure and stable future for those who have served our nation through military service.

We urge you to continue to support our nation's veterans by providing VA with the funding needed to maintain a viable health care system now and in the future.

Sincerely,

ROBERT JONES,
Executive Director.

ROBERT E. WALLACE,
Executive Director, AMVETS Veterans of Foreign Wars.

DELATORRO L. MCNEAL,
Executive Director.

DAVID W. GORMAN,
Executive Director, Paralyzed Veterans of America Disabled American Veterans.

SENATOR MIKULSKI'S GOALS FOR THE HEARING

Senator MIKULSKI. Mr. Secretary, my goals for this hearing are two-fold: one, to ensure that in fiscal 2003 promises made are promises kept; and that, at the same time, to be good stewards of the taxpayers' dollars. I am concerned about several major issues. But the two most dominant are those where we know that the VA told us that they had a $400 million shortfall in 2002 after the subcommittee had provided $350 million over the President's request, and actually $1 billion more. I—and then that somehow or another Congress is at fault. I am going to come back to that.

Then there is the issue of the priority 7 veterans and the deductible that you are proposing. I think you raise very challenging issues. But we really do not want a moat. It is one thing for there to be policy priorities. But we really do not want a money moat around veterans health care. And these are other areas that we will want to pursue. And, of course, I know the issues around construction and the maintenance of facilities are a significant issue, as well as the CARES.

$400 MILLION BUDGET SHORTFALL

But let me go right on to my first set of questions here. Last year, when we provided more money, there was an announcement by you that there was a $400 million shortfall and that actions were going to be taken, which essentially would have very much limited veterans' health care. And somehow or another, it looked like it was our fault that we did not give you enough money, when we gave you more money than the President asked and more money than this subcommittee gave last year.

Could you tell us why you had this shortfall? And I do not—this is not to be brusque or a spring hazing. I have so much respect for you. But was it that the VA could not count? I mean, we had a hearing; we had a discussion. And then we got this $400 million shortfall and a letter going out to the veterans, really limiting their access. So could you tell us why, number one; number two, how you made it up; and number three, how we do not get into a jackpot this coming year after we have done what we think is our job in trying to help you do your job to protect our veterans?

Secretary PRINCIPI. Yes. I fully understand, Madam Chair. Our workload projections for fiscal year 2002 were based upon the workload growth that we had seen for the period 1998 through the year 2000. We had been seeing a 5 percent growth in workload dur-

ing that period of time and projected that the growth would remain around 5 percent.

Well, it doubled. It doubled in 2001 and then again in 2002, 11 to 12 percent a year. I think that is attributable to many factors. One, a little bit of a fluctuating economy, so more and more veterans are coming to us for care. With open enrollment, any veterans, irrespective of service-connected disability or not, income, poor, or middle income, can come to us any day of the year; and indeed they have.

Senator MIKULSKI. Well, Mr. Secretary, excuse me. Are you saying that the shortfall, the $400 million shortfall, that you announced, I believe, last summer—am I—when did you make that announcement?

Secretary PRINCIPI. In the fall.

Senator MIKULSKI. Excuse me. In the fall. Was that due to the fact of the increased enrollment from priority 7? Or was it just that, taken over in the transition, there were so many loose ends? And I am going to acknowledge, you overtook a situation that had not been well-managed for a significant amount of time. So I am going to acknowledge that when you walked in, you had your hands full. But was it because of more people or because the estimates were not proper?

Secretary PRINCIPI. No. I think the estimates were not proper for the most part. There may have been some other smaller issues. At that time, we also thought that the TRICARE for Life Program enacted into law by Congress, was a great program for military retirees and they would leave VA at age 65, but have some 600,000 military retirees enrolled in our health care system.

When Congress passed TRICARE for Life, so that these military retirees could now receive their care through the TRICARE Program, we estimated that a significant number would go to Tricare. We did not see that early on in the program. Their pharmacy benefit is a little bit more generous than our pharmacy benefit. It is only $9 for a 90-day supply. We thought that the transition would be a lot faster.

I think the shortfall really had to do with inaccurate projections of workload.

Senator MIKULSKI. Well, are we going to have—do you think you have estimated right this time? See, I have my doubts. And then again, let me tell you why I have my doubts. And I would like you to come back.

Number one, there are certain assumptions in your request, one of which is that you are going to be able to recover a significant amount of money from third parties. The VA has never been able to meet their own targets. That is number one.

$1,500 DEDUCTIBLE FOR PRIORITY 7 VETERANS

Number two, you are proposing a $1,500 deductible for priority 7 veterans. That is an assumption which the Congress has not agreed to and, as you know, is enormously controversial. It gives many of us great pause about—in other words, if you can afford—my own—if you can afford the $1,500, would you be in another program? In other words, is this really the cost of what you think their prescription drugs are?

But those two items there tell me that you really—that I really question the—I really question your request, because I believe the assumptions are faulty. Would you like to comment? Because I really do not want a jackpot this fall for our veterans or for this committee.

Secretary PRINCIPI. You are absolutely right, Madam Chair. It is a dilemma. Without the deductible, we, in my view, are over $1 billion short, $1.1 billion. That is why the deductible was proposed. We have a 7 percent increase of $1.5 billion requested which, relative to other Federal programs, is a good increase. But without the deductible, we cannot get there from here.

MCCF, medical care cost recovery. On the one hand I am pleased to see a 13-percent improvement in our collections. We are 13 percent ahead of our projections. But we have a long way to go.

MEDICAL CARE FUNDING NEEDS

Senator MIKULSKI. So what do you think you are really going to need? And then I am going to defer to Senator Bond.

Secretary PRINCIPI. Madam Chair, it depends on whether we work out some cost-sharing arrangement for the priority 7s. Congress directed that I make an enrollment decision every year on who we can afford to care for. Without some form of deductible or some form of cost-sharing, I would probably make the decision to limit enrollment for priority 7s, rather than reduce the quality of care and the timeliness, which is getting worse.

So my choices are very narrow. Limit enrollment, as the Congress asks the VA Secretary to decide annually, because this is a discretionary program, or work with Congress to see if there is a cost-sharing arrangement that can be worked out for the priority 7s.

Senator MIKULSKI. Or ask for more money in the appropriations.

Secretary PRINCIPI. Yes, more money in the program.

Senator MIKULSKI. Well my time has expired. I know other members would want to pursue this.

Senator Bond?

OPENING REMARKS BY SENATOR CHRISTOPHER S. BOND

Senator BOND. Thank you, Madam Chair. And I want to thank you for the birthday gift. I would have to say that the greatest gift I have throughout the year is the fact that we have such a good working relationship, whether it is ranking member and chair or chair and ranking member. I have my preferences. We are not going to get into that today.

Senator MIKULSKI. We do not get a veterans preference here.

Senator BOND. I would say to my colleagues that my high regard for the Senator from Maryland is well known. I am going to be roasted by a charity in Kansas City this spring. And they all wanted Senator Mikulski to come out, because they have heard so much about her and figured that she would probably do the most effective job on me that anybody could do.

But I do want to turn to our leader on the Republican side, who has to go to another hearing. So it would be my pleasure to yield to Senator Stevens for his questions.

Senator STEVENS. Well, Madam Chair, if you go, I will go and turn the spit. All right?

Senator MIKULSKI. Okay.

Senator BOND. Oh, that is dangerous.

ALASKAN VETERAN ISSUES

Senator STEVENS. And I am grateful to both of you for allowing me to participate quickly. We have a defense hearing this morning, and I hate to interrupt a birthday party. You all do know it is Senator Bond's birthday, right?

Senator BOND. Oh, yes. That is what——

Senator STEVENS. All right. Let me say that I am grateful to you for a conversation we had the other day about the homeless problems in Anchorage. And I do hope that we can find some way to work on that outreach center. I do not know if you all know but we have the largest number of veterans per capita in the United States. And it is becoming increasingly difficult to deal with that high portion of that population under some of the limitations we have.

For instance, that 30-year rule, it applies to those who have been involved in the rate reduction program, the bond program we have. As I understand it, there is a provision that cuts off veterans who served in Vietnam and the Persian Gulf and other conflicts. But those lapse in 2007. Those people would no longer be eligible unless they have been out of the service for more than 30 years. I do not understand that 30-year rule. I would urge you to take a look at that.

And I would also ask if you would help us on another problem. I am really not asking questions. I would just make a statement, if I can. We have States, 5 States, that are eligible for a program on housing. As I understand it, it is—we have a cap on these States. My State is one that has, as I indicated, so high a percentage of veterans, it is hard for us to work under that cap.

Are you familiar with that? We are allowed to—we are told that we are down to a level of—let me be sure. The current allocation for Alaska is $303 million limit under the AHFC program. That is the Alaska Housing Finance Corporation dealing with the VA bond cap. I want to talk to you about whether or not we could find some way to either put an escalator for States that have a high percentage of veterans in their population. Either that or lift the cap. It has been in place for a long time and it is not relevant to our program.

We are prepared, through the Alaska Housing Finance Corporation, to assist veterans. But we cannot do it unless we can issue bonds for veterans housing under the Federal authorization. I would urge you to take a look at that.

Secretary PRINCIPI. I will do that, sir.

[The information follows:]

ALASKA HOUSING FINANCE CORPORATION

We are aware that the basic criteria for Alaska Housing Finance Corporation (AHFC) Veterans Mortgage Program (VMP) are that the veteran must have entered the service prior to 1977 and cannot have been discharged for more than 30 years. AHFC requires that when veterans apply to them for a loan, they submit a VA issued Certificate of Eligibility along with their DD214 so that it can be determined

when they went into the military and what date they were discharged. However, this program is administered by AHFC, not VA. Therefore, we have no authority over the provisions of the program.

MAXIMUM FEDERAL BOND RATE

VA has no knowledge of or authority with respect to a Federal cap that may exist on bond issues.

Senator STEVENS. Lastly, when I was in Juneau, I was made aware of an issue there. The Juneau VA replaced a long-serving staff member there. And the replacement staffer has 25 years with the VA but is not authorized to approve medical treatment. It is now my understanding that—that a problem is near solution, but it is on your desk. Is that right?

Secretary PRINCIPI. I have not seen it.

Senator STEVENS. Are you familiar with that?

Secretary PRINCIPI. I have not seen that issue, but I will look for it as soon as I return.

Senator STEVENS. Well, I am sure you know that for someone who is in Southeastern Alaska to have to go either to Anchorage or Seattle for authorization, when there is a staffer that has 25 years experience in VA but is not authorized to approve medical treatment, is a difficult situation.

Secretary PRINCIPI. I will find out and I will report to your office.

MEDICAL SERVICES IN ALASKA

The Alaska VA Healthcare System and Regional Office (AVHSRO) operates a one employee VA office within the federal building in Juneau, Alaska. A Contact Representative GS–11 employee staffs this office. Her duties include general health care and benefits information and assistance to veterans in southeast Alaska. One major customer service area for this position is support to the Fee Basis authorization program. Juneau, Alaska is 550 air miles from Anchorage and is not accessible by ground transportation. Juneau is the capital of Alaska and VA has a long history of providing a VA office there.

The individual who currently is staffing the VA office in Juneau, Alaska reported for duty there December 4, 2001. The employee was previously on staff at our Anchorage facility working within the Veterans Benefits Administration (VBA) Regional Office component of our operation.

The AVHRSO is currently addressing the training and technical support needs of our new VA representative. During the week of February 11–15, 2002, the employee returned to Anchorage for training on the medical care authorization process. During this visit we also had a lengthy discussion of the computer problems she had been experiencing.

As a result of this training visit to Anchorage it was determined that a visit by our Technology Management Service (TMS) staff was necessary to fix her computer and printer problems. These are necessary fixes in order for her to provide the level of service expected by our Juneau area veterans. The TMS staff traveled to Juneau during the week of February 25, 2002 to March 1, 2002. Computer related access issues were corrected during this visit to allow our employee to process medical authorizations.

Throughout the training cycle and during periods of computer outage, staff in Anchorage is providing service regarding the authorization of medical claims. In fact our Coordinated Care Department has organized along regional boundaries and one team is dedicated to Southeast Alaska. Statewide veterans are able to reach VA by a toll free number and receive service via the Southeast Alaska Regional Team. Our Juneau representative will soon be an additional source of assistance for the Juneau area veterans.

It is important to recognize that the employee on staff now in Juneau, Alaska has many years of VA experience; she spent the past ten years working in the VBA Regional Office. The authorization of a Fee Basis Medical Claim often requires a clinical decision. It was never intended that this employee would be able to independently authorize all the medical care that Juneau area veterans will need. However, when the decision can be made based upon reasonable judgment and the care will

obviously be approved, the Juneau office is delegated authority to issue such an authorization. This is a local operational issue regarding support and training for a new employee. It does not represent a new process in Alaska and does not require action in VA headquarters. During the training and development process the amount of direct service provided in Juneau has been more limited than under her predecessor. This should improve quickly as the Contact Representative gains experience and familiarity with the authorization process.

Senator STEVENS. Thank you. Thank you for your courtesy.

Senator MIKULSKI. Senator Johnson?

MEDICAL CARE SUPPLEMENTAL

Senator JOHNSON. Thank you, Madam Chairwoman. And thank you, Secretary Principi and your staff, for joining us today. I am also very appreciative of your willingness to spend some time just the other day with me, talking through some of the budget issues that veterans in South Dakota have raised with me.

Very quickly, again, you announced a $400 million shortfall for the current fiscal year last fall. Would you share with us, very briefly, the prospects for a supplemental appropriation and at what level you anticipate that supplemental might be requested for?

Secretary PRINCIPI. Yes. I was prepared again to suspend enrollment for new priority 7s, because I felt that the funding was not adequate to maintain the quality that we desired. In the eleventh hour, so to speak, I received a commitment for supplemental funding of $142 million. And I believe that—supplemental is being worked on. It should be coming up to the Hill very, very shortly, possibly as part of the DOD supplemental that is being prepared. We expect the request for supplemental funding to be forthcoming very, very soon.

We have taken management actions to offset the balance of the $400 million through efficiencies in centralized funding. We have recently distributed $162 million to the field, so the actions we are taking in conjunction with the $142 million supplemental will allow us to get through 2002 without eliminating enrollment to anyone who comes to us.

Senator JOHNSON. If the shortfall is $400 million and the supplemental is $142 million, that is a significant difference. So what you will not be able to do that you would have done had you had the full $400 million?

Secretary PRINCIPI. We re-estimated the impact of the new CHAMPVA for Life Program, a health care program for spouses of deceased service-connected men and women. We have re-estimated that program, and there is a $94 million saving there.

There are certain information technology procurements that we felt we could defer to out-years. There are a number of centrally controlled programs, all of which have yielded resources that we have been able to distribute to the field to meet more high priority items.

There is a combination of management actions, some of which do result in deferrals of information technology programs, but that yield resources we can apply to needed areas.

HOT SPRINGS, MSD SURGICAL UNIT

Senator JOHNSON. With a budget shortfall within VISN–23, it is beginning to have a negative impact on patient care. For example,

there are some discussions now regarding the surgical unit at the Hot Springs VA Medical Center in South Dakota. The Hot Springs surgical unit has had difficulty recruiting and retaining professional staff. And one of the proposals under consideration is to close that surgical unit to all but minor outpatient procedures and move the remaining surgeries to Fort Mead Medical Center.

Can you update me at all on the current situation with the Hot Springs surgical unit? And are there any solutions to how we can keep the surgical unit fully operational?

Dr. MURPHY. Sir, we just received that proposal from the network in Headquarters. Our routine is that—that proposal would be reviewed by the surgical service. And we will look at not only their proposal but alternatives to maintain the services to veterans. And we will be happy to provide you information once we have had a chance to fully look at that proposal and all the alternatives.

[The information follows:]

HOT SPRINGS SURGICAL UNIT

The surgical unit at Hot Springs Medical Center is currently short two nurses; one operating room nurse and one nurse manager. The VA Black Hills Health Care System has developed a very aggressive and creative plan to fill these positions. In addition to the typical markets where the VA Medical Center in Hot Springs normally recruits nurses, the facility has expanded its search for nurses to wide ranging markets such as Sioux Falls, South Dakota; Omaha, Nebraska; Denver, Colorado; and Minneapolis, Minnesota. In addition, the VA Black Hills HCS is offering a $5,000 sign-on bonus for the nurse manager and a $2,000 sign-on bonus for the Operating Room nurses. VA Employees are being offered a $500 "finders fee" if they assist in the successful recruitment of operating room personnel at the VA Hot Springs medical facility. The community of Hot Springs has also been helpful in the search for VA staff. The Job Service office is engaged in local (Rapid City area) recruitment at no cost to VA. Every effort is being made to assure uninterrupted surgical service at the Hot Springs VA Medical Center. VA officials are optimistic that the positions will be successfully recruited.

$1,500 DEDUCTIBLE PROPOSAL

Senator JOHNSON. Well, thank you. And I appreciate any effort you can do to retain full service wherever possible at our VA's.

As we discuss priority 7s—and I share the concern expressed by my colleagues here this morning about the need for full services to all veterans. But one of the concerns I have, particularly one that we have in rural States, where assets, such as land, are included in the calculation of income, we have a lot of farmers and ranchers in my State who own land that, on paper, is worth a fair amount, but whose annual actual income, whose revenue flow, is far, far below the VA threshold.

The administration's proposal to impose a $1,500 co-pay on category seven vets is going to be particularly onerous on these people who simply do not have a lot of cash income, despite the fact that they do have some land. Do you support changing the law regarding eligibility standards to address that problem, or do you have any ideas about how to address the people who fall under this circumstance?

Secretary PRINCIPI. I know it is an issue in rural America, and I think it is an issue in urban America, too, where veterans own small businesses, and they have a lot of their assets tied up in a little shop or dry cleaners or whatever it might be. Those assets count toward their overall assets. It is a real problem.

We could take a look at the income thresholds. Maybe they need to be revised; different thresholds at which certain co-payments would kick in or not. We could look at the percentage of reasonable charges as a way of keeping the co-payments and the deductible down.

Again, if our costs, for example, for an outpatient visit are $100, we would go to the insurance company first for that $100 to be applied toward the deductible. If the veteran does not have insurance, then the deductible for which the veteran is responsible would be a percentage of that. We started at 45 percent. We are looking at 20 percent. So it could be $20 or $45, which would be applied to the deductible.

And many, many veterans would not come anywhere near the $1,500 limit, which would not be applied to the pharmacy benefit. Prescriptions would still be $7 each. And there would not be any further co-payment that would have to be paid.

If veterans could not afford it, we would never turn them away. We would have a repayment plan. So we tried to take as many steps as possible, recognizing that people with incomes of $25,000 to $30,000, and maybe assets tied up in the ranch or the farm, do not have disposable income. Whether it be $10 a month, or whatever the veteran could afford, we would work out some kind of payment plan. The fact of the matter is that we need to address this growth.

Senator JOHNSON. In the end, you would need better funding. But in the meantime——

Secretary PRINCIPI. Oh, yes.

Senator JOHNSON [continuing]. As long as you have these priority issues that you have to grapple with, I hope that you will be sensitive——

Secretary PRINCIPI. Sure.

Senator JOHNSON [continuing]. To the actual resources available to many of our veterans.

Thank you, Mr. Secretary.

Senator MIKULSKI. Senator Bond.

Senator BOND. Thank you very much, Madam Chair. I would like to submit, for the record, the questions that Senator Domenici left for the Secretary.

Senator MIKULSKI. Without objection.

OTHER FUNDING OPTIONS FOR MEDICAL CARE

Senator BOND. Mr. Secretary, we congratulate you on the steps you have taken. I know that you are making real progress trying to tackle the claims benefit processing problem.

You are addressing problems of homeless veterans. I think certainly veterans in my State are excited about your leadership. I congratulate you on this. There are problems, obviously, with funding. You have continually, the Department of Veterans Affairs continually, from year to year, has received the greatest increase in any budget from our subcommittee. And we are going to continue to do so, but we need to look at some of the other alternatives.

VA, I guess, has sought the authority to bill private insurers and Medicare. And the tax-writing committees do not want to approve that. A lot of people have focused on the GAO reports that con-

cluded, when compared to the private collection efforts, private sector collection efforts, the VA is not collecting enough money. We need to find out if there are ways that you can improve the collections.

But beyond that, I look at the numbers on priority seven participants. And it is obvious that your suggestion of a $1,500 deductible was not well received, I think, might be a happy euphemism for the response it got. But if you look down the road, if the cost of medical coverage for priority 7s continues to grow from an increase of $1.1 billion this year to $5 billion on top of all the other needs, we are going to be very fortunate in this subcommittee if we can get anything like the allocations we would need to keep up with that.

So I would ask what steps you are taking, first with respect to priority 7s. Are you meeting with the veterans' service organizations, the authorizers and others? Are there options that you can pursue that may not be as Draconian but might assist?

Secretary PRINCIPI. Yes, I have met with the leaders of all of the service organizations. We have discussed this issue. I have explained the rationale. I have opened up the door to any recommendations they might have on how this deductible can be modified to address our needs, at the same time making sure that veterans can continue to access the system. I have engaged in high-level discussions with Secretary Tommy Thompson, talking about the issue of coordination of benefits, and Medicare subvention. We are working on that. I do not see that happening for the reasons you indicated. The tax-writing committees have been very, very reluctant to make any changes there.

So yes. We will meet day or night, whenever, to sit down and address this important policy issue, because it is getting to crisis proportions. It really is. And we are failing veterans if we cannot provide care to them in a timely manner. I think some good decisions were made in the mid-1990's, but all were premised on additional funding outside of the appropriation process. Those decisions were premised on Medicare subvention and on increased MCCF collections.

And guess what? It never happened. And we continue with open enrollment. We continued opening clinics. We continued giving people expectations. And we did not do too much about it. And now I find myself in the situation of having to tell veterans, "I am sorry, there is no more room."

As I was telling Madam Chair, when a 100-percent service-connected veteran combatant takes a bullet to the spine and goes to Florida, he is treated just like any other veteran who is non-service-connected or who may be wealthy; but by law they are both equal. To me, that is wrong. And we need to do something about it. But that is the way the law is structured by the authorizing committees.

It seems to me that we have to address this in such a way that gets people to understand and attempts to meet their expectations, but to put some management processes in place to take a look at this growth and manage it appropriately, like any private sector health care company would. They have the same challenges we do.

With our MCCF, we are making progress, but I am to the point of being totally frustrated. I am looking to bring in loaned execu-

tives from the private sector to tell me how we should do our billing and collection. We struggle with it. We do it in 163 hospitals around the country and at some networks. It seems to me there is a better way to do our collections. And we just continue to do the same things and we just do not get there. I do not want to be critical, but we just do not get there.

I am at the point now where I really need to bring in some experts from the private sector; not consultants, per se, but experts in business, to come here and tell me how to fix this problem once and for all. Then go from there.

Senator BOND. Well, Mr. Secretary, my time has run out. But I commend you for your willingness to address the much broader problem. We are going to do everything we can in this committee. We have always done as much as we can. The forces from the outside who keep thinking there are unlimited funds are absolutely, you know, in the wrong ball park; they are on a different planet.

We have to focus on the severely wounded, service-wounded veteran. We have to focus on those who are poorest. And I am concerned that, if we do not get a handle on some of the lower priority ones, we are going to hear stories today about lack of care or delayed care and inadequate care for veterans who really are needy, whom we are not treating as well as we should because the resources are too short. And this is a problem that the authorizing committees, as well as some of the other committees on the Hill, need to be aware of. They think they can offer more benefits to everybody without providing the resources.

And we will work with you. And I commend you for carrying that message.

Senator MIKULSKI. That was good, very good.

Senator Kohl?

KENOSHA, WI, CLINIC

Senator KOHL. I thank you, Madam Chairman.

Mr. Secretary, the significant increase in the medical care spending proposed in your budget, I believe, is well justified. I must also say, however, that in addition to what you have heard from the other Senators, I have heard from veterans who are concerned over your proposed $1,500 deductible initiation for priority seven veterans. In seeking new funding sources, I know you would agree that the VA must be careful not to erect new barriers for veterans who are seeking VA care.

Mr. Secretary, as you may know, the State of Wisconsin's VA facilities are part of Veterans Integrated Service Network 12, known as VISN–12, which is the first network to undergo the VA's CARES for structuring process. The realignment package for VISN–12 that you recently approved will include the establishment of several new community-based outpatient clinics in my State of Wisconsin. The timely construction of these clinics will be critical in the effort to bring VA health care closer to the rural areas, where many of Wisconsin's veterans live.

Over the past year, the VA has had difficulty in finding the money to construct a clinic authorized to be built in Kenosha, Wisconsin. Can you walk me through the clinic funding process and assure me that, with the budget that you are proposing, the VA will

have the funding to build these clinics on schedule in my State of Wisconsin?

Secretary PRINCIPI. Yes. Dr. Murphy can talk about the specifics, but with regard to Kenosha, that decision has been made. That clinic will open; we made a commitment to open that clinic. Some later decisions seemed to run counter to that, but I felt that, in view of the commitment, we needed to move forward. The network director has been so informed, and steps are being taken to ensure that the funding will be there for the clinic.

Dr. Murphy can talk about Green Bay and Wisconsin Rapids.

Senator KOHL. Yes.

Dr. MURPHY. You are absolutely correct, sir, that there were two community-based outpatient clinics that were proposed by the contractor as part of the CARES process and that Secretary Principi has approved options. We are moving forward very aggressively to develop an implementation plan within the network to get all of the changes that were approved in place in the shortest time possible.

Some of the major changes that will be implemented will be, you know, the closure of inpatient beds at Lakeside. We will need to renovate the West Side facility in Chicago in order to do that transfer. There will be significant savings in terms of personnel and other management efficiency that will result from that. And those resources will go back to delivery of health care services for services within Network 12, including those in Wisconsin.

So we expect to be able to implement those changes as quickly as possible. The implementation plan should be delivered to headquarters within the next several months. We would be happy to brief you on that when it is available.

[The information follows:]

CLINIC FUNDING PROCESS

Funding for VA Community-Based Outpatient Clinics (CBOCs) comes out of the budget allocated to the VISN. Each medical center within the VISN is then provided with an annual operating budget to support the full range of services and staff they provide. Clinics under their jurisdiction must be funded out of their operating budgets. The directive governing the establishment of CBOCs has a provision that requires the VISN to have sufficient operating funds to open and manage the clinic. The original business plan for the Kenosha clinic is being updated to reflect workload projections based on utilization of surrounding clinics and medical centers that was not included in the original plan. The clinic is expected to open later this year. Based on the outcome of the business plan and sizing model, we anticipate that North Chicago VA Medical Center will have the funds necessary to activate the Kenosha clinic later this year and anticipate future budgets will support on-going operations. The other clinics in the CARES Implementation Plan are to be funded with the saving by the realignment of inpatient services from Lakeside to West Side and Hines. In addition there would be operating funds generated by the Enhanced Use Lease of the Lakeside property.

Senator KOHL. I thank you and I am encouraged by what you said about Kenosha. I would like to hope I could also be encouraged with what you said as it reflects Green Bay and Wisconsin Rapids.

Dr. MURPHY. Yes.

Senator KOHL. Thank you.

CLAIMS PROCESSING

Mr. Secretary, one of the major commitments made to veterans by the President was the reform of the inefficient claims processing

system. Veterans in Wisconsin and across the country continue to wait too long, I am sure you would agree, to receive decisions on their claims for benefits earned. In your statement, you have emphasized that it is your goal to reduce the current claims processing time to 100 days for compensation and pension claims by the summer of 2003.

Too often, I hear complaints from Wisconsin veterans that new and reopened claims are often taking as much as a year to process. While 100 days is worthy goal, can you outline what you are doing to achieve this goal in such a short period of time?

Secretary PRINCIPI. Senator, as you may know, shortly after coming on board I convened a claims processing task force to recommend practical hands-on solutions. And I was not interested in recommendations that would deal with changes in law to curtail benefits or abstract theories of veterans' benefits. I just wanted practical hands-on solutions of things we could do to reduce the backlog.

I am proud that that group, including leaders of the veterans service organizations, gave me 34 very concrete recommendations, like triaging when claims come in. A group of people decide which ones can be decided immediately and which ones need more claims development work, so that those that can be decided immediately can be signed off, rather than sitting on somebody's desk for 6 months before the file is even opened. Other recommendations called for more specialization, more accountability and performance standards.

I created a tiger team specifically to address the claims of veterans over the age of 70 years old, whose claims had been pending more than a year. Since the tiger team has been in existence about 4 months in Cleveland, Ohio, with 9 additional sites around the country, they have decided 13,000 of the most complex claims that have been sitting on someone's desk for a year or 2 to 3 years.

I think the totality of these steps, including a lot more focus and discipline on what we have to do, has resulted in a dramatic increase in the number of decisions to 62,000 each at the past 2 months, compared to 29,000 per month a year ago. We need to continue to do that. We also need to keep our eye on quality to make sure we are not making a lot of mistakes in the process of expediting these claims.

I really do think, that by staying the course, we are going to get claims processing time down to 100 days, maybe less, maybe a little bit more, but we are going to stay on that track.

Senator KOHL. Well, I thank you. And I am much encouraged by what you have said this morning.

Secretary PRINCIPI. Thank you, Senator.

Senator KOHL. Thank you so much.

Thank you, Madam Chair.

Senator MIKULSKI. Thank you.

Senator Shelby.

Senator SHELBY. Thank you.

DISCRETIONARY FUNDING NEEDS

Mr. Secretary, we appreciate you coming here today. And I think you feel the environment here is one to help you. We know you

have a lot of problems confronting you, mainly in resources, funding. For example, I have had a couple to come to my attention recently. In a meeting with members from the disabled American veterans in my office here, two examples of the problems that you have questioned surfaced. And I am sure you have them all over the country.

One veteran from Birmingham had fallen and knocked one of his teeth out. He was told it would be 4 months to receive a new tooth. Another veteran from Athens, Alabama, made an appointment for a routine eye exam. That exam is 6 months away.

I think a lot of it is inability to provide you the resources you need. Do you agree?

Secretary PRINCIPI. Yes, sir, I do agree. Again, it is infinite demand, finite resources. So yes, part of it is, the dollars we have available. Part of it is how well we manage our system. It is a complicated issue. I think, in the final analysis, it is dollars that we request of you and that you give us. I think the Congress has been extremely generous to us, but the workload continues to grow.

And I think there are unfunded mandates, too. And again, I am not trying to take a shot at the authorizing committees.

Senator SHELBY. I think you are being honest.

Secretary PRINCIPI. I grew up on an authorizing committee as a staffer. But as was said yesterday in the House, I think it is my curse.

Senator SHELBY. Welcome to the appropriations world.

Senator MIKULSKI. Very good.

Secretary PRINCIPI. I think, when the authorizers mandate some programs with no increased funding specifically for those programs, we have to take the resources for the new programs from existing programs. And it makes it difficult, because there is only so much of the pie to divvy up.

Senator SHELBY. Absolutely.

Secretary PRINCIPI. It becomes a problem we have to deal with.

Senator SHELBY. Well, I guess sometimes the authorizers want to be Santa Claus. And we certainly do not want to be the Grinch. You know we want to help you and you understand that. Some of us also grew up on some of the authorizing committees. But at the end of the day, the resources have to come out of this committee. And we know you have a tough job. I know our leaders on the committee do, too. I believe all of us want to help you solve this job, because we are committed to the veterans.

But I think you point out a good example. I think maybe they are relative commitments, you know, to the disabled, to the people who are disabled and wounded in combat. I think we owe them first; I do.

Secretary PRINCIPI. I agree. The service-connected disabled followed by the poor.

Senator SHELBY. Absolutely.

Secretary PRINCIPI. The system was designed for them. And to a degree it has always historically been as long as I can remember, that the higher income, non-military medical condition veterans were always treated on a space available basis. Again, I hope we can treat as many veterans as possible. I do not think we can treat

all 25 million. The system is not built for that. We are up to almost 5 million now, 20 percent of the total.

We have to concentrate and make sure that the service-connected disabled and the poor have access to our system, because they are the ones that usually do not have other places to turn, either because they need the specialized programs of the VA, such as spinal cord injury, blind rehabilitation, mental health, and PTSD, or, of course, who are poor and who do not have insurance.

AVERAGE AGE OF WARTIME VETERANS

Senator SHELBY. Mr. Secretary, what is the average age of the Second World War veteran today, roughly?

Secretary PRINCIPI. They are well into their 70's, I would think mid- to late 1970's.

Senator SHELBY. Towards the 1980's, are they not?

Secretary PRINCIPI. Probably. Maybe even 1980's. Clearly, there are only 5 million remaining of the 16 million who fought.

Senator SHELBY. What is the average age of the Korean War veteran? I know it is a little below, but not much, is it?

Secretary PRINCIPI. I think Korean has to be in the 65-to-70 range, as well.

Senator SHELBY. And how many would that be, roughly?

Secretary PRINCIPI. I will have to provide it for the record.

Senator SHELBY. You furnish it.

Secretary PRINCIPI. We have about eight to nine million Vietnam veterans, five million World War II veterans. I think Korea is in the neighborhood of four to five million.

Senator SHELBY. What is the average age of the Vietnam veteran?

Secretary PRINCIPI. The average age is probably 57/58 years old.

Senator SHELBY. You are using your measurement, right? That is good.

Secretary PRINCIPI. I think I am 1970 vintage from Vietnam. So yes, probably about in the mid- to late-50's.

Senator SHELBY. Okay.

Madam Chairman, thank you.

Senator MIKULSKI. Thank you, Senator Shelby. And thank you for your sentiments to the Secretary that, really, we are troubled about what the VA is facing. And we can just see today, you yourself seem so troubled. But you are not alone here. And the veterans are not alone. And we really have to solve these issues.

Senator Craig?

PREPARED STATEMENTS

Senator CRAIG. Thank you, Madam Chairman. Let me ask unanimous consent that my opening statement be a part of the record.

Senator MIKULSKI. That is without objection and we will also include statements from Senator Bond and Senator Domenici.

[The statements follow:]

PREPARED STATEMENT OF SENATOR LARRY E. CRAIG

Mr. Chairman, it is indeed a pleasure to welcome the VA Secretary Tony Principi and members of his staff. I applaud you and your team in your efforts to ensure our government honors our commitments to Veterans while implementing the most

beneficial and cost effective programs. To do this, we must continually look for opportunities to reform the VA health care system, while maintaining as our number one priority, our combat veterans with disabilities and our veterans with low incomes who often rely exclusively on the VA for their care.

The VA's Budget proposal totals $56.5 billion for Veterans' benefits and services, $30.1 billion for entitlement programs and includes $26.4 billion in discretionary spending, for medical care, burial services, and the administration of Veterans' benefits. This is an increase of almost $6 billion over last year's budget, and it clearly demonstrates the President's commitment to Veterans' Health Care.

I strongly support a VA which is committed to providing accessible, high quality medical care and other Veterans benefits and services in a timely and effective manner. However, we must expand and improve the delivery of service and benefits so that all Veterans have equal access to high quality medical care, particularly in under served rural areas such as Idaho. I believe that a more localized care approach as opposed to a regionalized approach is most appropriate for areas of the country such as Idaho. Currently, the Veterans in Lewiston of my State have challenges getting appointments at facilities in Washington, specifically Walla Walla, and Spokane, as well as tremendous burdens trying to get to these facilities. I believe this area is a prime candidate for a Veterans Clinic. In the Southeast portion of my State I have major concerns with the doctor shortage we are currently experiencing in our Pocatello facility. It is of utmost importance that the long list of Veterans waiting to receive various services, especially medical care, are able to get it in a timely, courteous manner with a minimal amount of necessary travel time. In recent years there were tremendous staff reductions that resulted in reduced services. The necessary steps must be taken to reverse this trend. I invite the Secretary to come out to Idaho and discuss these issues with me and the Veterans of my State sometime soon.

In closing, Mr. Chairman, there is no way to over emphasize the honor and respect this nation owes the military men and women who sacrificed so much to accomplish a strong national defense. I believe that this proposed budget is a good beginning for ensuring our Veterans will receive high-quality health care, that we keep our commitment to maintain Veterans' cemeteries as national shrines, and we have the resources to process Veteran Benefit claims in a more timely and accurate manner. I look forward to working with Secretary Principi to meet the many challenges that the VA will face in the coming years.

PREPARED STATEMENT OF CHRISTOPHER S. BOND

Thank you, Madam Chair. I also welcome back Secretary Tony Principi to our subcommittee. I am pleased to have Secretary Principi here today to discuss the fiscal year 2003 budget for the Department of Veterans Affairs. Even though you have been in your position for a little over a year, saying that a lot has changed over the past year would probably be an understatement.

As the Secretary of VA, you face a number of daunting challenges that have plagued the Department for several years. I applaud your efforts to tackle the claims benefits processing problems and address the problems of homeless veterans, to name a few.

However, my statement focuses on two other major challenges: (1) addressing the escalating growth of the so-called Priority 7s and (2) transforming VA's medical care infrastructure and services to better meet the needs of veterans.

As you know, the most pressing budgetary problem facing the Department and the Congress is the cost of maintaining an open enrollment policy for the Priority 7 veterans without compromising the quality of health care services for all veterans served by the VA system. The fastest growing veteran group are those that have incomes above $24,000 annually and have no service-connected disabilities. These are defined as "Priority 7" veterans. VA projects that if no change to current policy is enacted, the costs of providing medical care services to this category of veterans will rise from $2 billion in fiscal year 2002 to over $5 billion in fiscal year 2007—a 126 percent increase! Currently one-third of VA's six million enrollees are Priority 7s and if no change in policy is enacted, this percentage is projected to increase to 42 percent by 2010.

We can all be proud that VA is successful in attracting so many veterans to its services due to the recent improvements made in its delivery system and its generous benefits packages. However, there are significant costs for operating VA's medical care system, which must be addressed or else the system may collapse and become a victim of its own success. To address this issue, the Administration has proposed a new deductible or cost-share arrangement where Priority 7 vets would

be charged at a rate of 45 percent of the reasonable charges, up to $1,500 annually. VA proposed this deductible to not only stem the rapid growth in Priority 7s, but to insure that timely, high quality care can be provided for VA's higher priority veterans—those that are low-income and those with service-connected disabilities—without having to stop enrolling Priority 7s.

Mr. Secretary, I am sympathetic to the Department's dilemma and you have my commitment that I will work with you to protect the long-term viability of VA's health care system. But I realize that you have already heard from the veteran service organizations and the authorizing committees that they will not support your proposal. And to further box you in, they have demonstrated their objection to any attempt to stop enrolling Priority 7s.

Where does that leave us? Clearly, at the appropriators' door step. VA estimates that it will need an additional $1.1 billion for fiscal year 2003 to maintain open enrollment for Priority 7s, but there is more than just this one year cost as I stated earlier. If we do not make a policy decision this year on Priority 7s, then we will be looking at an additional $5 billion by fiscal year 2007. I believe that it is too optimistic and risky to expect that the appropriators will come up with $1.1 billion this year. The VA medical care account has been and always will be the top funding priority for this subcommittee but it cannot be at the expense of gutting other critical programs for affordable housing and disaster relief.

We must work constructively with the VSOs and the authorizers to come up with a fair, balanced approach to ensure that the VA health care system continues to provide quality care for all of our veterans. And, Mr. Secretary, we need your commitment to improve VA's efforts in collecting funds due to VA from other health insurance programs. Your budget request is projecting collections totaling $1.45 billion, but I have heard that VA has more than $700 million in outstanding receivables. VA can obviously do a better job.

The other daunting challenge for VA that also has major cost implications is realigning the VA medical care infrastructure. I congratulate you, Mr. Secretary, for your leadership in moving forward the Capital Asset Realignment for Enhanced Services or "CARES" program in network 12. I think I know as well as anybody that it was a difficult decision to implement CARES in that region but I cannot emphasize enough that it was the right thing to do.

Many oppose CARES, including some members on Capitol Hill, but I am convinced that CARES is the right approach that is badly needed. CARES is critical in developing a long-term strategic plan to ensure that VA's capital infrastructure meets the healthcare needs of veterans in the most cost-effective manner while assuring the highest quality care system. For too many years, VA did not have a clear capital asset plan that would justify the need for new construction projects or address the massive excess infrastructure in the system. Before CARES, VA hospitals had been treated as trophies for members to bring home to their States or districts, built with too many beds and too much gold-plating. Not too many years ago, new VA hospitals were opening with entire floors empty because they were not needed.

It is also troubling to me that some VA facilities seem to exist primarily to serve the research and financial interests of the medical schools. This is an important part for VA as both research sites and teaching schools. However, in too many cases, veterans' medical care has become a secondary concern in justifying those hospitals. I was frankly appalled by the efforts of Northwestern University to block CARES in Chicago. While I appreciate the medical research work done by fine institutions such as Northwestern and am a big supporter of VA medical research funding, we all know in this room that medical schools have more resources at their disposal than the veterans who need medical care. Your decision, Mr. Secretary, was important because it sent out a signal that VA's first and most important priority is meeting the needs of the veteran.

You took a major step with implementing CARES in VISN 12 but I believe that we are at a critical juncture. Chicago was a pilot in some respects but now we must tackle the Bostons, New Yorks, and San Franciscos of the country. You have shared with me some details of your plan to complete CARES for the rest of the Nation but there are some important questions that we—the Department and this subcommittee—need to work out. For example, I am concerned about the availability of resources needed to perform the studies and the expertise of those staff performing the work. Further, it is important that the process be objective and independent. I am concerned that if a VISN director is in charge of his or her own CARES study, there may be a conflict-of-interest in carrying out the review. And, as demonstrated with Chicago, I am concerned about medical schools pressuring the network to retain facilities at the expense of the veterans and the taxpayer. In GAO's testimony to this subcommittee back in 1999, it reported that "Medical

schools' reluctance to change long-standing business relationships, for example, has sometimes been a major factor inhibiting VHA's asset management."

Lastly, we need to fund adequately CARES. We provided $100 million for fiscal year 2002 to fund CARES but your budget request for fiscal year 2003 only asks for $40 million. I do not understand why more CARES studies cannot be completed in fiscal year 2003. I am further puzzled by the budget request's inclusion of $94 million for seismic repairs at four California facilities, without any CARES review. You need to provide us a comprehensive, strategic plan on how CARES will be carried out in a timely, efficient manner and how we should fund the construction of new projects and disposal of old projects.

Mr. Secretary, I look forward to our continued working relationship in addressing the needs of our veterans. Before I close, I want to express my sincere thanks for your visit to my State. The veterans in Missouri appreciate your hard work and efforts. Thank you.

PREPARED STATEMENT OF SENATOR PETE V. DOMENICI

Mr. Secretary, it is a pleasure to see you again. Thank you for being here today to discuss the enormously important issues that are of concern to our nation's veterans.

We all have a great responsibility to assure that the needs of veterans throughout this country are being met, and I want to compliment you for the job you are doing to meet this challenge.

People from all walks of life in New Mexico have a long and proud tradition of answering our nation's call to duty.

Just last week about 40 members of the 49th Communication Squadron from Holloman Air Force Base in Alamogordo, New Mexico shipped out as part of Operation Enduring Freedom.

I am personally very proud of them, and I know all of New Mexico is, as well.

At this time when our nation is actively engaged in conflict abroad, and we hear reports of the danger our troops face everyday, we come away with a real sense of the sacrifice our brave men and women in uniform are making.

For me, and I am sure this is true for you, too, Secretary Principi, the conflict in Afghanistan also evokes memories of the great sacrifices that our military servicemen and women made throughout the last century in order to preserve our liberty.

And so it is vitally important that we provide our patriots with the very best care available and I am committed to doing that.

As I travel around New Mexico, no matter where I go, I always meet a veteran who says, "Senator, I served my country as part of the military. I am so proud to have sacrificed for my country, and the VA has truly been a great provider for my health needs. But in a rural State like New Mexico, I am forced to travel great distances to access a VA facility for the care that I require. What can be done?"

Mr. Secretary, I know you, too, have traveled all around this country to listen to veterans, including the rural parts of the country and heard similar concerns. In my questioning today, I will be interested to hear what steps the VA will take to address this problem.

Another issue that is very important to all veterans is that of having a fitting resting place, where the memory of their service to country will be preserved in an honorable and dignified manner.

In New Mexico, this issue is manifesting itself in the reality that by 2008, the Santa Fe National Cemetery will run out of sufficient plot space.

Last year, I sought a solution to this problem by introducing legislation calling on the VA to initiate a planning study that would lead to the establishment of a National Cemetery in Albuquerque.

I will continue to pursue this highly important issue because I believe it is a pressing problem that needs to be addressed soon in light of our aging veteran population. It is critical that they have a place where they can be laid to rest alongside their comrades.

So I will seek your thoughts on this, as well, Mr. Secretary.

And with that, I would, again, like to welcome you Secretary Principi, and thank you Chairman Mikulski for calling this hearing.

Thank you.

PHYSICIAN FOR POCATELLO, ID CLINIC

Senator CRAIG. Mr. Secretary, thanks for your passion. I think we all feel it here and appreciate it. I get sensitized by it on a regular basis, and I am sure some of my colleagues have the same experience. I had to call a mom and a dad in Idaho yesterday, because I was tracking their injured son in a hospital in Turkey, who was involved in that firefight last weekend and got beat up pretty badly. A young man from southeastern Idaho, who some day is probably going to need the help of the Department of Veterans Affairs, because he got beat up pretty badly.

And I think about the time we think periods of population transition occur by age and reality. We just went through with Senator Shelby the litany of, of course, World War II and Korea and Vietnam. And while this current peace effort we are involved in is going to bring less veterans, too, I hope, that need care to the system, it is going to bring some.

And many of my colleagues have covered the issues, the priority 7 issues, and how we deal with that medical deductibility. Yes, veterans in Idaho are reacting the same way. And I know you are trying to resolve that. With resources, it would be easier to do.

Let me give you an example, though, of a problem that is current in southeastern Idaho. We, out West, ask our veterans to travel phenomenal miles. And when World War II veterans and Korean War veterans get in their cars and drive 300 miles to the clinic, over snow-covered roads, not to get the services they need, finding that they may need to stay overnight, to go back the next day, that kind of thing, often times is very frustrating.

Pocatello, Idaho, a facility there, lost one of its doctors 3 years ago; and, at that time, convinced me that—that doctor deficit could be dealt with through a nurse practitioner. That has simply proven not the case. Now those veterans, who were once serviced on that 250-mile drive from Salmon to Pocatello—or I guess it is about 200, now have to add another 150 miles to go on to Salt Lake.

They are out recruiting. They say they cannot find at least someone to meet that. We have a residence program in the vicinity. And it appears there is ample supply of willing and able medical professionals. I think that is something we ought to focus on in the Pocatello facility. It is of need there.

Secretary PRINCIPI. Yes. Dr. Murphy has some information specifically on that.

Dr. MURPHY. Senator Craig, I am happy to report that we have just hired a physician for the Pocatello clinic.

Senator CRAIG. Hallelujah.

Dr. MURPHY. Pardon?

Senator CRAIG. Hallelujah.

Dr. MURPHY. Hallelujah. That physician is scheduled to begin work in July of 2002. We are hoping that we will be able to bring them on board sooner than that. But that will—that will bring the staffing level up at Pocatello——

Senator CRAIG. Good.

Dr. MURPHY [continuing]. And hopefully resolve some of the issues that are very important to veterans in Idaho.

Senator CRAIG. Well, I try to get into all those facilities at least once or twice a year to see how they are doing. And it is very important that those clinics, outside the major facilities, service because of the distances involved. It is not just a drive across town. Back here it is a drive across several States to get to a facility, comparatively speaking. And that is something that is just very, very important.

CLAIMS PROCESSING

You have walked through how you are approaching the claims issue. I will leave that question alone. I was—I just wondered why you chose 100 days. I think it is probably the conclusion of the group recommendation—when I would have suggested, gee, maybe 90 days or even 30 days, Tony, would have been the right way to go here. But maybe 165 days down to 90 days is in itself a substantial accomplishment.

Secretary PRINCIPI. Indeed. I think that was done in consultation with the leadership of the Veterans Benefits Administration and the task force. And we felt 100 days was a very aggressive goal, to shoot for that. I certainly would like to see it 90 or 60 days.

But, you know, sometimes it takes us so long to get the medical and military records from DOD, or the archives, and then to schedule exams. So you are building in a delay right at the outset. But we are taking steps to deal with that, too. And I am making progress in working out memorandums of understanding with the Records Processing Center in St. Louis to get those records much, much quicker. And we are making good progress.

Senator CRAIG. Well, Madam Chairman, thank you very much. I have other questions I will submit for the record.

We appreciate you being here. We are certainly going to do all we can do. And I know that it is the commitment of the chairman and our ranking member to make that happen within all of the allocation we can grab hold of. And your anticipated budget increase is certainly respectable. We hope we can get there. Thank you.

Secretary PRINCIPI. Thank you, sir.

Senator MIKULSKI. Thank you, Senator Craig. And, you know, we do not have mountains in Maryland like you have. And even though we welcome the President to Camp David, I do not know if he calls them mountains, but they are mountains to us. And our own veterans up there, when you know that you have got—you are old or you are sick and you have a colostomy bag and you are riding over these very rugged terrains somewhere, that we are very sympathetic to your situation.

Senator CRAIG. I have had the privilege now of being to Camp David. It is a nice little rise in a flat place, you know.

Senator MIKULSKI. I am being sympathetic to you. Do not——

Senator CRAIG. Thank you.

Senator MIKULSKI. Do not push it.

PRIORITY 7'S VETERANS

Senator MIKULSKI. Mr. Secretary, first of all, what you hear from the Senators is that we are on your side. We know that when you took over the administration of VA that you faced, in some ways,

an administrative brown field. It had been long neglected, and so we know that you have—that you are dealing with a very big job.

And that would even be the usual and customary systems. Now, this demographic explosion that you are facing is just eclipsing everything. There are so many other questions that I would like to pursue today, like facilities, the issue of long-term care, home health care, the work force shortage—like, related to nursing, that I would like to be able to bring up.

But the priority 7 issue, I think, is eclipsing everything. And your testimony on page 6, I think, is really a bombshell. When you talk about—since 1996 the priority 7 veterans increasing 500 percent when they were 33 percent earlier, now they are 33 percent of the workload. They are projected to increase to 42 percent by 2010 with an enormous increase of, well, between now and 2007 of $20 billion. That is almost doubling what we currently have, which would take us to about $45 billion. Now, this is no finger-pointing to the priority 7 veterans. There is a reason that they are coming. And I am talking about the reasons. But before I do, I just want to alert the committee that it could get worse. Senator Bond and I represent industrial workers. You know we are facing a big crisis right now, with something called legacy cost.

If that steel industry goes down the tube, we have over 600,000 retirees in the steel industry. Okay? They will lose their health care. As you know, there were no draft counseling or draft dodging lines at the steel mills. You know that. The movie "Deer Hunter," I think, told us and taught us a lot.

Secretary PRINCIPI. Sure.

Senator MIKULSKI. Just as between us. This all could come to the VA. These men who fought, if they lose their health care, they are going to find it another way. And this is not dire predictions. So let me go to the priority 7. I am a data driven—we have to be data driven here.

DEMOGRAPHIC PROFILE OF PRIORITY 7 VETERANS

My question is: Have you, with the priority 7 coming in, do you have a demographic profile of the priority 7 veterans entering the system related to geography, age, income, and the reason they seek you out? Because my hypothesis is that the lack of a universal health care policy, lack of health insurance for some, the lack of a prescription drug benefit for the older veterans, and then also the lack of a national long-term care policy, which is quite piecemeal, could you—let us start with the demography. Do you have—because I think if they knew the age—first of all, the geography. Is this focused on particular geographic area?

Second, what are their ages? And are they rich, or are they just kind of working stiffs who do not have the money or is—or do not have health insurance? Do you see where I am heading? That for the younger veteran it might be one reason; for the older it might be another.

Dr. Murphy, do you have a demographic profile? You do not seem to have it handy.

Dr. MURPHY I am searching for it.

Senator MIKULSKI. While you are looking——

Secretary PRINCIPI. We will provide the precise information for the record.

Senator MIKULSKI. But do you even have it now, in terms conceptually?

Secretary PRINCIPI. I think it is fair to say first that, many priority 7s are coming to us for prescriptions only.

Senator MIKULSKI. But is that like 60 percent, 70 percent, 10 percent?

Secretary PRINCIPI. I would be speculating, Madam Chair, and I apologize for that.

Dr. Murphy, perhaps you can.

Dr. MURPHY. We do know that about 57 percent of the priority 7 veterans use less than $400 worth of health care. And that would be their primary care visits plus other medication or——

Senator MIKULSKI. So 57 percent will come. But you see what I am getting at? Can you tell me why they are coming and how old they are? And is this the absence of other national policies? Again, we are not passing judgment here. We are trying to get the data.

So, you are saying 57 percent use less than $400 worth of care?

Secretary PRINCIPI. Yes.

Senator MIKULSKI. But why do they come?

Secretary PRINCIPI. I think they are——

Senator MIKULSKI. And how old are they?

Secretary PRINCIPI. I think they are older. I think they represent the veteran populations generally coming to us. I think they tend to be older, World War II veterans. This is based upon all the town hall meetings that I have attended over the past year. They are using our primary care facilities, our clinics, a great deal. I think they are in the age range of 65–70 years old.

Their incomes tend to be a little bit higher than the threshold for priority 7, but I do not think they are rich people. We do have a few who are wealthy and come to VA for their prescriptions. They are eligible. And rather than paying $400 a month, they pay $7 a month.

Senator MIKULSKI. Okay. Well, I understand that, but—go ahead. I am sorry. Go ahead.

Secretary PRINCIPI. I think the vast majority of priority 7s that come to us have incomes around $30,000. They are not making a lot of money. They are ordinary Joes, who are working in the factories and on the farms, who have lost their health care coverage or who do not or may not have it.

Senator MIKULSKI. But do we have a natural demographic profile, Dr. Murphy?

Dr. MURPHY. We do. And I——

Senator MIKULSKI. You do not have it with you.

Dr. MURPHY. I apologize, Madam Chairman. I thought I had that data with me. And I know that we can pull it. Some of the income data that we have is based on a survey that was done in 1999. In my memory of the income profile of priority 7 veterans is that approximately 30 percent of them, about one-third, have incomes above $35,000 a year. So the majority——

INCOME PROFILE OF PRIORITY 7 VETERANS

Senator MIKULSKI. Wait, wait, wait. Incomes above what?

Dr. MURPHY. Incomes above $35,000 a year. But I can get those specific statistics.

Senator MIKULSKI. Well, let me tell you what the committee wants and—because, again, we need to be data driven to also help you parse out our recommendations, knowing that the recommendations are a stopgap. First of all, the $1,500 is a non-deductible, is a non-starter. And we will not do it unless the authorizers pass it.

At the same time, we know that there is a crisis here. It is a crisis for the people who are turning to you, and it is therefore a crisis for those of us who have to provide the service and pay the bills. They are not coming to you because it is a leisure choice option. They are coming to you for a reason. Some, if they—they might like the—but most of all, I think it is the lack of policy in other areas.

So we need data. We need a demographic profile, first of all, of geography. Is it concentrated in, say, the rural areas? This is going to help us get to our management solutions while we look to more long-term systemic. We need geography.

Second, we need age. And I am really interested, particularly, under the age of 65, the whole issue of every 5 years, if I could. One of the policies would be people, primarily men, who had jobs but are now not working after 60, either the collapse of an industry or whatever, but they are too young for Medicare, but they cannot get health care anywhere else.

So, you see where I am heading in terms of the age? Or are young men coming, younger men, because of the lack of health insurance? So you see, one is the age; then, the other will be income, because I think we have to face it. If it is people with incomes over $70,000 coming to you for a prescription drug benefit, that is very different than somebody coming for $27,000 or $32,000, the combined pension maybe, et cetera. And then that would be the age-income.

And then, if you could, even anecdotally, do a survey of why are they coming. Is it they like the Veterans—particularly now, when there seems to be longer waiting times, work force shortages, other challenges that you are facing in the system?

So you see where we are heading?

Secretary PRINCIPI. Yes.

Senator MIKULSKI. Because that, I think, will tell us a lot about what we need to do. You know, do we do an age—and I am not talking about what is the methodology for containing this issue.

Secretary PRINCIPI. Sure.

[The information follows:]

PRIORITY 7 DEMOGRAPHIC PROFILE

The following information is provided for the record (fiscal year 2001 information is provided except as noted):

—Priority 7 Enrollees and Users by VISN fiscal year 1999-fiscal year 2001 with comparisons to growth rates for Enrollees and Users in Priorities 1–6

—Priority 7 Enrollees and Users by VISN also shown as a Percentile of all Priority 1–7 Enrollees and Users, fiscal year 1999-fiscal year 2001

—Average Ages of Priority 7 Enrollees and Users by VISN fiscal year 1999-fiscal year 2001 with comparisons to the Average Ages of Enrollees and Enrolled Users in Priorities 1–6

—Fiscal year 2001 Priority 7 Enrollees and Users by VISN and Age Group with comparisons to Priorities 1–6

—Priority 7 Average Annual Cost Per User fiscal year 1999-fiscal year 2001 with comparisons to Average Annual Cost Per User for Priorities 1–6
—Priority 7 Average Overall Cost Per User and Average Outpatient Pharmacy Cost Per User with Comparisons to Average Costs for Priorities 1–6
—Priority 7 Average Cost of Users Under 65 Years Old compared to those Age 65 and Over with further comparisons to Average Costs for Priorities 1–6
—Priority 7 Average Cost and Age comparisons with comparisons to Average Cost and Age for Priorities 1–6
—Priority 7 Inpatient and Outpatient Reliance with comparisons to Inpatient and Outpatient Reliance for Priorities 1–6
—Projections of Priority 7 Health Care Users (Unique Patients) by VISN and Age Group—fiscal year 2002-fiscal year 2010 with comparisons to Projections for Priorities 1–6
—Projections of Priority 7 Enrollees by VISN and Age Group—fiscal year 2002-fiscal year 2010 with comparisons to Projections for Priorities 1–6

VA will provide a more in-depth analysis by May 27, 2002, to include distributions of the above data by State and information on:

—Average income by priority group and State
—Employment status by priority group and State
—Insurance status by priority group and VISN
—Health status by priority group and VISN

PRIORITY 7 ENROLLEES AND USERS BY VISN -- FY 1999 - FY 2001
WITH COMPARISONS TO GROWTH RATES FOR ENROLLEES AND USERS IN PRIORITIES 1-6

VA HEALTH CARE ENROLLEES

Preferred	Priority 7 Enrollees Only			Enrollees in Priorities 1-6			% Change in P7			% Change in P1-6		
VISN	1999	2000	2001	1999 1/	2000	2001	2000	2001	01 vs. 99	2000	2001	01 vs. 99
1	35,199	57,910	89,836	144,754	166,155	189,497	64.5%	55.1%	155.2%	14.8%	14.0%	30.9%
2	31,809	48,040	71,928	86,050	97,449	112,822	51.0%	49.7%	126.1%	13.2%	15.8%	31.1%
3	83,665	110,548	168,240	144,654	157,541	180,601	32.1%	52.2%	101.1%	8.9%	14.6%	24.9%
4	55,154	90,695	132,510	178,049	209,039	240,589	64.4%	46.1%	140.3%	17.4%	15.1%	35.1%
5	13,950	23,714	38,966	82,884	94,527	112,058	70.0%	64.3%	179.3%	14.0%	18.5%	35.2%
6	34,790	50,756	72,818	161,827	185,115	217,961	45.9%	43.5%	109.3%	14.4%	17.7%	34.7%
7	38,038	56,638	84,113	187,742	215,861	254,855	48.9%	48.5%	121.1%	15.0%	18.1%	35.7%
8	50,941	88,892	152,506	282,772	329,007	386,387	74.5%	71.6%	199.4%	16.4%	17.4%	36.6%
9	23,274	36,376	62,770	151,831	174,907	203,639	56.3%	72.6%	169.7%	15.2%	16.4%	34.1%
10	26,444	39,191	54,993	118,524	142,351	162,832	48.2%	40.3%	108.0%	20.1%	14.4%	37.4%
11	27,083	44,164	75,009	128,036	144,926	172,052	63.1%	69.8%	177.0%	13.2%	18.7%	34.4%
12	42,379	61,787	95,952	144,483	158,173	175,145	45.8%	55.3%	126.4%	9.5%	10.7%	21.2%
13	18,876	42,792	64,929	74,821	85,072	99,871	126.7%	51.7%	244.0%	13.7%	17.4%	33.5%
14	21,002	36,457	50,231	58,924	66,066	76,159	73.6%	37.8%	139.2%	12.1%	15.3%	29.2%
15	25,540	41,472	70,058	126,666	142,679	167,942	62.4%	68.9%	174.3%	12.6%	17.7%	32.6%
16	36,744	60,173	100,249	291,676	329,544	382,478	63.8%	66.6%	172.8%	13.0%	16.1%	31.1%
17	20,697	33,424	48,345	146,678	170,667	201,534	61.5%	44.6%	133.6%	16.4%	18.1%	37.4%
18	28,896	41,742	62,790	144,386	160,726	184,979	44.5%	50.4%	117.3%	11.3%	15.1%	28.1%
19	22,341	32,303	47,365	87,996	100,966	116,442	44.6%	46.6%	112.0%	14.7%	15.3%	32.3%
20	22,212	38,408	56,279	140,252	163,364	190,686	72.9%	46.5%	153.4%	16.5%	16.7%	36.0%
21	31,726	46,492	67,226	143,848	165,654	193,199	46.5%	44.6%	111.9%	15.2%	16.6%	34.3%
22	40,948	58,758	79,232	179,029	211,332	243,037	43.5%	34.8%	93.5%	18.0%	15.0%	35.8%
Not Assigned	560	1,408	1,246	2,483	2,329	417	151.4%	-11.5%	122.5%	-6.2%	-82.1%	-83.2%
Total	732,268	1,142,140	1,747,591	3,208,365	3,673,450	4,265,182	56.0%	53.0%	138.7%	14.5%	16.1%	32.9%

ENROLLED USERS OF VA HEALTH CARE 2/

Preferred	Priority 7 Users Only			Users in Priorities 1-6			% Change in P7			% Change in P1-6		
VISN	1999	2000	2001	1999 1/	2000	2001	2000	2001	01 vs. 99	2000	2001	01 vs. 99
1	18,031	28,885	46,757	115,119	123,788	131,589	60.2%	61.9%	159.3%	7.5%	6.3%	14.3%
2	15,845	21,156	30,265	67,452	71,938	76,832	33.5%	43.1%	91.0%	6.7%	6.8%	13.9%
3	39,899	54,641	66,830	104,601	106,803	111,961	36.9%	22.3%	67.5%	2.1%	4.8%	7.0%
4	31,084	46,410	64,952	136,896	148,151	160,257	49.3%	40.0%	109.0%	8.2%	8.2%	17.1%
5	7,933	12,991	17,956	64,679	68,196	74,174	63.8%	38.2%	126.3%	5.4%	8.8%	14.7%
6	15,991	20,830	28,634	124,300	137,036	151,071	30.3%	37.5%	79.1%	10.2%	10.2%	21.5%
7	22,378	30,798	40,766	147,501	163,413	176,894	37.6%	32.4%	82.2%	10.8%	8.2%	19.9%
8	26,141	47,688	85,413	227,177	257,585	287,867	82.4%	79.1%	226.7%	13.4%	11.8%	26.7%
9	15,052	20,998	30,222	123,316	134,664	145,327	39.5%	43.9%	100.8%	9.2%	7.9%	17.8%
10	13,564	16,773	22,941	88,482	97,106	104,663	23.7%	36.8%	69.1%	9.7%	7.8%	18.3%
11	17,416	25,553	38,521	101,571	108,969	118,678	46.7%	50.7%	121.2%	7.3%	8.9%	16.8%
12	22,768	28,743	40,818	111,432	113,424	116,993	26.2%	42.0%	79.3%	1.8%	3.1%	5.0%
13	11,952	25,268	37,892	61,398	67,503	76,000	111.4%	50.0%	217.0%	9.9%	12.6%	23.8%
14	12,379	18,026	25,236	48,104	51,483	54,450	45.6%	40.0%	103.9%	7.0%	5.8%	13.2%
15	16,592	26,305	39,116	104,743	114,215	122,237	58.5%	48.7%	135.8%	9.0%	7.0%	16.7%
16	21,233	32,358	51,365	233,371	252,951	275,383	52.4%	58.7%	141.9%	8.4%	8.9%	18.0%
17	11,858	16,975	23,869	115,402	127,486	139,671	43.2%	40.6%	101.3%	10.5%	9.6%	21.0%
18	16,592	22,408	32,228	116,094	123,458	134,160	35.1%	43.8%	94.2%	6.3%	8.7%	15.6%
19	12,656	16,544	23,049	68,755	74,789	80,574	30.7%	39.3%	82.1%	8.8%	7.7%	17.2%
20	10,921	16,731	20,647	108,016	121,096	129,409	53.2%	23.4%	89.1%	12.1%	6.9%	19.8%
21	15,404	19,785	27,910	112,327	122,315	132,634	28.4%	41.1%	81.2%	8.9%	8.4%	18.1%
22	21,215	24,257	32,231	133,125	145,428	154,729	14.3%	32.9%	51.9%	9.2%	6.4%	16.2%
Not Assigned	326	393	104	1,986	943	66	20.6%	-73.5%	-68.1%	-52.5%	-93.0%	-96.7%
Total	397,230	574,516	827,722	2,515,847	2,732,740	2,955,619	44.6%	44.1%	108.4%	8.6%	8.2%	17.5%

1/ FY 1999 excludes 238,980 enrollees and 81,004 users whose priority levels had not yet been determined. This only occurred only in FY 99 -- the first year of enrollment.

2/ These user levels do not account for all users of VA health care. Veteran users who are not required to enroll, non-veteran users, and the unprioritized FY 99 enrolled users (footnote 1/) are not counted.

Source: End-of-Year Enrollment Files for FY 1999 - FY 2001 maintained at the Austin Automation Center.

PRIORITY 7 ENROLLEES AND USERS BY VISN
ALSO SHOWN AS A PERCENTILE OF ALL PRIORITY 1-7 ENROLLEES AND USERS -FY 1999 - FY 2001

VA HEALTH CARE ENROLLEES

Preferred	Priority 7 Enrollees Only			Enrollees in Priorities 1-7			P7 as a % of P1-7		
VISN	1999	2000	2001	1999 1/	2000	2001	1999	2000	2001
1	35,199	57,910	89,836	179,953	224,065	279,333	19.6%	25.8%	32.2%
2	31,809	48,040	71,928	117,859	145,489	184,750	27.0%	33.0%	38.9%
3	83,665	110,548	168,240	228,319	268,089	348,841	36.6%	41.2%	48.2%
4	55,154	90,695	132,510	233,203	299,734	373,099	23.7%	30.3%	35.5%
5	13,950	23,714	38,966	96,834	118,241	151,024	14.4%	20.1%	25.8%
6	34,790	50,756	72,818	196,617	235,871	290,779	17.7%	21.5%	25.0%
7	38,038	56,638	84,113	225,780	272,499	338,968	16.8%	20.8%	24.8%
8	50,941	88,892	152,506	333,713	417,899	538,893	15.3%	21.3%	28.3%
9	23,274	36,376	62,770	175,105	211,283	266,409	13.3%	17.2%	23.6%
10	26,444	39,191	54,993	144,968	181,542	217,825	18.2%	21.6%	25.2%
11	27,083	44,164	75,009	155,119	189,090	247,061	17.5%	23.4%	30.4%
12	42,379	61,787	95,952	186,862	219,960	271,097	22.7%	28.1%	35.4%
13	18,876	42,792	64,929	93,697	127,864	164,800	20.1%	33.5%	39.4%
14	21,002	36,457	50,231	79,926	102,523	126,390	26.3%	35.6%	39.7%
15	25,540	41,472	70,058	152,206	184,151	238,000	16.8%	22.5%	29.4%
16	36,744	60,173	100,249	328,420	389,717	482,727	11.2%	15.4%	20.8%
17	20,697	33,424	48,345	167,375	204,091	249,879	12.4%	16.4%	19.3%
18	28,896	41,742	62,790	173,282	202,468	247,769	16.7%	20.6%	25.3%
19	22,341	32,303	47,365	110,337	133,269	163,807	20.2%	24.2%	28.9%
20	22,212	38,408	56,279	162,464	201,772	246,965	13.7%	19.0%	22.8%
21	31,726	46,492	67,226	175,574	212,146	260,425	18.1%	21.9%	25.8%
22	40,948	58,758	79,232	219,977	270,090	322,269	18.6%	21.8%	24.6%
Not Assigned	560	1,408	1,246	3,043	3,737	1,663	18.4%	37.7%	74.9%
Total	732,268	1,142,140	1,747,591	3,940,633	4,815,590	6,012,773	18.6%	23.7%	29.1%

ENROLLED USERS OF VA HEALTH CARE 2/

Preferred	Priority 7 Users Only			Users in Priorities 1-7			P7 as a % of P1-7		
VISN	1999	2000	2001	1999 1/	2000	2001	1999	2000	2001
1	18,031	28,885	46,757	133,150	152,673	178,346	13.5%	18.9%	26.2%
2	15,845	21,156	30,265	83,297	93,094	107,097	19.0%	22.7%	28.3%
3	39,899	54,641	66,830	144,500	161,444	178,791	27.6%	33.8%	37.4%
4	31,084	46,410	64,952	167,980	194,561	225,209	18.5%	23.9%	28.8%
5	7,933	12,991	17,956	72,612	81,187	92,130	10.9%	16.0%	19.5%
6	15,991	20,830	28,634	140,291	157,866	179,705	11.4%	13.2%	15.9%
7	22,378	30,798	40,766	169,879	194,211	217,660	13.2%	15.9%	18.7%
8	26,141	47,688	85,413	253,318	305,273	373,280	10.3%	15.6%	22.9%
9	15,052	20,998	30,222	138,368	155,662	175,549	10.9%	13.5%	17.2%
10	13,564	16,773	22,941	102,046	113,879	127,604	13.3%	14.7%	18.0%
11	17,416	25,553	38,521	118,987	134,522	157,199	14.6%	19.0%	24.5%
12	22,768	28,743	40,818	134,200	142,167	157,811	17.0%	20.2%	25.9%
13	11,952	25,268	37,892	73,350	92,771	113,892	16.3%	27.2%	33.3%
14	12,379	18,026	25,236	60,483	69,509	79,686	20.5%	25.9%	31.7%
15	16,592	26,305	39,116	121,335	140,520	161,353	13.7%	18.7%	24.2%
16	21,233	32,358	51,365	254,604	285,309	326,748	8.3%	11.3%	15.7%
17	11,858	16,975	23,869	127,260	144,461	163,540	9.3%	11.8%	14.6%
18	16,592	22,408	32,228	132,686	145,866	166,388	12.5%	15.4%	19.4%
19	12,656	16,544	23,049	81,411	91,333	103,623	15.5%	18.1%	22.2%
20	10,921	16,731	20,647	118,937	137,827	150,056	9.2%	12.1%	13.8%
21	15,404	19,785	27,910	127,731	142,100	160,544	12.1%	13.9%	17.4%
22	21,215	24,257	32,231	154,340	169,885	186,960	13.7%	14.3%	17.2%
Not Assigned	326	393	104	2,312	1,336	170	14.1%	29.4%	61.2%
Total	397,230	574,516	827,722	2,913,077	3,307,256	3,783,341	13.6%	17.4%	21.9%

1/ FY 1999 excludes 238,980 enrollees and 81,004 users whose priority levels had not yet been determined. This only occurred only in FY 99 -- the first year of enrollment.

2/ These user levels do not account for all users of VA heatlh care. Veteran users who are not required to enroll, non-veteran users, and the unprioritized FY 99 enrolled users (footnote 1/) are not counted.

Source: End-of-Year Enrollment Files for FY 1999 - FY 2001 maintained at the Austin Automation Center.

AVERAGE AGES OF PRIORITY 7 ENROLLEES AND USERS BY VISN -- FY 1999 - FY 2001
WITH COMPARISONS TO THE AVERAGE AGES OF ENROLLEES AND ENROLLED USERS IN PRIORITIES 1-6

In great majority of VISNs across all 3 years, the P7 Enrollees and Users are Older than the Enrollees and Users in Priorities 1-6.

VA HEALTH CARE ENROLLEES

Preferred	Priority 7 Enrollees			Priorities 1-6 Enrollees			P7 Avg. Age - P1-6 Avg. Age		
VISN	1999	2000	2001	1999	2000	2001	1999	2000	2001
1	64	65	66	61	62	63	3	3	3
2	63	64	65	60	60	61	3	4	4
3	59	60	62	59	59	60	0	1	2
4	59	59	61	58	59	59	1	0	2
5	62	63	64	59	60	60	3	3	4
6	62	63	64	58	59	59	4	4	5
7	59	59	61	57	57	57	2	2	4
8	62	63	64	59	59	60	3	4	4
9	60	60	62	57	57	58	3	3	4
10	63	64	64	61	62	62	2	2	2
11	64	65	66	62	63	64	2	2	2
12	63	65	66	61	62	63	2	3	3
13	60	61	62	58	58	59	2	3	3
14	59	59	61	57	58	58	2	1	3
15	59	60	61	57	58	58	2	2	3
16	65	66	67	61	61	62	4	5	5
17	60	61	62	59	59	60	1	2	2
18	59	61	62	59	59	60	0	2	2
19	62	63	64	59	59	60	3	4	4
20	65	65	67	61	61	62	4	4	5
21	66	67	68	60	61	61	6	6	7
22	63	64	65	59	60	61	4	4	4
Not Assigned	62	57	60	62	60	60	0	(3)	0
Overall	62	63	64	59	60	60	3	3	4

ENROLLED USERS OF VA HEALTH CARE

Preferred	Priority 7 Users			Priorities 1-6 Enrolled Users			P7 Avg. Age - P1-6 Avg. Age		
VISN	1999	2000	2001	1999	2000	2001	1999	2000	2001
1	65	66	68	62	63	64	3	3	4
2	65	67	68	61	61	62	4	6	6
3	59	61	64	60	60	61	(1)	1	3
4	60	61	63	59	60	60	1	1	3
5	63	64	65	61	61	62	2	3	3
6	63	64	66	60	60	61	3	4	5
7	59	61	63	58	58	59	1	3	4
8	62	63	65	60	60	61	2	3	4
9	59	61	63	58	58	59	1	3	4
10	64	65	66	62	63	63	2	2	3
11	65	66	68	63	64	65	2	2	3
12	65	67	69	62	63	64	3	4	5
13	60	62	64	59	60	61	1	2	3
14	60	61	63	59	59	60	1	2	3
15	59	62	64	58	59	60	1	3	4
16	65	67	69	61	62	63	4	5	6
17	61	62	64	60	60	61	1	2	3
18	61	63	66	60	61	62	1	2	4
19	63	65	67	60	61	62	3	4	5
20	66	67	69	62	63	63	4	4	6
21	67	68	70	62	62	63	5	6	7
22	64	66	68	61	61	62	3	5	6
Not Assigned	62	55	52	61	63	59	1	(8)	(7)
Overall	63	65	66	60	61	62	3	4	4

Source: End-of-Year Enrollment Files for FY 1999 - FY 2001 maintained at the Austin Automation Center.

FY 2001 PRIORITY 7 ENROLLEES AND USERS BY VISN AND AGE GROUP
WITH COMPARISONS TO PRIORITIES 1-6

	Priority 7 Enrollees										P7 Enrollees		Priorities 1-6 Enrollees		
	Age Group									Total	Age 65 &	As a %	P1-P6	Age 65 &	As a %
VISN	< 25	25-34	35-44	45-54	55-64	65-74	75-84	85+	Unknown	Priority 7	Higher	of Total	Total	Higher	of Total
1	230	2,268	4,054	10,047	15,963	31,862	23,071	2,341		89,836	57,274	63.8%	189,497	95,974	50.6%
2	242	2,175	4,658	10,701	14,592	22,120	15,728	1,712		71,928	39,560	55.0%	112,822	55,228	49.0%
3	259	3,693	8,925	20,356	31,705	54,724	43,634	4,936	8	168,240	103,294	61.4%	180,601	97,604	54.0%
4	340	3,097	5,843	15,392	22,842	47,082	34,832	3,082		132,510	84,996	64.1%	240,589	124,567	51.8%
5	150	1,607	3,636	6,820	7,042	10,921	7,910	877	3	38,966	19,708	50.6%	112,058	44,967	40.1%
6	355	3,880	6,185	13,240	14,471	20,418	13,022	1,247		72,818	34,687	47.6%	217,961	85,401	39.2%
7	324	4,137	7,726	15,393	16,012	23,938	15,091	1,489	3	84,113	40,518	48.2%	254,855	97,286	38.2%
8	322	3,495	6,915	14,912	24,187	50,707	46,629	5,332	7	152,506	102,668	67.3%	386,387	191,336	49.5%
9	323	2,378	4,177	11,026	13,406	18,864	11,495	1,101		62,770	31,460	50.1%	203,639	85,873	42.2%
10	174	2,222	4,232	9,349	10,693	16,091	11,297	935		54,993	28,323	51.5%	162,832	70,698	43.4%
11	267	2,796	4,517	10,533	12,919	24,366	17,961	1,650		75,009	43,977	58.6%	172,052	74,318	43.2%
12	296	2,661	4,565	12,369	17,861	32,144	23,734	2,322		95,952	58,200	60.7%	175,145	80,388	45.9%
13	236	1,601	2,376	6,766	10,968	24,739	16,531	1,709	3	64,929	42,979	66.2%	99,871	47,729	47.8%
14	85	918	1,584	4,907	7,417	19,727	14,218	1,374	1	50,231	35,319	70.3%	76,159	36,049	47.3%
15	301	2,031	3,687	9,392	12,106	23,263	17,451	1,827		70,058	42,541	60.7%	167,942	74,549	44.4%
16	422	4,281	6,871	17,869	21,431	28,960	18,541	1,862	12	100,249	49,363	49.2%	382,478	160,486	42.0%
17	206	2,522	4,124	9,096	10,088	12,831	8,488	990		48,345	22,309	46.1%	201,534	80,375	39.9%
18	218	2,141	3,765	9,132	12,646	19,226	14,125	1,537		62,790	34,888	55.6%	184,979	80,042	43.3%
19	167	1,733	2,635	7,147	9,693	14,456	10,511	1,023		47,365	25,990	54.9%	116,442	46,167	39.6%
20	419	3,177	4,504	9,548	11,834	14,569	10,856	1,372		56,279	26,797	47.6%	190,686	65,886	34.6%
21	339	2,413	4,131	10,279	13,667	18,434	15,755	2,187	21	67,226	36,376	54.1%	193,199	78,879	40.8%
22	655	4,187	6,269	12,970	16,622	20,305	16,037	2,181	6	79,232	38,523	48.6%	243,037	87,077	35.8%
Not Assigned	29	86	153	255	216	178	148	168	13	1,246	494	39.6%	417	161	38.6%
Total	6,359	59,499	105,532	247,499	328,381	549,925	407,065	43,254	77	1,747,591	1,000,244	57.2%	4,265,182	1,861,040	43.6%

	Priority 7 Health Care Users										P7 Users		Priorities 1-6 Users		
	Age Group									Total	Age 65 &	As a %	P1-P6	Age 65 &	As a %
VISN	< 25	25-34	35-44	45-54	55-64	65-74	75-84	85+	Unknown	Priority 7	Higher	of Total	Total	Higher	of Total
1	96	595	1,371	4,056	7,522	18,714	13,297	1,106		46,757	33,117	70.8%	131,589	70,168	53.3%
2	76	568	1,421	3,606	5,548	10,737	7,549	760		30,265	19,046	62.9%	76,832	40,304	52.5%
3	93	952	2,409	5,904	9,618	24,763	21,020	2,071		66,830	47,854	71.6%	111,961	62,624	55.9%
4	114	720	1,664	5,226	9,265	26,622	19,858	1,483		64,952	47,963	73.8%	160,257	87,692	54.7%
5	56	495	1,301	2,698	3,018	5,812	4,202	374		17,956	10,388	57.9%	74,174	33,408	45.0%
6	104	811	1,790	4,572	5,768	9,572	5,584	433		28,634	15,589	54.4%	151,071	64,551	42.7%
7	108	1,044	2,794	6,533	7,881	13,259	8,427	720		40,766	22,406	55.0%	176,894	73,533	41.6%
8	113	1,096	2,751	6,854	12,719	30,144	28,787	2,949		85,413	61,880	72.4%	287,867	149,922	52.1%
9	160	745	1,551	4,724	6,285	10,257	6,007	493		30,222	16,757	55.4%	145,327	65,622	45.2%
10	54	438	1,105	2,846	3,811	8,326	5,979	382		22,941	14,687	64.0%	104,663	49,567	47.4%
11	82	605	1,397	3,911	5,889	14,826	10,964	847		38,521	26,637	69.1%	118,678	56,161	47.3%
12	66	588	1,275	3,611	6,259	16,201	11,782	1,036		40,818	29,019	71.1%	116,993	57,664	49.3%
13	64	356	839	3,059	5,818	15,962	10,845	949		37,892	27,756	73.3%	76,000	39,992	52.6%
14	18	219	473	1,683	3,009	11,178	8,012	644		25,236	19,834	78.6%	54,450	28,613	52.5%
15	98	506	1,286	3,955	6,086	15,022	11,203	960		39,116	27,185	69.5%	122,237	59,268	48.5%
16	141	1,149	2,592	8,013	11,139	16,737	10,679	915		51,365	28,331	55.2%	275,383	122,992	44.7%
17	81	679	1,472	4,042	5,188	7,262	4,692	453		23,869	12,407	52.0%	139,671	59,636	42.7%
18	98	655	1,455	4,071	6,521	10,808	7,909	711		32,228	19,428	60.3%	134,160	62,966	46.9%
19	57	446	824	2,888	4,609	7,908	5,833	484		23,049	14,225	61.7%	80,574	35,495	44.1%
20	102	682	1,373	3,265	4,316	5,936	4,500	473		20,647	10,909	52.8%	129,409	49,443	38.2%
21	128	684	1,360	3,949	5,834	8,326	6,856	772	1	27,910	15,954	57.2%	132,634	57,619	43.4%
22	381	1,162	2,072	4,907	7,107	8,684	7,104	814		32,231	16,602	51.5%	154,729	59,327	38.3%
Not Assigned	9	10	11	25	26	13	7	3		104	23	22.1%	66	27	40.9%
Total	2,299	15,205	34,586	94,398	143,236	297,069	221,096	19,832	1	827,722	537,997	65.0%	2,955,619	1,386,594	46.9%

Source: End-of-Year Enrollment Files for FY 1999 - FY 2001 maintained at the Austin Automation Center.

PRIORITY 7 AVERAGE ANNUAL COST PER USER – FY 1999 - FY 2001
WITH COMPARISONS TO AVERAGE ANNUAL COST PER USER FOR PRIORITIES 1-6

Note that the average cost for a Priority 7 user is about one-third the average cost of a user in Priorities 1-7.

	Priority 7 Users									Priority 7 Cost per User as Percentage of P 1-6 Cost per User		
	FY 1999			FY 2000			FY 2001					
VISN	Total Cost ($000)	Users	Cost per User	Total Cost ($000)	Users	Cost per User	Total Cost ($000)	Users	Cost per User	FY 99	FY 00	FY 01
1	$39,142	18,031	$2,171	$52,174	28,885	$1,806	$83,774	46,757	$1,792	34.8%	28.8%	29.5%
2	25,252	15,845	1,594	32,778	21,156	1,549	56,568	30,265	1,869	29.4%	28.8%	33.1%
3	91,890	39,899	2,298	126,814	54,641	2,321	140,155	66,830	2,097	28.8%	28.5%	25.8%
4	46,145	31,084	1,485	62,468	46,410	1,346	92,395	64,952	1,423	27.5%	24.9%	26.7%
5	16,938	7,933	2,135	26,152	12,991	2,013	40,782	17,956	2,271	32.7%	29.9%	33.5%
6	31,975	15,991	2,000	41,577	20,830	1,996	56,356	28,634	1,968	36.3%	36.9%	36.7%
7	44,852	22,378	2,004	57,378	30,798	1,863	82,583	40,766	2,026	37.3%	34.9%	37.2%
8	51,657	26,141	1,976	71,059	47,688	1,490	133,821	85,413	1,567	38.8%	30.3%	32.0%
9	30,776	15,052	2,045	40,165	20,998	1,913	61,746	30,222	2,043	37.2%	35.9%	39.1%
10	20,982	13,564	1,547	28,280	16,773	1,686	41,074	22,941	1,790	27.4%	29.9%	31.5%
11	36,157	17,416	2,076	49,634	25,553	1,942	72,923	38,521	1,893	34.7%	32.6%	32.6%
12	51,291	22,768	2,253	61,520	28,743	2,140	86,068	40,818	2,109	32.5%	30.6%	29.6%
13	26,443	11,952	2,212	40,378	25,268	1,598	60,041	37,892	1,585	35.7%	26.9%	27.8%
14	14,608	12,379	1,180	28,383	18,026	1,575	48,527	25,236	1,923	21.8%	27.6%	34.7%
15	31,891	16,592	1,922	44,993	26,305	1,710	68,139	39,116	1,742	36.0%	33.0%	34.0%
16	43,425	21,233	2,045	63,647	32,358	1,967	101,302	51,365	1,972	40.6%	39.0%	39.0%
17	24,454	11,858	2,062	33,604	16,975	1,980	50,845	23,869	2,130	38.1%	37.4%	39.8%
18	28,822	16,592	1,737	39,478	22,408	1,762	63,789	32,228	1,979	38.1%	36.8%	39.9%
19	26,480	12,656	2,092	30,600	16,544	1,850	45,157	23,049	1,959	38.5%	34.3%	35.5%
20	23,457	10,921	2,148	33,567	16,731	2,006	48,429	20,647	2,346	38.2%	36.8%	41.0%
21	31,602	15,404	2,052	42,819	19,785	2,154	57,346	27,910	2,055	31.7%	34.4%	32.2%
22	49,679	21,215	2,342	51,478	24,257	2,122	73,637	32,231	2,285	35.4%	34.3%	34.9%
Not Assigned	583	326	1,788	394	393	1,004	133	104	1,278	21.8%	49.7%	42.1%
Total	$788,301	397,230	$1,984	$1,059,140	574,516	$1,844	$1,565,590	827,722	$1,891	34.6%	32.6%	33.3%

	Users in Priorities 1-6								
	FY 1999			FY 2000			FY 2001		
VISN	Total Cost ($000)	Users	Cost per User	Total Cost ($000)	Users	Cost per User	Total Cost ($000)	Users	Cost per User
1	$717,456	115,119	$6,232	$775,339	123,788	$6,263	$798,519	131,589	$6,068
2	365,229	67,452	5,415	389,224	71,938	5,411	433,689	76,832	5,644
3	835,853	104,601	7,991	869,208	106,803	8,138	908,372	111,961	8,113
4	738,386	136,896	5,394	801,899	148,151	5,413	853,597	160,257	5,326
5	422,451	64,679	6,532	459,026	68,196	6,731	503,425	74,174	6,787
6	684,180	124,300	5,504	740,877	137,036	5,406	810,376	151,071	5,364
7	793,072	147,501	5,377	871,855	163,413	5,335	964,158	176,894	5,450
8	1,157,426	227,177	5,095	1,268,185	257,585	4,923	1,407,923	287,867	4,891
9	678,693	123,316	5,504	716,736	134,664	5,322	759,810	145,327	5,228
10	499,574	88,482	5,646	548,082	97,106	5,644	595,227	104,663	5,687
11	608,277	101,571	5,989	649,216	108,969	5,958	690,035	118,678	5,814
12	772,436	111,432	6,932	792,483	113,424	6,987	834,997	116,993	7,137
13	380,548	61,398	6,198	400,465	67,503	5,933	432,993	76,000	5,697
14	260,648	48,104	5,418	293,957	51,483	5,710	302,024	54,450	5,547
15	559,507	104,743	5,342	591,326	114,215	5,177	626,889	122,237	5,128
16	1,174,493	233,371	5,033	1,276,712	252,951	5,047	1,392,104	275,383	5,055
17	625,089	115,402	5,417	674,221	127,486	5,289	748,023	139,671	5,356
18	529,131	116,094	4,558	591,612	123,458	4,792	664,961	134,160	4,956
19	373,820	68,755	5,437	403,875	74,789	5,400	444,461	80,574	5,516
20	607,940	108,016	5,628	660,812	121,096	5,457	740,705	129,409	5,724
21	727,955	112,327	6,481	765,614	122,315	6,259	846,857	132,634	6,385
22	880,796	133,125	6,616	898,872	145,428	6,181	1,013,017	154,729	6,547
Not Assigned	16,324	1,986	8,220	1,907	943	2,022	201	66	3,039
Total	$14,409,284	2,515,847	$5,727	$15,441,503	2,732,740	$5,651	$16,772,343	2,955,619	$5,675

Note: These costs exclude items not in the Enrollment Benefit Package such as State Home, CHAMPVA, Miscellaneous Benefits & Services. They also excludes capital.

Source: End-of-Year Enrollment Files for FY 1999 - FY 2001 maintained at the Austin Automation Center.

PRIORITY 7 AVERAGE OVERALL COST PER USER AND AVERAGE OUTPATIENT PHARMACY COST PER USER WITH COMPARISONS TO AVERAGE COSTS FOR PRIORITIES 1-6

In FY 1999, outpatient pharmacy costs comprised 19% of the overall average cost for P7, but only 11% of the overall average for P1-6. By FY 2001, outpatient pharmacy costs had risen to 31% of the overall average cost for P7, but the P1-6 percentage had barely changed nationally.

	Priority 7 Users									P7 Percent Change			
	FY 1999			FY 2000			FY 2001			FY 2000		FY 2001	
VISN	Overall	Rx Only	Rx/Overall	Overall	Rx Only	Rx/Overall	Overall	Rx Only	Rx/Overall	Overall	Rx Only	Overall	Rx Only
1	$2,171	$367	17%	$1,806	$333	18%	$1,792	$511	29%	-16.8%	-9.3%	-0.8%	53.6%
2	1,594	308	19%	1,549	408	26%	1,869	589	31%	-2.8%	32.5%	20.7%	44.2%
3	2,298	489	21%	2,321	486	21%	2,097	612	29%	1.0%	-0.6%	-9.7%	26.0%
4	1,485	346	23%	1,346	373	28%	1,423	534	38%	-9.4%	7.8%	5.7%	43.3%
5	2,135	324	15%	2,013	281	14%	2,271	624	27%	-5.7%	-13.3%	12.8%	122.2%
6	2,000	338	17%	1,996	348	17%	1,968	535	27%	-0.2%	3.0%	-1.4%	53.8%
7	2,004	402	20%	1,863	445	24%	2,026	686	34%	-7.0%	10.7%	8.7%	54.2%
8	1,976	322	16%	1,490	294	20%	1,567	502	32%	-24.6%	-8.7%	5.2%	70.8%
9	2,045	381	19%	1,913	401	21%	2,043	656	32%	-6.5%	5.2%	6.8%	63.5%
10	1,547	268	17%	1,686	330	20%	1,790	539	30%	9.0%	23.1%	6.2%	63.3%
11	2,076	417	20%	1,942	458	24%	1,893	646	34%	-6.5%	9.8%	-2.5%	41.1%
12	2,253	352	16%	2,140	423	20%	2,109	613	29%	-5.0%	20.2%	-1.4%	45.0%
13	2,212	344	16%	1,598	299	19%	1,585	414	26%	-27.8%	-13.1%	-0.8%	38.4%
14	1,180	292	25%	1,575	559	35%	1,923	760	40%	33.5%	91.4%	22.1%	36.0%
15	1,922	475	25%	1,710	442	26%	1,742	687	39%	-11.0%	-6.9%	1.9%	55.4%
16	2,045	369	18%	1,967	415	21%	1,972	624	32%	-3.8%	12.5%	0.3%	50.3%
17	2,062	381	18%	1,980	437	22%	2,130	616	29%	-4.0%	14.7%	7.6%	41.1%
18	1,737	350	20%	1,762	364	21%	1,979	536	27%	1.4%	4.0%	12.3%	47.2%
19	2,092	429	21%	1,850	463	25%	1,959	654	33%	-11.6%	7.9%	5.9%	41.3%
20	2,148	354	16%	2,006	331	17%	2,346	544	23%	-6.6%	-6.5%	16.9%	64.5%
21	2,052	314	15%	2,154	341	16%	2,055	484	24%	5.0%	8.6%	-4.6%	42.1%
22	2,342	338	14%	2,122	365	17%	2,285	575	25%	-9.4%	8.0%	7.7%	57.5%
Not Assigned	1,788			1,004			1,278	0		-43.8%		27.3%	
Total	$1,984	$370	19%	$1,844	$393	21%	$1,891	$581	31%	-7.1%	6.2%	2.5%	47.9%

	Priority 1-6 Users									P1-6 Percent Change			
	FY 1999			FY 2000			FY 2001			FY 2000		FY 2001	
VISN	Overall	Rx Only	Rx/Overall	Overall	Rx Only	Rx/Overall	Overall	Rx Only	Rx/Overall	Overall	Rx Only	Overall	Rx Only
1	$6,232	$645	10%	$6,263	$554	9%	$6,068	$577	10%	0.5%	-14.1%	-3.1%	4.2%
2	5,415	576	11%	5,411	644	12%	5,644	649	11%	-0.1%	11.8%	4.3%	0.8%
3	7,991	765	10%	8,138	755	9%	8,113	714	9%	1.8%	-1.3%	-0.3%	-5.5%
4	5,394	583	11%	5,413	634	12%	5,326	671	13%	0.4%	8.7%	-1.6%	5.9%
5	6,532	582	9%	6,731	513	8%	6,787	684	10%	3.0%	-11.9%	0.8%	33.4%
6	5,504	695	13%	5,406	681	13%	5,364	759	14%	-1.8%	-2.0%	-0.8%	11.5%
7	5,377	692	13%	5,335	721	14%	5,450	756	14%	-0.8%	4.2%	2.2%	4.9%
8	5,095	556	11%	4,923	576	12%	4,891	617	13%	-3.4%	3.6%	-0.7%	7.2%
9	5,504	678	12%	5,322	725	14%	5,228	752	14%	-3.3%	6.9%	-1.8%	3.7%
10	5,646	592	10%	5,644	620	11%	5,687	650	11%	0.0%	4.7%	0.8%	4.8%
11	5,989	703	12%	5,958	724	12%	5,814	740	13%	-0.5%	3.0%	-2.4%	2.2%
12	6,932	643	9%	6,987	695	10%	7,137	686	10%	0.8%	8.1%	2.1%	-1.4%
13	6,198	602	10%	5,933	642	11%	5,697	559	10%	-4.3%	6.6%	-4.0%	-12.9%
14	5,418	835	15%	5,710	935	16%	5,547	858	15%	5.4%	12.0%	-2.9%	-8.2%
15	5,342	812	15%	5,177	718	14%	5,128	735	14%	-3.1%	-11.6%	-0.9%	2.3%
16	5,033	676	13%	5,047	721	14%	5,055	763	15%	0.3%	6.7%	0.2%	5.8%
17	5,417	638	12%	5,289	705	13%	5,356	766	14%	-2.4%	10.5%	1.3%	8.7%
18	4,558	581	13%	4,792	582	12%	4,956	635	13%	5.1%	0.2%	3.4%	9.1%
19	5,437	719	13%	5,400	725	13%	5,516	741	13%	-0.7%	0.8%	2.1%	2.2%
20	5,628	691	12%	5,457	658	12%	5,724	687	12%	-3.0%	-4.8%	4.9%	4.5%
21	6,481	570	9%	6,259	562	9%	6,385	578	9%	-3.4%	-1.4%	2.0%	2.9%
22	6,616	617	9%	6,181	688	11%	6,547	706	11%	-6.6%	11.5%	5.9%	2.7%
Not Assigned	8,220			2,022			3,039			-75.4%		50.3%	
Total	$5,727	$650	11%	$5,651	$666	12%	$5,675	$694	12%	-1.3%	2.5%	0.4%	4.2%

Sources: 1) End-of-Year Enrollment Files for FY 1999 - FY 2001 maintained at the Austin Automation Center.
2) Outpatient Pharmacy Costs are from the VA's Allocation Resource Center, Braintree MA.

PRIORITY 7 AVERAGE COST OF USERS UNDER 65 YEARS OLD COMPARED TO THOSE AGE 65 AND OVER WITH FURTHER COMPARISONS TO AVERAGE COSTS FOR PRIORITIES 1-6

For P1-6, the over-65 average cost was almost always higher for than the under-65 average cost. However, for P7, the over-65 average cost was less than the under-65 average for a number of VISNs and nationally in FY 2001.

	PRIORITY 7								
	FY 1999			FY 2000			FY 2001		
VISN	Under Age 65	Age 65+	All Ages	Under Age 65	Age 65+	All Ages	Under Age 65	Age 65+	All Ages
1	$1,985	$2,294	$2,171	$1,905	$1,754	$1,806	$1,888	$1,752	$1,792
2	1,226	1,874	1,594	1,270	1,733	1,549	1,615	2,019	1,869
3	2,588	2,123	2,298	2,553	2,202	2,321	2,293	2,019	2,097
4	1,374	1,555	1,485	1,362	1,338	1,346	1,561	1,374	1,423
5	2,092	2,184	2,135	1,909	2,111	2,013	2,196	2,326	2,271
6	1,653	2,445	2,000	1,676	2,360	1,996	1,887	2,036	1,968
7	1,942	2,087	2,004	1,851	1,875	1,863	1,975	2,067	2,026
8	2,112	1,881	1,976	1,681	1,395	1,490	1,766	1,491	1,567
9	1,804	2,312	2,045	1,724	2,099	1,913	1,857	2,192	2,043
10	1,442	1,669	1,547	1,631	1,731	1,686	1,983	1,682	1,790
11	2,150	2,022	2,076	2,112	1,846	1,942	2,172	1,768	1,893
12	2,311	2,217	2,253	2,243	2,090	2,140	2,358	2,007	2,109
13	1,907	2,382	2,212	1,581	1,606	1,598	1,611	1,575	1,585
14	1,325	1,113	1,180	1,756	1,512	1,575	2,232	1,839	1,923
15	1,931	1,915	1,922	1,805	1,657	1,710	1,878	1,682	1,742
16	1,941	2,198	2,045	1,886	2,059	1,967	2,025	1,929	1,972
17	1,899	2,289	2,062	1,874	2,103	1,980	2,093	2,165	2,130
18	1,626	1,835	1,737	1,614	1,878	1,762	1,920	2,019	1,979
19	1,977	2,192	2,092	1,784	1,898	1,850	1,901	1,995	1,959
20	1,872	2,521	2,148	1,891	2,138	2,006	2,258	2,424	2,346
21	1,986	2,115	2,052	2,021	2,271	2,154	2,039	2,067	2,055
22	2,228	2,515	2,342	2,030	2,237	2,122	2,369	2,205	2,285
Not Specified	1,622	1,962	1,788	898	1,239	1,004	1,054	2,067	1,278
Total	$1,923	$2,038	$1,984	$1,848	$1,841	$1,844	$1,982	$1,843	$1,891

	PRIORITIES 1-6								
	FY 1999			FY 2000			FY 2001		
VISN	Under Age 65	Age 65+	All Ages	Under Age 65	Age 65+	All Ages	Under Age 65	Age 65+	All Ages
1	$5,762	$6,699	$6,232	$6,003	$6,508	$6,263	$5,951	$6,171	$6,068
2	4,686	6,088	5,415	4,874	5,902	5,411	4,991	6,237	5,644
3	7,921	8,052	7,991	8,233	8,060	8,138	8,258	7,999	8,113
4	4,892	5,884	5,394	5,337	5,481	5,413	5,410	5,257	5,326
5	5,780	7,536	6,532	6,056	7,607	6,731	6,301	7,380	6,787
6	4,610	6,798	5,504	4,679	6,429	5,406	4,740	6,201	5,364
7	4,659	6,456	5,377	4,753	6,182	5,335	4,908	6,214	5,450
8	4,727	5,502	5,095	4,664	5,188	4,923	4,654	5,109	4,891
9	4,573	6,695	5,504	4,517	6,327	5,322	4,683	5,891	5,228
10	5,296	6,088	5,646	5,441	5,886	5,644	5,696	5,677	5,687
11	5,469	6,621	5,989	5,571	6,413	5,958	5,650	5,997	5,814
12	6,481	7,426	6,932	6,627	7,372	6,987	6,986	7,293	7,137
13	5,357	7,008	6,198	5,161	6,654	5,933	5,152	6,188	5,697
14	5,171	5,660	5,418	5,551	5,857	5,710	5,531	5,561	5,547
15	4,886	5,870	5,342	4,827	5,570	5,177	5,002	5,263	5,128
16	4,576	5,644	5,033	4,667	5,548	5,047	4,829	5,336	5,055
17	4,835	6,227	5,417	4,766	6,014	5,289	4,767	6,146	5,358
18	4,011	5,219	4,558	4,292	5,381	4,792	4,441	5,540	4,956
19	4,935	6,110	5,437	4,918	6,033	5,400	5,205	5,911	5,516
20	4,926	6,807	5,628	4,848	6,474	5,457	5,180	6,603	5,724
21	5,802	7,412	6,481	5,704	7,012	6,259	5,843	7,091	6,385
22	6,048	7,616	6,616	5,560	7,240	6,181	5,970	7,475	6,547
Not Specified	6,526	10,131	8,220	1,936	2,099	2,022	3,615	2,209	3,039
Total	$5,156	$6,433	$5,727	$5,189	$6,202	$5,651	$5,323	$6,072	$5,675

Source: End-of-Year Enrollment Files for FY 1999 - FY 2001 maintained at the Austin Automation Center.

PRIORITY 7 AVERAGE COST AND AGE COMPARISONS
WITH COMPARISONS TO AVERAGE COST AND AGE FOR PRIORITIES 1-6

Even though the P7s are older than the P1-6 on average, the P7 average cost is less than the P1-6 average cost.

FY 1999

	PRIORITY 7 USERS				PRIORITY 1-6 USERS				P7 Minus P1-6		
	Avg	Average Cost per User			Avg	Average Cost per User			Avg	Average Cost	
VISN	Age	Overall	Rx Only	Rx/Overall	Age	Overall	Rx Only	Rx/Overall	Age	Overall	Rx Only
1	65	$2,171	$367	17%	62	$6,232	$645	10%	3	(4,061)	(278)
2	65	1,594	308	19%	61	5,415	576	11%	4	(3,821)	(268)
3	59	2,298	489	21%	60	7,991	765	10%	(1)	(5,693)	(276)
4	60	1,485	346	23%	59	5,394	583	11%	1	(3,909)	(237)
5	63	2,135	324	15%	61	6,532	582	9%	2	(4,397)	(258)
6	63	2,000	338	17%	60	5,504	695	13%	3	(3,504)	(357)
7	59	2,004	402	20%	58	5,377	692	13%	1	(3,373)	(290)
8	62	1,976	322	16%	60	5,095	556	11%	2	(3,119)	(234)
9	59	2,045	381	19%	58	5,504	678	12%	1	(3,459)	(297)
10	64	1,547	268	17%	62	5,646	592	10%	2	(4,099)	(324)
11	65	2,076	417	20%	63	5,989	703	12%	2	(3,913)	(286)
12	65	2,253	352	16%	62	6,932	643	9%	3	(4,679)	(291)
13	60	2,212	344	16%	59	6,198	602	10%	1	(3,986)	(258)
14	60	1,180	292	25%	59	5,418	835	15%	1	(4,238)	(543)
15	59	1,922	475	25%	58	5,342	812	15%	1	(3,420)	(337)
16	65	2,045	369	18%	61	5,033	676	13%	4	(2,988)	(307)
17	61	2,062	381	18%	60	5,417	638	12%	1	(3,355)	(257)
18	61	1,737	350	20%	60	4,558	581	13%	1	(2,821)	(231)
19	63	2,092	429	21%	60	5,437	719	13%	3	(3,345)	(290)
20	66	2,148	354	16%	62	5,628	691	12%	4	(3,480)	(337)
21	67	2,052	314	15%	62	6,481	570	9%	5	(4,429)	(256)
22	64	2,342	338	14%	61	6,616	617	9%	3	(4,274)	(279)
Not Assign.	62	1,788			61	8,220			1	(6,432)	0
Total	63	$1,984	$370	19%	60	$5,727	$650	11%	3	(3,743)	(280)

FY 2000

	PRIORITY 7 USERS				PRIORITY 1-6 USERS				P7 Minus P1-6		
	Avg	Average Cost per User			Avg	Average Cost per User			Avg	Average Cost	
VISN	Age	Overall	Rx Only	Rx/Overall	Age	Overall	Rx Only	Rx/Overall	Age	Overall	Rx Only
1	66	$1,806	$333	18%	63	$6,263	$554	9%	3	(4,457)	(221)
2	67	1,549	408	26%	61	5,411	644	12%	6	(3,862)	(236)
3	61	2,321	486	21%	60	8,138	755	9%	1	(5,817)	(269)
4	61	1,346	373	28%	60	5,413	634	12%	1	(4,067)	(261)
5	64	2,013	281	14%	61	6,731	513	8%	3	(4,718)	(232)
6	64	1,996	348	17%	60	5,406	681	13%	4	(3,410)	(333)
7	61	1,863	445	24%	58	5,335	721	14%	3	(3,472)	(276)
8	63	1,490	294	20%	60	4,923	576	12%	3	(3,433)	(282)
9	61	1,913	401	21%	58	5,322	725	14%	3	(3,409)	(324)
10	65	1,686	330	20%	63	5,644	620	11%	2	(3,958)	(290)
11	66	1,942	458	24%	64	5,958	724	12%	2	(4,016)	(266)
12	67	2,140	423	20%	63	6,987	695	10%	4	(4,847)	(272)
13	62	1,598	299	19%	60	5,933	642	11%	2	(4,335)	(343)
14	61	1,575	559	35%	59	5,710	935	16%	2	(4,135)	(376)
15	62	1,710	442	26%	59	5,177	718	14%	3	(3,467)	(276)
16	67	1,967	415	21%	62	5,047	721	14%	5	(3,080)	(306)
17	62	1,980	437	22%	60	5,289	705	13%	2	(3,309)	(268)
18	63	1,782	364	21%	61	4,792	582	12%	2	(3,030)	(218)
19	65	1,850	463	25%	61	5,400	725	13%	4	(3,550)	(262)
20	67	2,006	331	17%	63	5,457	658	12%	4	(3,451)	(327)
21	68	2,154	341	16%	62	6,259	562	9%	6	(4,105)	(221)
22	66	2,122	365	17%	61	6,181	688	11%	5	(4,059)	(323)
Not Assign.	55	1,004			63	2,022			(8)	(1,018)	0
Total	65	$1,844	$393	21%	61	$5,651	$666	12%	4	(3,807)	(273)

FY 2001

	PRIORITY 7 USERS				PRIORITY 1-6 USERS				P7 Minus P1-6		
	Avg	Average Annual Cost per User			Avg	Average Cost per User			Avg	Average Cost	
VISN	Age	Overall	Rx Only	Rx/Overall	Age	Overall	Rx Only	Rx/Overall	Age	Overall	Rx Only
1	68	$1,792	$511	29%	64	$6,068	$577	10%	4	(4,276)	(66)
2	68	1,869	589	31%	62	5,644	649	11%	6	(3,775)	(61)
3	64	2,097	612	29%	61	8,113	714	9%	3	(6,016)	(102)
4	63	1,423	534	38%	60	5,326	671	13%	3	(3,903)	(137)
5	65	2,271	624	27%	62	6,787	684	10%	3	(4,516)	(60)
6	66	1,968	535	27%	61	5,364	759	14%	5	(3,396)	(224)
7	63	2,026	686	34%	59	5,450	756	14%	4	(3,424)	(70)
8	65	1,567	502	32%	61	4,891	617	13%	4	(3,324)	(115)
9	63	2,043	656	32%	59	5,228	752	14%	4	(3,185)	(96)
10	66	1,790	539	30%	63	5,687	650	11%	3	(3,897)	(111)
11	68	1,893	646	34%	65	5,814	740	13%	3	(3,921)	(94)
12	69	2,109	613	29%	64	7,137	686	10%	5	(5,028)	(72)
13	64	1,585	414	26%	61	5,697	559	10%	3	(4,112)	(145)
14	63	1,923	760	40%	60	5,547	858	15%	3	(3,624)	(98)
15	64	1,742	687	39%	60	5,128	735	14%	4	(3,386)	(48)
16	69	1,972	624	32%	63	5,055	763	15%	6	(3,083)	(139)
17	64	2,130	616	29%	61	5,356	766	14%	3	(3,226)	(150)
18	66	1,979	536	27%	62	4,956	635	13%	4	(2,977)	(99)
19	67	1,959	654	33%	62	5,516	741	13%	5	(3,557)	(86)
20	69	2,346	544	23%	63	5,724	687	12%	6	(3,378)	(143)
21	70	2,055	484	24%	63	6,385	578	9%	7	(4,330)	(94)
22	68	2,285	575	25%	62	6,547	706	11%	6	(4,262)	(132)
Not Assign.	52	1,278	0		59	3,039			(7)	(1,761)	0
Total	66	$1,891	$581	31%	62	$5,675	$694	12%	4	(3,784)	(113)

PRIORITY 7 INPATIENT AND OUTPATIENT RELIANCE
WITH COMPARSIONS TO INPATIENT AND OUTPATIENT RELIANCE FOR PRIORITIES 1-6

Reliance is defined as the number of days or visits in a VA facility reported by an enrollee divided by the sum of days or visits in VA and non-VA facilities. If an enrollee's inpatient care was provided entirely by the VA, then his/her reported inpatient reliance is one. If an enrollee's inpatient care was provided entirely outside the VA, the reported inpatient reliance is zero. If an enrollee reported no hospitalizations at all, then the reliance is undefined. Thus, only enrollees who utilize some care (in VA or non-VA) have a reliance for a particular setting (inpatient, mental health facility, nursing home, or outpatient).

Source: 1999 VHA OPP Survey of Veterans

	Priorities 7				Priorities 1-6			
	Inpatient	Outpatient	Inpatient	Outpatient	Inpatient	Outpatient	Inpatient	Outpatient
VISN	Age <=64	Age <=64	Age >=65	Age >=65	Age <=64	Age <=64	Age >=65	Age >=65
1	65.88%	70.54%	24.14%	67.42%	46.52%	84.27%	56.88%	79.89%
2	9.29%	75.32%	11.04%	58.13%	70.48%	79.95%	65.85%	80.62%
3	24.76%	48.39%	10.79%	57.16%	58.08%	75.64%	41.49%	81.50%
4	0.00%	73.08%	13.28%	62.24%	28.52%	81.66%	43.31%	80.21%
5	0.00%	57.82%	13.17%	60.52%	82.11%	87.27%	59.06%	85.68%
6	14.02%	67.88%	21.72%	70.40%	57.01%	76.16%	64.79%	76.22%
7	19.44%	72.30%	21.93%	66.78%	57.83%	77.16%	56.27%	77.38%
8	11.50%	64.38%	18.98%	64.93%	55.77%	81.29%	40.69%	80.42%
9	33.57%	55.06%	11.16%	66.44%	58.80%	79.24%	59.45%	87.41%
10	38.63%	79.06%	0.00%	65.75%	56.77%	84.49%	38.88%	81.98%
11	21.75%	46.23%	6.78%	63.78%	72.12%	85.09%	45.49%	81.25%
12	0.00%	73.56%	12.31%	69.35%	68.14%	87.63%	66.93%	82.08%
13	41.95%	69.85%	34.80%	68.09%	84.85%	84.92%	60.31%	81.44%
14	43.61%	72.91%	9.15%	48.43%	62.29%	82.71%	61.29%	81.56%
15	4.06%	71.96%	19.63%	68.59%	69.01%	84.05%	42.96%	80.25%
16	39.41%	72.57%	37.74%	77.65%	63.44%	83.25%	57.51%	79.89%
17	57.21%	74.07%	4.84%	67.30%	53.28%	81.78%	68.45%	77.43%
18	11.89%	79.60%	19.78%	61.91%	75.67%	79.29%	59.15%	82.69%
19	33.90%	55.09%	27.61%	58.88%	70.36%	82.68%	61.54%	80.48%
20	8.83%	57.80%	30.62%	57.49%	60.40%	79.93%	52.88%	77.95%
21	8.77%	66.72%	4.90%	65.18%	70.95%	86.51%	58.99%	85.38%
22	2.40%	75.27%	22.29%	63.00%	87.01%	88.89%	61.82%	81.66%

PROJECTIONS OF PRIORITY 7 HEALTH CARE USERS (UNIQUE PATIENTS) BY VISN AND AGE GROUP – FY 2002 -FY 2010
WITH COMPARISONS TO PROJECTIONS FOR PRIORITIES 1 - 6

Note: *Excludes Readjustment Counseling, budget adjustment for Tricare For Life (starting FY 2002) and impact of $1,500 deductible (starting FY 2003).*

Priority	VISN	Age Group	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
P7	1	<65	20,400	23,495	26,252	28,708	30,887	32,700	34,007	34,990	35,644
		65+	33,480	38,316	42,304	45,553	48,143	50,256	52,103	53,608	54,821
	1 Total		53,880	61,811	68,555	74,261	79,030	82,956	86,110	88,597	90,465
	2	<65	18,715	21,419	23,651	25,564	27,100	28,290	29,037	29,569	29,817
		65+	24,639	27,295	29,385	30,898	32,033	32,886	33,633	34,130	34,500
	2 Total		43,354	48,714	53,036	56,462	59,132	61,176	62,670	63,699	64,317
	3	<65	39,460	45,238	50,030	54,190	57,593	60,195	61,779	62,768	63,123
		65+	60,077	66,223	70,923	74,237	76,585	78,266	79,660	80,542	81,081
	3 Total		99,537	111,461	120,953	128,427	134,178	138,461	141,439	143,310	144,204
	4	<65	22,018	24,556	26,828	28,887	30,666	32,114	33,096	33,879	34,337
		65+	48,621	55,211	60,481	64,582	67,756	70,227	72,317	73,833	75,026
	4 Total		70,639	79,768	87,308	93,469	98,422	102,341	105,413	107,712	109,363
	5	<65	12,326	14,588	16,638	18,513	20,184	21,668	22,862	23,870	24,614
		65+	13,313	15,540	17,492	19,186	20,688	22,015	23,289	24,438	25,551
	5 Total		25,639	30,128	34,130	37,699	40,872	43,683	46,151	48,309	50,166
	6	<65	24,086	26,244	32,007	35,444	38,555	41,320	43,571	45,431	46,882
		65+	20,134	23,031	25,592	27,807	29,738	31,477	33,193	34,805	36,348
	6 Total		44,220	51,275	57,599	63,251	68,293	72,797	76,763	80,236	83,230
	7	<65	24,082	26,323	32,239	35,898	39,302	42,366	44,887	47,065	48,857
		65+	25,985	30,409	34,347	37,815	40,864	43,654	46,443	49,066	51,603
	7 Total		50,066	56,732	66,586	73,713	80,166	86,020	91,331	96,131	100,460
	8	<65	30,327	36,177	41,576	46,585	51,229	55,381	58,722	61,553	63,767
		65+	65,732	75,933	83,938	90,193	95,021	98,865	102,272	105,122	107,630
	8 Total		96,059	112,111	125,514	136,778	146,250	154,246	160,995	166,675	171,398
	9	<65	22,773	27,018	30,749	34,164	37,270	39,933	42,049	43,729	45,015
		65+	19,573	22,845	25,739	28,191	30,271	32,156	33,997	35,715	37,331
	9 Total		42,345	49,864	56,488	62,355	67,541	72,089	76,045	79,444	82,346
	10	<65	14,712	16,854	18,781	20,573	22,182	23,577	24,677	25,560	26,219
		65+	16,465	19,116	21,412	23,338	24,980	26,405	27,726	28,903	29,980
	10 Total		31,177	35,970	40,193	43,910	47,163	49,981	52,402	54,463	56,199
	11	<65	19,533	22,886	25,884	28,642	31,082	33,227	34,891	36,253	37,231
		65+	26,152	30,108	33,497	36,306	38,695	40,712	42,590	44,213	45,700
	11 Total		45,685	52,994	59,381	64,948	69,777	73,939	77,481	80,466	82,931
	12	<65	21,658	25,209	28,368	31,184	33,652	35,733	37,289	38,528	39,323
		65+	32,642	36,794	40,254	43,091	45,390	47,297	49,011	50,420	51,697
	12 Total		54,299	62,003	68,622	74,275	79,043	83,029	86,300	88,948	91,021
	13	<65	15,491	18,051	20,253	22,159	23,841	25,287	26,297	27,092	27,575
		65+	26,117	28,935	30,990	32,500	33,559	34,325	35,006	35,522	35,995
	13 Total		41,608	46,986	51,243	54,659	57,401	59,592	61,303	62,614	63,570
	14	<65	8,690	10,024	11,159	12,187	13,056	13,786	14,294	14,639	14,860
		65+	19,676	21,416	22,639	23,419	23,913	24,190	24,384	24,496	24,545
	14 Total		28,366	31,440	33,798	35,606	36,970	37,976	38,678	39,135	39,405
	15	<65	19,354	22,903	26,026	28,806	31,263	33,376	34,989	36,234	37,108
		65+	26,925	30,804	33,965	36,490	38,487	40,115	41,571	42,812	43,916
	15 Total		46,279	53,707	59,991	65,295	69,751	73,491	76,560	79,046	81,023
	16	<65	31,848	37,340	42,313	46,861	50,979	54,615	57,548	59,951	61,808
		65+	30,197	35,510	40,131	44,135	47,597	50,662	53,639	56,415	59,063
	16 Total		62,045	72,851	82,444	90,996	98,576	105,277	111,187	116,367	120,871
	17	<65	17,136	20,034	22,715	25,204	27,440	29,429	31,049	32,395	33,473
		65+	14,602	17,048	19,221	21,158	22,912	24,523	26,119	27,631	29,099
	17 Total		31,739	37,081	41,937	46,361	50,352	53,952	57,168	60,026	62,571
	18	<65	16,947	19,178	21,211	23,090	24,800	26,251	27,423	28,306	29,003
		65+	20,800	23,332	25,506	27,346	28,918	30,361	31,722	33,028	34,229
	18 Total		37,747	42,509	46,717	50,436	53,718	56,612	59,146	61,334	63,232
	19	<65	13,715	15,801	17,647	19,348	20,860	22,156	23,140	23,916	24,489
		66+	16,189	18,190	19,888	21,275	22,440	23,452	24,457	25,364	26,220
	19 Total		29,903	33,990	37,535	40,624	43,299	45,608	47,597	49,280	50,709
	20	<65	18,093	21,104	23,841	26,327	28,514	30,425	31,931	33,127	34,002
		65+	18,341	21,267	23,791	25,986	27,947	29,715	31,445	33,088	34,682
	20 Total		36,434	42,371	47,632	52,313	56,461	60,140	63,376	66,215	68,684
	21	<65	18,974	21,935	24,558	26,916	28,976	30,708	31,942	32,843	33,446
		65+	23,006	26,342	29,246	31,720	33,850	35,729	37,553	39,208	40,701
	21 Total		41,980	48,277	53,804	58,637	62,826	66,437	69,496	72,051	74,147
	22	<65	23,383	26,251	28,806	31,148	33,174	34,907	36,185	37,154	37,789
		65+	24,094	27,567	30,682	33,362	35,771	37,930	40,002	41,879	43,638
	22 Total		47,477	53,817	59,488	64,510	68,945	72,836	76,187	79,033	81,407
P7 Total			1,060,482	1,217,860	1,352,955	1,468,984	1,566,165	1,652,640	1,723,798	1,783,091	1,831,719

PROJECTIONS OF PRIORITY 7 HEALTH CARE USERS (UNIQUE PATIENTS) BY VISN AND AGE GROUP -- FY 2002 -FY 2010
WITH COMPARISONS TO PROJECTIONS FOR PRIORITIES 1 - 6

Note: *Excludes Readjustment Counseling, budget adjustment for Tricare For Life (starting FY 2002) and impact of $1,500 deductible (starting FY 2003).*

Priority	VISN	Age Group	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
P1 - 6	1	<65	68,733	71,343	73,536	75,202	76,352	76,889	76,813	75,856	74,620
		65+	79,550	81,962	83,173	83,543	83,263	82,612	81,978	81,175	80,406
	1 Total		148,282	153,305	156,709	158,746	159,615	159,500	158,791	157,031	155,026
	2	<65	40,116	41,169	41,859	42,398	42,595	42,549	42,110	41,452	40,597
		65+	44,569	44,811	44,567	43,841	42,929	41,885	40,966	40,052	39,227
	2 Total		84,685	85,980	86,426	86,239	85,524	84,434	83,075	81,504	79,824
	3	<65	54,935	56,427	57,559	58,447	58,975	59,025	58,454	57,516	56,183
		65+	77,786	79,311	79,851	79,478	78,495	77,248	76,026	74,687	73,459
	3 Total		132,721	135,738	137,410	137,925	137,469	136,274	134,480	132,203	129,641
	4	<65	70,421	72,480	74,103	75,360	76,208	76,472	76,085	75,366	74,214
		65+	91,524	94,821	96,718	97,447	97,358	96,857	96,205	95,270	94,345
	4 Total		161,945	167,300	170,822	172,807	173,566	173,329	172,290	170,636	168,559
	5	<65	49,155	50,573	51,713	52,652	53,330	53,631	53,504	53,099	52,455
		65+	37,793	39,188	40,077	40,559	40,748	40,830	40,928	40,981	41,039
	5 Total		86,947	89,761	91,790	93,211	94,078	94,461	94,432	94,080	93,494
	6	<65	95,105	99,183	102,606	105,559	107,948	109,518	110,223	110,314	109,870
		65+	68,938	71,872	73,910	75,182	75,895	76,471	77,101	77,707	78,378
	6 Total		164,042	171,055	176,516	180,740	183,843	185,989	187,324	188,022	188,247
	7	<65	103,746	106,625	108,876	110,716	111,977	112,515	112,221	111,357	110,010
		65+	79,775	83,993	87,081	89,202	90,680	91,896	93,161	94,393	95,638
	7 Total		183,521	190,618	195,957	199,918	202,657	204,411	205,382	205,750	205,648
	8	<65	136,273	139,457	142,186	144,232	145,504	145,799	144,801	143,137	140,821
		65+	157,003	163,400	167,048	168,664	168,918	168,457	167,932	167,035	166,130
	8 Total		293,276	302,857	309,234	312,896	314,422	314,256	312,733	310,172	306,951
	9	<65	86,546	89,505	91,799	93,613	94,867	95,492	95,393	94,772	93,689
		65+	72,362	75,176	77,066	78,173	78,806	79,210	79,646	80,036	80,512
	9 Total		158,908	164,681	168,865	171,786	173,673	174,703	175,039	174,808	174,201
	10	<65	66,161	68,362	70,180	71,731	72,896	73,535	73,563	73,240	72,565
		65+	55,298	57,711	59,311	60,189	60,633	60,872	61,084	61,134	61,163
	10 Total		121,459	126,073	129,492	131,920	133,528	134,406	134,647	134,375	133,728
	11	<65	72,232	75,036	77,293	79,198	80,626	81,381	81,480	81,026	80,214
		65+	58,156	60,177	61,497	62,132	62,382	62,519	62,650	62,779	62,854
	11 Total		130,388	135,214	138,790	141,330	142,988	143,900	144,130	143,805	143,068
	12	<65	68,549	69,831	70,874	71,765	72,252	72,235	71,665	70,994	69,362
		65+	65,252	66,280	66,658	66,439	65,948	65,435	65,014	64,596	64,328
	12 Total		133,802	136,112	137,532	138,204	138,200	137,670	136,679	135,290	133,690
	13	<65	38,199	39,440	40,357	41,010	41,466	41,609	41,399	40,927	40,199
		65+	40,054	40,609	40,757	40,621	40,220	39,765	39,369	39,016	38,760
	13 Total		78,253	80,049	81,115	81,631	81,686	81,374	80,768	79,943	78,959
	14	<65	28,845	29,749	30,513	31,060	31,458	31,592	31,508	31,206	30,781
		65+	28,834	29,190	29,127	28,853	28,364	27,867	27,371	26,933	26,498
	14 Total		57,679	58,939	59,640	59,913	59,822	59,459	58,878	58,140	57,278
	15	<65	69,644	71,596	73,139	74,427	75,297	75,695	75,445	74,805	73,863
		65+	60,244	62,037	63,041	63,366	63,313	63,032	62,851	62,607	62,345
	15 Total		129,888	133,633	136,180	137,793	138,610	138,727	138,295	137,412	136,207
	16	<65	170,736	176,671	181,426	185,320	188,225	189,591	189,547	188,453	186,369
		65+	132,092	137,923	141,929	144,398	145,852	147,125	148,339	149,462	150,729
	16 Total		302,828	314,594	323,355	329,718	334,077	336,716	337,886	337,915	337,099
	17	<65	90,150	94,067	97,176	99,563	101,332	102,195	102,216	101,497	100,335
		65+	66,752	69,696	71,707	72,954	73,656	74,241	74,793	75,398	75,986
	17 Total		156,902	163,762	168,884	172,517	174,988	176,436	177,010	176,894	176,321
	18	<65	78,503	80,063	81,300	82,245	82,758	82,802	82,209	81,148	79,770
		65+	66,177	67,637	68,341	68,479	68,327	68,064	67,913	67,838	67,795
	18 Total		144,681	147,700	149,641	150,724	151,086	150,865	150,123	148,986	147,566
	19	<65	53,366	55,291	56,838	58,040	58,817	59,221	59,147	58,695	57,928
		65+	38,804	39,781	40,333	40,564	40,668	40,667	40,737	40,892	41,106
	19 Total		92,170	95,071	97,172	98,604	99,485	99,888	99,884	99,588	99,034
	20	<65	89,136	93,150	96,474	99,161	101,081	102,217	102,529	102,196	101,236
		65+	59,013	61,599	63,496	64,888	66,045	67,120	68,283	69,455	70,721
	20 Total		148,149	154,749	159,971	164,049	167,126	169,337	170,812	171,651	171,957
	21	<65	85,356	87,517	89,018	90,055	90,486	90,166	89,101	87,438	85,232
		65+	65,580	67,466	68,592	69,030	69,111	69,121	69,197	69,315	69,583
	21 Total		150,937	154,983	157,611	159,085	159,596	159,287	158,298	156,753	154,815
	22	<65	121,392	124,486	126,684	128,148	128,768	128,493	127,079	124,961	122,237
		65+	73,789	77,767	80,719	82,740	84,152	85,275	86,423	87,345	88,171
	22 Total		195,180	202,252	207,403	210,886	212,920	213,768	213,502	212,305	210,408
P1 - 6 Total			3,256,645	3,364,426	3,440,514	3,490,642	3,518,959	3,529,192	3,524,257	3,507,262	3,481,721
Grand Total			4,317,127	4,582,287	4,793,468	4,959,626	5,087,123	5,181,832	5,248,055	5,290,354	5,313,439

PROJECTIONS OF PRIORITY 7 ENROLLEES BY VISN AND AGE GROUP – FY 2002 -FY 2010
WITH COMPARISONS TO PROJECTIONS FOR PRIORITIES 1 - 6

Priority	VISN	Age Group	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
P7	1	<65	40,064	45,688	50,661	55,038	58,877	62,012	64,234	65,856	66,917
		65+	65,960	75,952	84,217	90,974	96,382	100,809	104,688	107,863	110,435
	1 Total		106,025	121,639	134,878	146,013	155,259	162,822	168,922	173,719	177,352
	2	<65	40,375	45,537	49,763	53,364	56,198	58,294	59,555	60,383	60,697
		65+	44,897	49,656	53,401	56,102	58,124	59,643	60,972	61,854	62,497
	2 Total		85,272	95,193	103,165	109,466	114,321	117,937	120,527	122,237	123,194
	3	<65	84,239	94,541	102,994	110,236	116,017	120,238	122,564	123,822	123,969
		65+	121,704	134,606	144,515	151,563	156,602	160,238	163,269	165,229	166,463
	3 Total		205,943	229,146	247,510	261,798	272,619	280,476	285,833	289,051	290,432
	4	<65	58,010	64,975	71,180	76,741	81,533	85,421	88,104	90,235	91,503
		65+	98,497	111,640	122,132	130,288	136,586	141,481	145,617	148,596	150,931
	4 Total		156,507	176,615	193,312	207,029	218,118	226,902	233,721	238,831	242,434
	5	<65	24,961	29,112	32,855	36,235	39,202	41,777	43,824	45,519	46,745
		65+	23,841	27,840	31,344	34,386	37,083	39,466	41,752	43,814	45,810
	5 Total		48,803	56,952	64,199	70,621	76,284	81,242	85,576	89,333	92,555
	6	<65	47,617	54,288	60,228	65,606	70,404	74,557	77,839	80,461	82,430
		65+	39,529	45,457	50,714	55,274	59,263	62,856	66,390	69,716	72,897
	6 Total		87,147	99,746	110,942	120,879	129,667	137,413	144,229	150,177	155,327
	7	<65	54,951	63,713	71,752	79,174	86,001	92,055	96,998	101,205	104,607
		65+	47,625	55,634	62,760	69,033	74,546	79,587	84,630	89,366	93,953
	7 Total		102,576	119,347	134,512	148,207	160,546	171,642	181,629	190,572	198,560
	8	<65	63,306	74,277	84,348	93,588	102,101	109,617	115,612	120,620	124,502
		65+	124,515	143,869	159,061	170,936	180,103	187,400	193,870	199,282	204,044
	8 Total		187,821	218,146	243,409	264,524	282,204	297,017	309,482	319,902	328,546
	9	<65	41,490	48,875	55,349	61,216	66,497	70,976	74,502	77,303	79,431
		65+	37,140	43,759	49,619	54,907	58,854	62,701	66,450	69,957	73,254
	9 Total		78,629	92,634	104,969	116,123	125,350	133,677	140,953	147,260	152,685
	10	<65	32,431	38,434	40,014	43,298	46,195	48,648	50,531	52,011	53,064
		65+	32,741	37,971	42,498	46,293	49,526	52,329	54,932	57,247	59,362
	10 Total		65,172	74,405	82,513	89,591	95,721	100,977	105,463	109,258	112,426
	11	<65	38,205	44,030	49,210	53,933	58,053	61,617	64,333	66,502	68,019
		65+	47,954	55,278	61,556	66,764	71,195	74,936	78,418	81,432	84,189
	11 Total		86,159	99,308	110,766	120,697	129,248	136,553	142,751	147,934	152,208
	12	<65	46,619	53,200	58,997	64,108	68,551	72,204	74,869	76,920	78,148
		65+	63,424	71,717	78,646	84,342	88,970	92,813	96,272	99,121	101,696
	12 Total		110,043	124,916	137,643	148,449	157,521	165,017	171,142	176,041	179,843
	13	<65	28,722	33,215	37,095	40,420	43,342	45,779	47,526	48,862	49,666
		65+	49,143	54,843	59,036	62,154	64,374	66,015	67,482	68,619	69,669
	13 Total		77,865	88,058	96,131	102,574	107,716	111,794	115,008	117,481	119,335
	14	<65	19,175	21,812	24,068	26,097	27,786	29,168	30,129	30,761	31,139
		65+	40,051	43,818	46,489	48,230	49,358	50,023	50,504	50,810	50,977
	14 Total		59,225	65,630	70,558	74,327	77,144	79,192	80,633	81,571	82,117
	15	<65	35,759	41,634	46,777	51,331	55,318	58,665	61,195	63,120	64,435
		65+	49,365	56,577	62,459	67,162	70,886	73,923	76,639	78,956	81,017
	15 Total		85,125	98,211	109,236	118,492	126,204	132,588	137,835	142,076	145,452
	16	<65	63,906	74,229	83,564	92,009	99,613	106,287	111,623	115,959	119,277
		65+	57,767	68,375	77,622	85,649	92,606	98,770	104,747	110,328	115,645
	16 Total		121,674	142,604	161,186	177,658	192,219	205,057	216,370	226,287	234,923
	17	<65	32,049	36,665	40,898	44,760	48,204	51,218	53,641	55,626	57,155
		65+	26,298	30,726	34,665	38,174	41,352	44,270	47,161	49,903	52,562
	17 Total		58,347	67,391	75,563	82,934	89,556	95,488	100,802	105,529	109,717
	18	<65	32,004	35,893	39,418	42,654	45,573	48,011	49,960	51,418	52,522
		65+	37,442	42,185	46,271	49,740	52,712	55,437	58,011	60,480	62,756
	18 Total		69,446	78,078	85,689	92,394	98,284	103,448	107,971	111,898	115,278
	19	<65	26,938	30,840	34,285	37,413	40,169	42,520	44,287	45,692	46,707
		65+	29,426	33,420	36,824	39,631	42,003	44,070	45,114	47,966	49,720
	19 Total		56,364	64,261	71,109	77,043	82,172	86,591	90,401	93,660	96,427
	20	<65	37,796	43,435	48,520	53,068	57,026	60,406	63,046	65,100	66,548
		65+	32,441	37,931	42,690	46,836	50,543	53,889	57,157	60,252	63,256
	20 Total		70,237	81,367	91,210	99,904	107,569	114,295	120,203	125,352	129,804
	21	<65	37,509	42,606	47,470	51,632	55,233	58,193	60,268	61,749	62,688
		65+	42,819	49,212	54,789	59,546	63,645	67,269	70,775	73,954	76,830
	21 Total		80,329	92,019	102,258	111,178	118,878	125,462	131,043	135,703	139,518
	22	<65	48,615	54,308	59,312	63,868	67,740	70,968	73,330	75,087	76,163
		65+	45,148	51,846	57,867	63,052	67,718	71,896	75,901	79,532	82,931
	22 Total		93,763	106,154	117,178	126,921	135,458	142,863	149,231	154,619	159,094
7 Total			2,092,470	2,391,820	2,647,934	2,866,522	3,052,061	3,208,454	3,339,723	3,448,490	3,537,225

PROJECTIONS OF PRIORITY 7 ENROLLEES BY VISN AND AGE GROUP – FY 2002 -FY 2010
WITH COMPARISONS TO PROJECTIONS FOR PRIORITIES 1 - 6

Priority	VISN	Age Group	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
P1 - 6	1	<65	101,848	105,411	108,293	110,351	111,607	112,007	111,300	109,952	107,908
		65+	101,507	105,047	106,988	107,782	107,692	107,074	106,437	105,548	104,672
	1 Total		203,355	210,459	215,281	218,132	219,299	219,081	217,737	215,500	212,579
	2	<65	62,972	64,902	66,193	67,116	67,495	67,447	66,805	65,828	64,517
		65+	57,463	57,866	57,626	56,746	55,618	54,310	53,152	52,001	50,959
	2 Total		120,435	122,767	123,819	123,862	123,112	121,757	119,957	117,829	115,476
	3	<65	89,631	91,885	93,467	94,583	95,125	94,885	93,712	91,995	89,659
		65+	103,083	105,407	106,372	106,089	104,945	103,419	101,891	100,187	98,611
	3 Total		192,715	197,292	199,839	200,672	200,071	198,304	195,603	192,183	188,270
	4	<65	124,935	128,616	131,410	133,441	134,663	134,878	134,001	132,507	130,239
		65+	132,933	138,631	142,161	143,887	144,310	144,046	143,480	142,427	141,321
	4 Total		257,868	267,247	273,571	277,328	278,973	278,924	277,482	274,934	271,560
	5	<65	71,229	73,274	74,841	75,996	76,755	77,021	76,718	76,032	75,010
		65+	47,428	49,292	50,505	51,189	51,494	51,648	51,824	51,937	52,045
	5 Total		118,657	122,566	125,346	127,185	128,249	128,670	128,542	127,969	127,056
	6	<65	141,378	146,677	150,953	154,399	157,012	158,513	158,861	158,356	157,074
		65+	88,800	93,196	96,370	98,485	99,827	100,942	102,094	103,171	104,292
	6 Total		230,178	239,873	247,323	252,884	256,839	259,456	260,955	261,527	261,366
	7	<65	169,950	176,677	182,071	186,382	189,559	191,475	192,001	191,458	190,032
		65+	102,207	107,387	111,129	113,655	115,380	116,789	118,281	119,747	121,235
	7 Total		272,157	284,063	293,201	300,036	304,939	308,264	310,282	311,205	311,268
	8	<65	209,278	215,532	220,642	224,461	226,883	227,768	226,768	224,715	221,547
		65+	201,772	210,298	215,210	217,451	217,896	217,386	216,769	215,637	214,487
	8 Total		411,050	425,831	435,852	441,912	444,779	445,154	443,537	440,352	436,034
	9	<65	127,221	131,874	135,368	138,034	139,831	140,746	140,639	139,794	138,239
		65+	89,616	93,452	96,098	97,729	98,745	99,443	100,173	100,830	101,580
	9 Total		216,837	225,326	231,466	235,763	238,576	240,189	240,811	240,624	239,819
	10	<65	99,438	102,791	105,492	107,684	109,214	109,965	109,872	109,287	108,150
		65+	74,806	78,171	80,426	81,690	82,346	82,731	83,066	83,158	83,226
	10 Total		174,245	180,963	185,918	189,374	191,560	192,696	192,938	192,445	191,376
	11	<65	104,838	109,249	112,745	115,574	117,638	118,712	118,866	118,245	117,087
		65+	76,102	79,307	81,520	82,777	83,451	83,973	84,425	84,833	85,136
	11 Total		180,939	188,556	194,265	198,351	201,089	202,684	203,291	203,078	202,223
	12	<65	101,732	104,399	106,522	108,204	109,238	109,511	108,931	107,773	106,027
		65+	82,873	84,910	86,039	86,329	86,198	85,967	85,814	85,609	85,552
	12 Total		184,605	189,309	192,561	194,533	195,437	195,478	194,745	193,382	191,579
	13	<65	56,675	59,113	60,976	62,346	63,335	63,822	63,740	63,210	62,287
		65+	48,766	49,962	50,601	50,826	50,679	50,426	50,215	50,027	49,925
	13 Total		105,441	109,075	111,577	113,172	114,014	114,248	113,955	113,238	112,212
	14	<65	44,264	45,965	47,327	48,307	49,017	49,311	49,266	48,890	48,316
		65+	37,683	38,619	38,951	38,926	38,569	38,154	37,710	37,310	36,901
	14 Total		81,948	84,584	86,277	87,232	87,586	87,465	86,976	86,200	85,217
	15	<65	97,728	100,476	102,538	104,121	105,077	105,421	104,904	103,875	102,421
		65+	75,733	78,279	79,795	80,414	80,527	80,326	80,233	80,043	79,816
	15 Total		173,461	178,754	182,333	184,535	185,604	185,747	185,137	183,918	182,238
	16	<65	240,052	248,803	255,692	261,077	264,893	266,632	266,474	264,831	261,790
		65+	167,326	175,077	180,480	183,881	185,963	187,784	189,517	191,108	192,872
	16 Total		407,378	423,880	436,173	444,958	450,856	454,416	455,990	455,939	454,662
	17	<65	131,823	137,146	141,221	144,198	146,196	146,978	146,636	145,305	143,302
		65+	84,202	88,082	90,747	92,434	93,404	94,211	94,977	95,811	96,617
	17 Total		216,025	225,228	231,967	236,632	239,600	241,189	241,614	241,116	239,919
	18	<65	110,174	112,506	114,272	115,471	115,999	115,866	114,929	113,358	111,353
		65+	81,365	83,519	84,699	85,144	85,203	85,092	85,105	85,190	85,312
	18 Total		191,538	196,026	198,970	200,615	201,202	200,958	200,034	198,558	196,665
	19	<65	76,183	79,042	81,302	82,983	84,012	84,507	84,352	83,661	82,528
		65+	48,051	49,779	50,906	51,584	52,052	52,347	52,707	53,141	53,646
	19 Total		124,234	128,821	132,208	134,567	136,064	136,853	137,059	136,802	136,174
	20	<65	135,119	140,874	145,536	149,131	151,525	152,745	152,788	151,899	150,113
		65+	69,330	72,753	75,318	77,248	78,868	80,370	81,951	83,521	85,197
	20 Total		204,449	213,627	220,854	226,379	230,393	233,115	234,739	235,420	235,311
	21	<65	122,907	126,477	129,003	130,703	131,460	131,145	129,771	127,570	124,592
		65+	83,026	86,155	88,212	89,317	89,883	90,289	90,734	91,180	91,774
	21 Total		205,933	212,632	217,214	220,020	221,343	221,434	220,505	218,751	216,366
	22	<65	168,960	173,241	176,086	177,769	178,266	177,521	175,348	172,310	168,504
		65+	93,036	98,291	102,220	104,952	106,884	108,430	109,986	111,235	112,351
	22 Total		261,997	271,532	278,306	282,721	285,150	285,951	285,334	283,545	280,855
P1 - 6 Total			4,535,446	4,698,410	4,814,320	4,890,863	4,934,733	4,952,029	4,947,222	4,924,514	4,888,224
Grand Total			6,627,916	7,090,230	7,462,254	7,757,385	7,986,794	8,160,483	8,286,945	8,373,004	8,425,449

Senator MIKULSKI. Now my time is up, but—because I want to come back to the veterans' prescription drug benefit. I think we have a lot of lessons learned as we ponder what to do about Medicare. But let me turn to my colleague and I will come back to talk about a prescription drug benefit.

Senator BOND. Thank you very much, Madam Chair. And I really appreciate your pursuing this line of questioning, because I think it is very important. And you were talking about steel workers being laid off. I have to tell you that heavy industry in Northeast Missouri, where I come from, used to be refractories. It is a high-quality ceramic products that line the furnaces of steel and for aluminum. They are all being shut down because of asbestos litigation; 300,000 asbestos claims. All of the plants, heavy industry

plants, in Northeast Missouri are being shut; they are in bankruptcy. And they are going to move the industry to Canada or Mexico.

And we are going to have an additional load on the Department of Veterans Affairs, because there are many veterans who have been employed in those industries. And they are—as I said, they are all in bankruptcy. So, we are getting it in a number of areas, as well.

But we have a lot of things to cover. I am going to have to leave. And I am going to leave some questions. But, Mr. Secretary, there are a couple of things that are very important that I wanted to touch on.

CARES

First, I congratulate and I thank you for making the capital asset realignment for enhanced service, or CARES, program work. That is not the most popular thing especially worth a lot of folks on Capitol Hill. But I am convinced that CARES is the right approach. It is badly needed. There was no capital asset plan before CARES. VA hospital had been treated as trophies for members to bring home to their States or their districts, often built with too many beds, too much gold-plating. VA hospitals were opening with entire floors empty because they were not needed.

Well, I think we are beginning to turn that around, although there is opposition here on the Hill. But one of the things that is really troubling me, and I want to lay it out on the table. Some VA facilities seem to exist primarily to serve the research and financial interests of medical schools. It is an important part of the VA to work as research sites and teaching schools. This works very well together.

In too many cases, or in some cases at least, veterans' medical care has become a secondary concern in justifying those hospitals. I was frankly appalled by the efforts of Northwestern University to block CARES in Chicago. I appreciate the medical research work done by fine institutions such as Northwestern. And it is one of the very good ones. And I am very big supporter of VA medical research programs. But we all in this room know that medical schools have more resources at their disposal than the veterans, who need medical care, the ones that Senator Shelby mentioned, the examples you set out.

Your decision, Mr. Secretary, was important because it sent out a signal that VA's first and most important priority is going to be meeting the needs of veterans. And for that, I give you sincerest thanks.

Now, by closing this, you are going to construct a new $40 million spinal cord and blind rehabilitation center and creating new community-based outpatient clinics. You are going to save money, adding these new facilities, because you were able to close one of the four VA hospitals in Chicago.

Secretary PRINCIPI. Correct.

Senator BOND. You are going to be able to provide more specialized care, open community clinics, and still save money? Could you tell us how that works?

Secretary PRINCIPI. That is correct. It was the right decision. It was a difficult decision, and we were very sensitive to the concerns of our veterans and our employees. I appreciate the important role that medical schools play with the VA, but at the same time, our first mission is treatment of veterans in modalities that make sense for the 21st century.

The Chicago CARES decision was the right decision for the veterans of that area. I intend to implement the decision aggressively, thoughtfully but aggressively. We need to get on with the modernization of the West Side facility, including an expansion of the number of beds, get Lake Side closed down and get an outpatient clinic built in the downtown area to address the outpatient needs of our veterans in that area.

We are going to move forward and we are going to move forward with the next phase of CARES, because we need to rationalize the infrastructure of the VA system and make sure that we are properly structured for going forward and not back to the century gone by.

CARES STUDY

Senator BOND. A few questions about the next phase. Do you have the in-house expertise and staffing resources needed to perform the CARES study? And two, how will you ensure the studies are objective? Because on that second part I am worried that if the division directors who are in charge are conducting their own studies, there may be a conflict. If you bring it up to your level, Mr. Secretary, you are not going to have an outside consulting firm to blame it on. You are going to get the heat, all the heat, without being able to shuffle it off.

Secretary PRINCIPI. That is correct. I sincerely believe that we have the talented people, the skills and the right disciplines to develop a national plan for the future. The VISN directors will play a role in providing data and input into the process, based upon a template, and upon a specified data call. But that plan will be developed with our team in Washington. We will rely upon outside experts on an as-needed basis.

I do not want to spend $20 million to $40 million on a consultant, most of whom will contract with former VA employees. I think we can do it. But you are absolutely right that we need to ensure that the data is validated. The process and the data have to be absolutely perfect. People who do not want to see a facility closed or its mission changed will take shots at us. The data is so terribly important, and we are going to take great pains to ensure that the data are validated.

I intend to keep the process objective. I intend to stay out of it until such time as the recommendations of the commission come to me. And then I will approve or disapprove those recommendations. We have an aggressive timetable. I think it can be done. And I think it is absolutely necessary to address the category seven problem, for example. There is an awful lot of money there that can be used to treat more patients.

Senator BOND. Well, Madam Chair, if I might impose for one more question.

LEGISLATIVE MANDATES

And I congratulate, Mr. Secretary, because you have to—we have to cover up the shortfalls in the care, in the health care, for the highest priority. And you have touched on it, but let me go back to it one more time.

Based on new benefit requirements authorized over the last few years, I understand that—that has put a big hit on your budget. And I am concerned that we are still short of the money we need to provide health care. And I thought, maybe, you could outline for us some of the new mandates affecting veterans' health care services. What are the costly new requirements? And what impact do these have on the basic health care that you can provide that we discussed earlier?

Secretary PRINCIPI. Clearly, there have been a number of mandates that we have been required to fulfill. For example the Millennium Health Care Benefits Act, placed a floor on VA nursing home beds. I agree we need to maintain a level of VA nursing home beds because they are much needed beds. But, we need to also rely upon our State veterans' homes and our community nursing homes, which are closer to where the veterans live, and to the non-institutional programs, which also are so beneficial to keeping veterans in their homes: hospital-based home care, adult day care, respite care.

We could do so much more, treat so many more veterans that way, than we can by putting them into an institutional bed. The way the law is constructed, it requires me to have 13,400 VA nursing home beds. We are currently 1,200 beds short of that floor. We have requested that the floor include State veterans nursing home beds and community nursing home beds and the non-institutional care census. But the committees have been reluctant to do that.

That means I have to find somewhere in the neighborhood of $150 million out of existing programs, maybe the State veterans home program or other programs, to achieve that floor, as set by statute.

The wonderful provision about emergency room care, to allow veterans who are enrolled in the VA system to go to any private hospital for emergency room care, when fully implemented, will cost us $441 million. I do not know where the money will come from. It may have to come out of the community-based outpatient clinics, because it is a zero-sum game.

We operate wonderful programs for the homeless. I think we are doing great things for the homeless. But the new bill that came out of the last session will cost hundreds of millions of dollars for new homeless programs. Again, where do I get the money from?

I think it is that kind of laws that do, in fact, impede our ability to address some other programs.

Senator BOND. Thank you, Madam Chair.

DEMOGRAPHICS PROFILE OF PRIORITY 7 VETERANS

Senator MIKULSKI. Thank you, Senator Bond. You raised, again, very important questions.

I want to come back now again, in terms of the demographic profiles that I have asked for; Dr. Murphy, we would like to have,

really within 2 weeks, a demographic profile of the information you currently have. I do not know if you are keeping the data the way I have just said it, but we would like it to us the way we asked for it, in addition to any other way you want to get it to us. But I need to know the geography, the age, and the income. Okay? So, that is one thing.

And then we would like to have another report around Memorial Day where you have had a chance to even take a better, more in-depth probing look. So, we want to have a first look-through. And then—and hopefully, Mr. Secretary, you will then keep these type of records, so that we can then get our handle. Because I think they are coming for different reasons and different age groups. And we should not have a one-strategy-fits-all.

The failure to have a long-term—my dear dad died of Alzheimer's. We used geriatric evaluation. We did not use the veterans. Dad was not a veteran. He had 2 children when the war began. But we used geriatric evaluation to get appropriate care for him. We used adult day care that had a cognitive stretch-out program for an Alzheimer's person. Then we had to turn to long-term care.

When we look at our aging population—and we had means. When we look at veterans, many of them do not have anything. So they are coming to you exactly for what you said. The prescription drug issue is another. The younger vet or the in-between vet, the 60-to-65 who has lost everything through no fault of his own, because of a factory closing or the loss of the family farm.

PRESCRIPTION DRUG BENEFIT

So, this is what we are going to look for. But let us go to the prescription drug benefit. Because the long-range solution is national policies to address universal health care, a prescription drug benefit for our seniors, and a long-term care policy that does offer a continuum of care so you use it appropriately for the patient and appropriately for the person paying for the care.

Now, according to December, 2000, the VA's Inspector General said the use of the prescription drug benefit was due to the fact that 90 percent really did not have a prescription drug benefit, either because they were on Medicare or because, if they were not on Medicare, their health insurance did not pay for a prescription drug benefit. And not only might they have a catastrophic situation needing drugs, but they might have a chronic situation that required—let us take diabetes. You have to buy the equipment, the daily testing, the medications, et cetera.

So let me get to where I am getting. Could you tell me—could you give me a description of the veterans' prescription drug benefit? And what does that cost you every year? And who are most likely to use it?

Secretary PRINCIPI. I will start out and then I will let Dr. Murphy add, if I err or if I am not complete. Any veteran enrolled in VA health care is entitled to have their prescriptions filled by VA for a cost of $7 per prescription per month. That has gone up from $2. It had not been increased since its enactment some 10 to 12 years ago, when the co-payment went into effect.

We spend in the neighborhood of $2.5 billion for ingredients only and approximately another $600 million in a very large pharmacy program, the consolidated mail-out pharmacy program. Our pharmacy benefit is in the neighborhood of $3 billion a year and growing. It was $750 million some years ago, and it is now up to $3 billion.

I think we have done a tremendous job. Our country and HHS and others can learn much by the way we have managed our pharmacy program through our national formulary. Clinical judgment is always the overriding issue. We do sensitize our physicians to costs. I think it is important that they be sensitized, but that they make the clinical judgment about what they consider to be the right drug.

I think we manage the pharmacy budget very well. We do a lot of national contracting. Our formulary lets us do that, so we can drive the prices down.

Senator MIKULSKI. What does national contracting mean? Could you elaborate on that?

Secretary PRINCIPI. It means that we will buy through a national contract, if you will. Through the large volume that we purchase, we command a discount off the price of the drug. Although we do very, well in our pricing, the law that was passed back when I was deputy secretary, and played a very small role in enacting, gave the VA very favorable pricing for pharmaceuticals, a 24-percent discount off of the manufacturers average drug price. In some cases, we negotiated even a greater discount off of manufacturers' average price, so we command excellent pricing in pharmaceuticals.

We also procure pharmaceuticals for the Indian Health Service, the Public Health Service, and the Bureau of Prisons. In many cases, we are the procurer of pharmaceuticals for the Department of Defense, so our procurement activity is very large. Through that consolidated program, we are able to command even better pricing.

I think we are also the model for the government in a pharmacy program that utilizes generic drugs.

PHARMACEUTICAL COSTS

Senator MIKULSKI. Well, yes. First of all, I think the cost speaks for itself. And I am going to come back to how—what is the majority of the use, for what purpose? But the Nation has to consider a prescription drug benefit for its seniors; it just has to. When Medicare was invented under Lyndon Johnson, it was to deal with—but people were afraid that if you had a heart attack, you could lose everything. You would stay in the hospital for a month.

Dr. Murphy, you remember, I am sure——

Dr. MURPHY. Yes.

Senator MIKULSKI [continuing]. In your studies. You were not practicing then.

Now, it is really—it is Part—B that is the big issue. And it is the management of chronic illness or the chronic progressive illness, whether it is the diabetic, the heart person, et cetera.

Now, coming—so we are getting these kinds of estimates for a garden variety, okay, Chevy Lumina/Ford Taurus prescription drug benefit. They are talking about $400 billion a year over 10 years. Looking at TRICARE, what TRICARE is spending; at the rate that

it is going, it could be $720 billion. So, we are looking, but I believe that there are lessons learned. I believe that there are lessons learned from VA. I believe that there are lessons learned from TRICARE. I believe that there are lessons learned for what we Federal employees get. I have a prescription drug benefit.

MEDICAL SUPPLY COST CONTAINMENT MEASURES

And the lessons learned, which is how do we do a formulary that also allows clinical flexibility—because it is not one drug fits all. That is why you see a doctor and not the coin-operated dispensers—and at the same time do cost containment. Now as I listen to you, the cost containment measures have been mail order and consolidated discounts and then an awareness on the part of the physician that, given 2 choices with the same safety and efficacy appropriate to the patient, that one might be a little bit cheaper than the other.

But could you furnish, then, for the committee what your cost containment measures have been and how you regard them with success? For example, on mail order, what does it work best for? Because there are those who say sometimes this results in waste and inappropriate use. But I know, coming back to my own dear mother, who was a diabetic, it would have been very appropriate for her to get her diabetic testing strips in the mail, to get her lancets, in other words, but not if she had her—she was very susceptible to urinary tract infections, a well-known complication issue with diabetics.

She needed to be able to go without a big surcharge on her, to really get her—when she had an infection usually related to the chronic situation. So you see where I am heading here?

[The information follows:]

PHARMACEUTICAL COSTS

A physician's ability to have access to necessary pharmaceuticals is unquestionably an essential component of any clinically sound formulary management process. There are at least four acceptable mechanisms that can be designed into a formulary system; (1) encouraging the appropriate use of drugs, (2) reducing the unit-cost of drugs, (3) streamlining distribution of bulk drugs, and (4) increasing prescription dispensing efficiency.

Inappropriately restricting access to medically necessary drugs and unnecessarily shifting drugs costs to the patient are unacceptable cost containment practices that are unfortunately sometimes used. This is not to say that a properly administered tiered co-payment structure is unacceptable. On the contrary, if well designed and properly administered, a tiered co-payment system can be an effective formulary management tool that does not impose an unnecessary financial burden on the beneficiary.

Encouraging the Appropriate Use of Drugs: By far, the cost containment strategy that has the potential to yield the most significant cost containment while assuring quality medication therapy is the use of evidence-based clinical guidance to encourage appropriate drug utilization. Guidance should be aimed at encouraging the cost effective and appropriate use of pharmaceuticals and discouraging their inappropriate or cost ineffective use. Such guidance should be evidence-based, relevant, up-to-date and easily accessible by prescribers. Providers should be actively encouraged to provide input into guidance development to ensure greater acceptance of the final documents. Further, efforts must be made to educate prescribers on the evidence-based criteria if it is to be accepted into their clinical practice. Regular feedback should be provided to prescribers regarding their prescribing patterns. Physician awareness of cost differences among alterative therapeutic regimens is also critically important. VA experienced this success when coupled with the plan to ensure the electronic medical record is available throughout the healthcare system. As the pa-

tient need changes from ambulatory care to acute care, home based primary care and nursing home care, the access to the electronic medical record provides a continuous medication history and the clinical reasoning for use of appropriate drugs.

Reducing the Unit Cost of Drugs: In high-volume, high-cost drug classes where therapeutic interchange opportunities exist, significant cost containment can be achieved only by driving market share to a subset of all of the available products; therefore, limiting physician flexibility to some degree is unavoidable. While there are several ways to drive market share within a therapeutic class, and each has its own advantages and disadvantages, the most effective approaches require limiting access to pharmaceuticals within a drug class to some number of drugs less than all commercially available products and negotiating discounts with drug manufacturers in exchange for increased market share for their products. Regardless of which method of market share manipulation is employed, medically necessary clinical flexibility can be achieved by assuring that a non-formulary or waiver process is in place. A good non- formulary request process should be timely and final decisions should be based on medical evidence as opposed to prescriber "preference" (which can be highly influenced by pharmaceutical manufacturer's marketing practices) or the payer's cost containment goals.

The use of generic products must be encouraged and should rely on Food and Drug Administration guidance regarding product acceptability. Mandatory contracts for generic products can also help ensure adequate product availability to meet the market share and inventory management goals. It is important to reduce the dispensing of multiple generic brands to the same patient, as this practice is likely to lead to patient confusion. A good formulary process allows for the prescribing of brand name products, when patients have any adverse drug events to generic products. Patients should not be charged a higher co-payment when a brand name product is deemed necessary to achieve a desired clinical outcome. A higher co-payment may reduce patient compliance and increase potential for a poor outcome.

Streamlining the Distribution of Bulk Drugs: Opportunities exist for large integrated health care systems that purchase bulk drugs to reduce their distribution costs by contracting with a single Pharmaceutical Prime Vendor (PPV) for reduced distribution fees. The reduced fees are possible if the purchaser uses a "prompt pay" mechanism whereby the PPV invests the purchaser's payments in short-term financial markets before it is required to pay the manufacturer for the goods delivered. In addition, it is possible to negotiate with the PPV to charge the purchaser contract prices, rather than commercial prices when the purchaser has contracts in place with pharmaceutical manufacturers. The PPV can then complete a "charge-back" to the manufacturer to recapture the difference in its wholesale cost of the drug versus the contract price. Lastly, contracting with a PPV reduces inventory carrying charges because the PPV can provide "next-day" deliveries and there is no need to keep a large amount of product on the pharmacy shelves.

Increasing Prescription Dispensing Efficiency: Improvements in prescription dispensing efficiency can be achieved through the use of automation, such as that seen in VA's Consolidated Mail Outpatient Pharmacies (CMOPs). In addition, automation of prescription dispensing has been demonstrated to positively impact quality by introducing significantly fewer dispensing errors than manual processes. For this discussion, it is important to differentiate between the mechanical aspects of prescription dispensing versus the clinical aspects of patient education and counseling. How the prescription is filled is not nearly as important clinically as is making sure the patient is thoroughly educated and knowledgeable about his or her drug therapy.

When VA designed its CMOPs, it purposefully uncoupled the mechanical aspects of prescription dispensing from the provision of patient education and counseling so that each aspect of drug delivery could be optimized (i.e, make filling prescriptions as efficient as possible, and make sure patients have access to pharmacist counseling and education as part of a multidisciplinary, integrated health care delivery process). Medication counseling is best performed in person, by a pharmacist so that the pharmacist can gauge a patient's understanding of his or her medication therapy. Further, face-to-face interaction is important so that the pharmacist can ask probing questions about over the counter drugs use, use of dietary supplements, alternative medicine, etc. This type of patient-pharmacist encounter is critical to assure that drugs are used appropriately and effectively and to obtain information about side effects, intolerance, etc., which if not attended to can reduce the effectiveness of prescribed medications, or lead to drug induced morbidity.

Systems which use automated prescription dispensing, with an appropriate level of patient education can reduce the overall costs of prescription dispensing. In addition, dispensing chronic medications for patients that are stabilized on them in multi-month quantities (i.e., up to 90 day supplies) can also reduce the cost of processing prescriptions. VA has conducted analyses which show the cost associated

with unusable multi-month supplies (lost prescriptions, changes in drug therapy, patient death, etc.) are more than offset by reduced production costs. A carefully designed Medicare drug benefit, which uses a Federal CMOP could avoid a significant amount of necessary cost while increasing the quality of the dispensing process.

A flexible formulary that incorporates cost containment should:

—Be clinically rather than financially driven
—Be developed with input from end user clinical staff
—Be evidence-based
—Rely on the use objective drug use criteria
—Minimize the impact of marketing practices on clinical decision-making and prescribing patterns
—Use generic drugs products whenever appropriate
—Leverage purchasing power by using therapeutic interchange whenever clinically feasible
—Leverage distribution by using PPV contracts and good inventory management practices
—Optimize prescription dispensing efficiency by using automation.
—Integrate patient education and drug therapy counseling to the greatest extent possible
—Have a non-formulary waiver process
—Measure outcomes and provide feedback to prescribers

Secretary PRINCIPI. Absolutely.

Senator MIKULSKI. So we are looking at mail order, but mail order does not solve everything, et cetera. So we are really want—I need you, and I believe the Nation—and I know the Nation needs you right now to tell us what works and, quite frankly, what has fizzled and flopped or that gives you yellow flashing lights around the efficacy of both patient care and cost containment. Sometimes they are like this. Sometimes exactly efficacy is good cost containment, because it manages the disease.

Secretary PRINCIPI. I am half smiling. I am always a little concerned that we are so good it will ultimately drive our prices up somewhat at the VA, that if HHS replicates our model.

Senator MIKULSKI. Maybe those priority 7 guys or gals—remember we cannot forget the China Beach women—that this might ultimately save money, because they are not coming to you.

The second thing is that, also, the better access you have for the management of chronic disease that is systematic, regular, and monitored, ultimately saves that kidney failure and heart disease and all these other complications from chronic disease.

Secretary PRINCIPI. I think the pharmacy management program is really one of the great success stories of the VA. They have done great work, but there are other things we can do. We need to export what they have done in the pharmacy program to medical-surgical supplies and high-tech equipment. That is the next avenue we are going to look at: why do we need 300 different styles of surgical gloves? Surgical gloves are surgical gloves. And we do not command the best pricing because we just buy locally.

We buy using credit cards. We need to do in med-surg and equipment what we have done in pharmacy. I think there are so many dollars there that we are leaving on the table.

Senator MIKULSKI. Yes. And I believe some of our excellent academic centers of excellence can offer you a tremendous number of lessons learned. The reason I go to the academic centers is they face the variety of patients that you do, and very often, because they are academic centers, they are in urban areas serving a tremendous, often very poor, population that is uncompensated.

In other words—and they cannot raise their rates or their fees. So I believe that they offer tremendous lessons for you.

Secretary PRINCIPI. I think so.

Senator MIKULSKI. And without—because they are academic centers of excellence, they do not sacrifice patient care or the worker safety issues. Which takes me to another issue. I am going to talk about workers.

RECRUITMENT AND RETENTION

You know, I am so impressed with the dedication of the people who work for the VA, particularly in the health care area. And I remember when we had shut downs at all some years ago in the midst of ice storms. Those men and women were showing up at Baltimore VA and the clinics, even though they were told they were unnecessary, they were not getting paid. And you know what? They just showed up, even though they had child care and so on. So they were just fabulous.

But I am concerned, how are we doing in being able to attract and retain particularly the nurses, the pharmacists, the others that are so important to the team? I am particularly worried about the nurses' shortage. And we are also facing a shortage in other health professionals that are critical to the team.

Dr. Murphy?

Dr. MURPHY. I think that there is a national shortage of health care providers across the country. It is not a problem that is unique to VA as a department. And it starts with nurses, physicians, physicians' assistants, all mid-level providers, pharmacists, technicians of all kinds.

One of the things that we have proposed is that a number of our professional groups that provide health care need to be switched from Title 5 to Title 38, to allow us to more effectively and quickly——

Senator MIKULSKI. What is that? What is Title 5 and Title 38?

Dr. MURPHY. Title 5 is the regular GS schedule. Title 38 gives us more flexibility in recruitments and some additional flexibility in salary scale. And we think that—that would certainly help us with our recruitment.

There was legislation passed last year that did give us some improvements in our nurse recruitments and our education programs for nurses, that we believe will allow us to better retain and give career progression to nurses in the VA.

I think patient safety is an important issue. And I was recently talking with the dean of the School of Nursing at Johns Hopkins. And Sue said that she tells all of her graduates in the School of Nursing to go apply to VA. And the reason she does that is she believes that we are at the forefront of medical innovation; that the quality, the occupational health and safety, the patient safety programs that we have in the VA are second to none, that it is an exciting place to work.

So, our focus on quality and safety have really positioned us to be able to recruit and retain the best health care professionals.

Senator MIKULSKI. Well, what we would like, as part of our work—and I know I speak for Senators Rockefeller and Specter on authorizing, as well as Senator Bond. We, of course, believe that

we rely upon our physicians, but the physicians rely upon a team. And if the team is not there, you cannot have—I mean, the doctor is not able to give the highest and best care that we want.

So, we would welcome what we could do on the Appropriations Committee to be able to give you the tools to be able to both recruit and retain. Because the best way to recruit is through the people you have now, who are very satisfied, who tell their classmates, et cetera, to do this.

The second thing is that, also speaking for the authorizers, because I know they are very keenly interested in this, is what other authorizing frameworks that we need—we need to do. And we are working on this in another committee.

GRANTS FOR VETERANS EMPLOYMENT

Let me then switch gears, though, to the job training item in there. This is somewhat controversial. The move from the job training programs that you spoke of in your testimony from DOL back to VA or to VA, could you tell us what you are going to do and why you want to do it? And that will be our last question for today.

Secretary PRINCIPI. I tried to articulate, Madam Chair, the deficiencies in the current program that have led to a high unemployment rate among veterans who are seeking employment. I think the Department of Labor has many missions. And they are responsible for labor programs for veterans and non-veterans alike. I am not sure that veterans receive the priority that they deserve.

VA was established to address the needs of veterans. And just like our education programs, our health care programs could sit in other agencies, but they are consolidated in the VA because our focus is on veterans' issues. That priority is very, very important to everyone in VA.

I want to create a short fuse commission to make recommendations to me on how we can adopt this program to the new century, to the new way of employing people, Internet-based, with outreach to Fortune 500 companies, not just to McDonald's and Burger King, where veterans can find jobs; but rather good, meaningful jobs in corporate America. I think that linkage needs to be there.

But most importantly, Madam Chair, I would make it outcomes-based. The program is very process-oriented today. Congress appropriates $200 million; appropriations are divvied up and sent to the States. Whether they perform well or not, the following year another grant is going to be made. I would send a grant to the governor of the State and have the governor decide how that money should be allocated. It could be to the States' Department of Veterans Affairs or the States' Department of Labor. I would put performance standards on the grant to say that grant recipients are expected to find suitable employment for *x* percentage of the veteran population.

Through establishing standards and accountability, I think we could improve the outcomes of the program.

Senator MIKULSKI. Well, Mr. Principi, I think, first of all, in the President's budget he said he would send us legislation on this.

Secretary PRINCIPI. Yes.

Senator MIKULSKI. So, I know it will go to the authorizer. We, too, are troubled by the same issues that you are troubled. And I

hope that we could see this as an opportunity for veterans for the new century. One of which I would like to just put on the table for discussion is lifetime learning, which is not use it or lose it, but if you do not use it—because many of our veterans come out, but they reach a point in their life where, in order to really be a viable member of the work force, that is when they go back to school.

So—and I am not say let us do this. I am saying let us look at it——

Secretary PRINCIPI. Sure.

Senator MIKULSKI [continuing]. In the context of what we are doing.

Secretary PRINCIPI. Absolutely.

JOB TRAINING VETERANS

Senator MIKULSKI. And second, for those who need initial training, but also those who need retraining. So that, for example, the veteran who might have worked in a factory and that factory is closing, but who had—maybe he was an electrical technician, maybe this is the time that they can at a community college become a Microsoft engineer, which is a certificate program, not a degree program, and go into $65,000 a year.

Do you see how I want new thinking in this area? And we have this.

The other thing is, I really—and I say this because I am a member of the Health, Education, Labor Committee—I do not have a lot of confidence in a lot of these job training programs. I do not. I think they were process driven. I do not think that they are related to the work force shortages in communities.

And, you know, I am a big believer in the community college, not only for a degree program but for these certificate programs. And they welcome all ages, et cetera. So I think we need new thinking. And let us do it through the VA.

Secretary PRINCIPI. Sure.

Senator MIKULSKI. And let us view this as an empowerment initiative——

Secretary PRINCIPI. Absolutely.

Senator MIKULSKI [continuing]. For the veteran, where those who right now might not be able to make the highest and best use of the talents God gave them, but we really have an real opportunity matter. And I am ready to shake up the establishment on this.

Secretary PRINCIPI. I am grateful for your position.

Senator MIKULSKI. Really.

Secretary PRINCIPI. Yes.

Senator MIKULSKI. I am—you know, my own social work background says we have lessons learned from welfare reform, which you might be able to learn. But in welfare reform, for years it was very process-oriented. How many this, and the workshop, and did you comb your hair. I mean, these men are veterans. They already had authority training. What they need is real training——

Secretary PRINCIPI. Sure.

Senator MIKULSKI [continuing]. For real jobs where they are really needed. Let us look at the unions. Let us look at apprenticeship programs. We have a terrible work force shortage right now for plumbers, for electricians, and so on. And what about that? Be-

cause right now, if you are really a master electrician in Maryland, you can earn over $40,000 a year. And the ads are just all the way down.

Secretary PRINCIPI. That is right.

Senator MIKULSKI. So, you see, let us not just say, "Oh, let us give it to a governor, let us give it to these agencies." I am not so sure the best job training programs are job training for the people wanting the job training. And they are going to be really upset when they hear what I am saying here. But we have new ways. Maybe we have to contract out to technical schools, but not the sham schools that ripped us off on the tuition benefit.

So we have a lot of lessons learned. But at the end of the day, when a veteran walks into a job training program, I want them first to get the training and then get the job. And that is what the emphasis needs to be on. Are we on the same broad band here?

Secretary PRINCIPI. Oh, we certainly are and look forward to working with you. I think it is very exciting. I am also thinking, as you were speaking, Madam Chair, about licensure and certification. We have so many skilled people in uniform. When they come out, there is the whole issue of their getting licensed in the State and getting certified so that they can get that job as an aviation mechanic or in the trades with the unions. There is just so much that needs to be done and should be done. And I welcome the opportunity to work with you on it.

VETERANS EMPLOYMENT OPPORTUNITIES

Senator MIKULSKI. And I want to give you an idea today, as we wrap this up, right now, as you know the United States Government and its Federal aviation security is under a significant mandate to federalize airport security. For those veterans that are coming to you that are unemployed, who have already demonstrated their patriotism, already demonstrated their commitment to defend America and took an oath to do so, why do we not see if there can be a referral to the Department of Transportation where these veterans—we could use, one—-first of all, we can use their patriotism. It deals with the citizen issue.

But also, these are going to be Federal jobs. Think about that.

Secretary PRINCIPI. To me, it is a no-brainer, Madam Chair. I cannot think of a better population, than skilled, motivated, team workers, a drug-free workforce:, people that would make better Federal security officers than the men and women who are leaving active duty. It is mind boggling to me that we do not take advantage of these highly trained individuals.

Senator MIKULSKI. Well, why do you not look at that? Why do you not leave here and go call up Norm Mineta and see——

Secretary PRINCIPI. I am going to be with him Friday night at a banquet honoring our Japanese-Americans. I am absolutely going to sit next to him and talk to him about this issue and tell him that we talked.

Senator MIKULSKI. Yes; and there you go.

Secretary PRINCIPI. I am going to do it.

Senator MIKULSKI. Okay.

Secretary PRINCIPI. I will be with him.

Senator MIKULSKI. Okay. And when I am going through Baltimore-Washington Airport and somebody says, you know, I was Corporal So-and-So, thanks for this idea, I will look forward to shaking their hand.

Secretary PRINCIPI. I am going to do it; we will do it.

Senator MIKULSKI. Okay. This committee stands in recess——

Secretary PRINCIPI. Thank you so 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 BARBARA A. MIKULSKI

$400 MILLION BUDGET SHORTFALL

Question. Why is there a $400 million shortfall in VA Medical Care in 2002, even though the Subcommittee provided $350 million more than requested?

Answer. The 2002 shortfall is the result of increased usage of VA's health care system, some of which we could not have anticipated. Some Medicare Health Maintenance Organizations (HMOs) have withdrawn from participation in the Medicare program, and VA is now treating some patients who previously relied on these HMOs for their health care needs. VA health care is now more accessible, due largely to the opening of many new community-based outpatient clinics. We are experiencing an increase in patients as a result of the Department's continual improvements in the quality of the care provided. Where comparable data exist, VA outperforms the private sector for all indicators in health promotion and disease prevention. It is notable that VA has been able to achieve these improvements in the quality of care while simultaneously achieving year-to-year decreases in the average costs per patients treated.

In an effort to improve our workload projection capability, VA has enlisted the support of a well-known actuarial firm, Milliman USA, to provide us with assistance in making forecasts of the patient population. This has placed us in a much stronger position to evaluate, and account for, the impact of a variety of different factors on the size and distribution of our future patient population. The Department's fiscal year 2003 budget is the first to present workload projections that reflect the expert assistance of this actuarial firm.

Question. Are you aware that the Statement of Administration Policy (SAP) for the 2002 VA–HUD Conference Report said that this increase was not necessary to "optimize Federal resources?"

Answer. Yes, I am aware that the SAP for the 2002 VA–HUD Conference Report said that the increase of $350 million was not necessary to "optimize Federal resources." Subsequent to the SAP, the VA health care system experienced increased usage, some of which could not have been anticipated. We continue to experience increases at unexpected rates due to HMO withdrawals from the Medicare program; access to new community-based outpatient clinics; and improvements to the quality of care in the VA health care system.

Question. Did the VA underestimate the number of veterans who would use the VA healthcare system? By how much?

Answer. Yes. The fiscal year 2001 estimate used for the fiscal year 2001 budget was 3,894,864 unique patients; the actual number was 4,247,204 unique patients. The fiscal year 2002 estimate in the fiscal year 2002 budget submission was 4,118,565 unique patients. The current fiscal year 2002 estimate in the fiscal year 2003 budget submission is 4,737,518. As mentioned above, among the factors responsible for the increase are the withdrawal of many Medicare HMOs, improved access to VA health care, and the Department's continual improvements of the quality of care provided.

Question. The SAP also said that VA would get a $235 million savings because military retirees would move over to the DOD healthcare system. Was this savings realized?

Answer. The TFL benefit became effective on October 1, 2001. It is still too early to determine the full impact on VA. We will be happy to share this information with Congress when we have analyzed the information.

Question. How has VA made up for this shortfall? Specifically, what changes are included in the VA's 2003 operating plan to address this shortfall? Will VA have a Supplemental funding request?

Answer. Based on the continuation of full enrollment, VHA determined there would be a shortage of about $441 million in fiscal year 2002. Approximately $300 million in management savings is anticipated in fiscal year 2002. We expect that these savings will be generated from a multi-year effort to improve standardization and compliance in the procurement of equipment, pharmacy, and medical supplies. Other savings are expected from program efficiencies related to new criteria to assess community-based outpatient clinics and centrally managed programs. The balance of the fiscal year 2002 shortfall, $142 million, associated with the continued enrollment of new priority 7 veterans, is anticipated as an fiscal year 2002 supplemental. The request for the supplemental was forwarded to Congress in on March 21, 2002.

Answer. As previously stated, the Department's fiscal year 2003 budget is the first to present workload projections that reflect the assistance of the actuarial firm, Milliman, U.S.A. The President's budget for fiscal year 2003 incorporates a "Base Health Care Demand Adjustment" initiative that identifies and requests the resources required to support an actuary estimate of the demand and case mix changes needed for all seven patient priorities in fiscal year 2003. Based on this initiative, the budget estimates should better account for the relationship of planned workload requirements and the full funding needed.

Question. Are the VA's networks being asked to make staff cuts as a result of this shortfall?

Answer. At this time, we are not aware of two any networks that are considering have performed reductions-in-force (RIFs) due to budgetary constraints. Based on the continuation of full enrollment, VA determined there would be a shortage of about $441 million in fiscal year 2002. Approximately $300 million in management savings is anticipated in fiscal year 2002. The balance of the fiscal year 2002 shortfall, $142 million associated with the continued enrollment of new Priority Group 7 veterans, is anticipated as an fiscal year 2002 supplemental.

Question. How do VA's estimates about its workforce compare to reality?

Answer. A comparison of the estimated and actual Medical Care full-time equivalent (FTE) employment for fiscal year 1999, fiscal year 2000, fiscal year 2001, and fiscal year 2002 is provided below:

Medical Care FTE	Fiscal year			
	1999	2000	2001	2002
Estimate	180,411	179,206	181,500	179,300
Actual	182,661	179,520	182,946	[1] 181,500
Percent Change	1.2	0.2	0.8	1.2

[1] Current Estimate.

Question. How can the VA–HUD Subcommittee help VA get its estimates on target?

Answer. In an effort to improve our workload projection capability, VA has enlisted the support of a well-known actuarial firm, Milliman USA, to provide us with assistance in making forecasts of the patient population. This has placed us in a much stronger position to evaluate, and account for, the impact of a variety of different factors on the size and distribution of our future patient population. The Department's fiscal year 2003 budget is the first to present workload projections that reflect the expert assistance of this actuarial firm.

$1,500 DEDUCTIBLE FOR PRIORITY 7 VETERANS

Question. Tell us about Priority 7 veterans—How many veterans are Priority 7? How old are they? What is their average income? Where do they live?

Answer. The attached table shows the distribution of Priority 7 veterans by State as projected for the end of fiscal year 2002.

FY 2001 PRIORITY 7 ENROLLEES AND USERS BY VISN AND AGE GROUP
WITH COMPARISONS TO PRIORITIES 1-6

	Priority 7 Enrollees										P7 Enrollees		Priorities 1-6 Enrollees		
	Age Group									Total	Age 65 &	As a %	P1-P6	Age 65 &	As a %
VISN	<25	25-34	35-44	45-54	55-64	65-74	75-84	85+	Unknown	Priority 7	Higher	of Total	Total	Higher	of Total
1	230	2,288	4,054	10,047	15,993	31,882	23,071	2,341		89,906	57,274	63.8%	189,497	95,974	50.6%
2	242	2,175	4,658	10,701	14,592	22,120	15,728	1,712		71,928	39,560	55.0%	112,822	55,228	49.0%
3	259	3,693	8,925	20,356	31,705	54,724	43,634	4,996	8	168,240	103,234	61.4%	180,601	97,604	54.0%
4	340	3,097	5,843	15,392	22,842	47,092	34,832	3,062		132,510	84,996	64.1%	240,599	124,557	51.8%
5	150	1,607	3,638	6,820	7,042	10,921	7,910	677	3	38,966	19,708	50.6%	112,059	44,957	40.1%
6	355	3,880	6,185	13,240	14,471	20,418	13,022	1,247		72,818	34,687	47.6%	217,951	85,401	39.2%
7	394	4,137	7,726	15,398	16,012	23,938	15,091	1,469	3	84,113	40,518	48.2%	254,855	97,286	38.2%
8	322	3,495	6,915	14,912	24,187	50,707	45,629	5,332	7	152,505	102,668	67.3%	396,397	191,336	48.5%
9	323	2,378	4,177	11,008	13,406	18,864	11,495	1,101		62,770	31,460	50.1%	203,639	85,873	42.2%
10	174	2,222	4,232	9,349	10,693	16,091	11,297	935		54,993	28,323	51.5%	162,832	70,698	43.4%
11	257	2,796	4,517	10,533	12,919	24,366	17,951	1,650		75,009	43,977	58.6%	172,052	74,318	43.2%
12	286	2,661	4,665	12,399	17,851	32,144	23,734	2,322		95,952	58,200	60.7%	175,145	80,398	45.9%
13	236	1,601	2,376	6,766	10,988	24,739	16,531	1,709	3	64,929	42,979	66.2%	99,871	47,729	47.8%
14	85	918	1,594	4,937	7,417	19,727	14,218	1,374	1	50,231	35,319	70.3%	76,159	36,049	47.3%
15	301	2,031	3,687	9,392	12,106	23,263	17,451	1,827		70,059	42,541	60.7%	167,942	74,549	44.4%
16	422	4,281	6,871	17,899	21,431	28,980	18,541	1,852	12	100,249	49,353	49.2%	382,478	160,486	42.0%
17	205	2,522	4,124	9,098	10,098	12,831	8,488	930		48,345	22,309	46.1%	201,534	80,375	39.9%
18	218	2,141	3,765	9,132	12,646	19,226	14,125	1,537		62,790	34,888	55.6%	184,979	80,042	43.3%
19	167	1,733	2,835	7,147	9,693	14,455	10,511	1,023		47,365	25,990	54.9%	116,442	46,167	39.6%
20	419	3,177	4,504	9,548	11,834	14,599	10,856	1,372		56,279	26,797	47.6%	190,885	65,866	34.6%
21	339	2,413	4,131	10,279	13,857	18,434	15,755	2,197	21	67,226	35,376	54.1%	193,199	78,879	40.8%
22	665	4,187	6,269	12,970	16,622	20,305	16,037	2,181	6	79,232	38,523	48.6%	243,037	87,077	35.8%
Not Assigned	29	86	153	255	216	178	148	168	13	1,246	494	39.6%	417	161	38.6%
Total	6,359	59,499	105,532	247,499	328,361	549,925	407,065	43,254	77	1,747,591	1,000,244	57.2%	4,265,182	1,861,040	43.6%

	Priority 7 Health Care Users										P7 Users		Priorities 1-6 Users		
	Age Group									Total	Age 65 &	As a %	P1-P6	Age 65 &	As a %
VISN	<25	25-34	35-44	45-54	55-64	65-74	75-84	85+	Unknown	Priority 7	Higher	of Total	Total	Higher	of Total
1	95	595	1,371	4,056	7,522	18,714	13,297	1,105		46,757	33,117	70.8%	131,599	70,168	53.3%
2	76	568	1,421	3,608	5,548	10,737	7,549	760		30,265	19,046	62.9%	76,832	40,304	52.5%
3	93	952	2,409	5,904	9,618	24,763	21,020	2,071		66,830	47,854	71.6%	111,991	62,624	55.9%
4	114	720	1,684	5,226	9,265	28,622	19,858	1,483		64,952	47,983	73.8%	160,257	87,692	54.7%
5	55	495	1,301	2,698	3,018	5,812	4,202	374		17,955	10,388	57.9%	74,174	33,408	45.0%
6	104	811	1,790	4,572	5,768	9,572	5,594	433		28,634	15,599	54.4%	151,071	64,551	42.7%
7	108	1,044	2,794	6,533	7,881	13,259	8,427	720		40,766	22,405	55.0%	176,894	73,533	41.6%
8	113	1,066	2,751	6,864	12,719	30,144	26,767	2,949		85,413	61,880	72.4%	267,957	149,922	52.1%
9	160	745	1,551	4,724	6,285	10,257	6,007	493		30,222	16,757	55.4%	146,327	65,622	45.2%
10	54	438	1,105	2,846	3,811	6,326	5,979	382		22,941	14,687	64.0%	104,653	49,557	47.4%
11	82	605	1,397	3,911	5,669	14,826	10,994	847		38,521	25,637	66.1%	118,678	55,161	47.3%
12	66	568	1,276	3,611	6,259	16,201	11,782	1,036		40,818	29,019	71.1%	116,993	57,654	49.3%
13	64	366	899	3,059	5,818	15,992	10,845	949		37,892	27,756	73.3%	76,000	39,992	52.6%
14	16	219	473	1,693	3,009	11,178	8,012	644		25,236	19,834	78.6%	54,450	28,613	52.5%
15	98	506	1,266	3,955	6,086	15,022	11,203	980		39,116	27,185	69.5%	122,237	59,268	48.5%
16	141	1,149	2,592	8,013	11,139	16,737	10,679	915		51,365	28,331	55.2%	275,393	122,992	44.7%
17	81	679	1,472	4,042	5,188	7,262	4,692	453		23,869	12,407	52.0%	139,671	59,635	42.7%
18	98	665	1,455	4,071	6,521	10,808	7,809	711		32,228	19,428	60.3%	134,160	62,966	46.9%
19	57	446	894	2,868	4,609	7,906	5,833	484		23,049	14,225	61.7%	80,574	35,495	44.1%
20	102	682	1,373	3,265	4,316	5,936	4,500	473		20,647	10,909	52.8%	129,409	49,443	38.2%
21	128	694	1,360	3,949	5,894	8,328	6,855	772	1	27,910	15,954	57.2%	132,634	57,619	43.4%
22	361	1,162	2,072	4,937	7,107	8,684	7,104	814		32,231	16,602	51.5%	154,729	59,327	38.3%
Not Assigned	9	10	11	25	26	13	7	3		104	23	22.1%	66	27	40.9%
Total	2,239	15,205	34,566	94,398	143,236	297,069	221,036	19,832	1	827,722	537,997	65.0%	2,955,619	1,386,594	46.9%

Source: End-of-Year Enrollment Files for FY 1999 - FY 2001 maintained at the Austin Automation Center.

Priority 7 Veteran Population Projection by State as of 9/30/2002

STATE	*Priority 7*
ALABAMA	238,715
ALASKA	36,494
ARIZONA	253,924
ARKANSAS	119,483
CALIFORNIA	1,265,007
COLORADO	218,009
CONNECTICUT	158,201
DELAWARE	44,777
DISTRICT OF COLUMBIA	23,635
FLORIDA	883,266
GEORGIA	394,607
HAWAII	54,943
IDAHO	57,864
ILLINOIS	502,354
INDIANA	304,172
IOWA	128,495
KANSAS	115,323
KENTUCKY	189,955
LOUISIANA	185,842
MAINE	76,289

Priority 7 Veteran Population Projection by State as of 9/30/2002—Continued

STATE	*Priority 7*
MARYLAND	296,798
MASSACHUSETTS	280,784
MICHIGAN	488,031
MINNESOTA	229,020
MISSISSIPPI	106,360
MISSOURI	296,595
MONTANA	45,363
NEBRASKA	70,768
NEVADA	122,256
NEW HAMPSHIRE	71,330
NEW JERSEY	348,246
NEW MEXICO	87,946
NEW YORK	672,474
NORTH CAROLINA	376,443
NORTH DAKOTA	24,869
OHIO	551,307
OKLAHOMA	162,889
OREGON	181,727
PENNSYLVANIA	610,029
RHODE ISLAND	47,412
SOUTH CAROLINA	214,241
SOUTH DAKOTA	36,322
TENNESSEE	267,954
TEXAS	866,942
UTAH	72,624
VERMONT	30,251
VIRGINIA	373,058
WASHINGTON	313,182
WEST VIRGINIA	92,669
WISCONSIN	253,582
WYOMING	24,412
PUERTO RICO	70,328
Total	12,937,564

HOUSEHOLD INCOME OF PRIORITY 7 ENROLLEES

In 1999, VHA Office of Policy and Planning conducted a survey of veteran enrollees, "The 1999 Survey of Veteran Enrollees' Health and Reliance Upon VA". The major purpose of the survey was to provide national and VISN level input into actuarial enrollment, utilization and expenditure projections for use in the Secretary's annual enrollment level decision analyses and other policy analyses. There were some 20,000 respondents to the telephone survey and results were weighted to be representative of all 3.6 million veterans who were enrolled as of February 1999. Surveyed veterans were asked to say which income group their total household income fell within: <$16k, $16,001–$25K, $25,001–$35K, or $35,001 or over, and most surveyed veterans provided a response.

The following table shows the results from the 1999 Survey of Enrollees for Priority 7 enrollees responding to the question of total annual household income. This table does not include data on assets, which is also used to determine eligibility for Priority Level 7 status.

TOTAL ANNUAL HOUSEHOLD INCOME

Income	Percent	Cumulative Percent
<$16K	14.11	14.11
16K–25K	24.28	38.39
26K–35K	23.01	61.40
>35K	38.60	100.00

NOTE: Generally, income of enrollees is self-reported to VA and has not been validated recently, and income reporting is only required of veterans who must be means tested. Priority 7 veterans do not have to report income if they agree to make

copayments. Thus, surveys are often good sources for more complete and accurate data on veteran incomes.

Question. VA tells us that the number of Priority 7 veterans in the VA system is skyrocketing. Do you think this is because of VA's Prescription Drug benefit?

Answer. VA is currently looking at this issue and is also working with the General Accounting Office who is conducting an independent study of this issue. It is recognized that VA fills the gap by providing uncovered services such as prescriptions for many of our nation's veterans. For many Priority 7 enrollees, the VA health care system is a "safety net", costing nothing to enroll and paying for services as they are needed/used. VA has realized a tremendous increase in demand for health care services from veterans in recent years. The total number of patients has increased by over 11 percent from fiscal year 2000–2001. The growth rate for Priority 7 medical care users has averaged more than 30 percent annually for the last 6 years, and they now comprise 33 percent of enrollees in the VA health care system. Based on current law, this percentage is expected to increase to 42 percent by 2010. These increases reflect the fact that very few Priority 7 veterans were treated before eligibility reform. In addition, many Priority 7 veterans rely on the VA for only a portion of their care and pharmacy accounts for a greater portion of their overall cost of care than that for all other priorities. VA's pharmacy benefit and copayment structure remains an attractive choice for these veterans.

Question. Do you think that VA is faced with absorbing this new demand because of a lack of national policies to address the aging of America and the collapse of many HMOs?

Answer. We believe these are two of the significant factors affecting veteran's desire to access VA health care. VA health care integrates a full continuum of care for veterans of all ages, including mental health services and prescription drugs. VA also emphasizes preventive care and leads the nation in many measures of performance in this regard. VA also provides many services that are tailored to meet the needs of service-disabled veterans. So, in addition to the economic factors, we believe many patients come to VA because of the quality of care that we provide.

Question. Does VA know how many Priority 7 veterans have other health insurance?

Answer. Currently, we have identified that approximately 18 percent of all veteran users of VA health care have billable health insurance. This reflects the fact that VA is prohibited by law from billing Medicare and Medicaid. In addition, Health Maintenance Organizations (HMOs) and Preferred Provider Organizations (PPOs) do not recognize VA as preferred providers and consequently do not usually pay. Of the billable insurance identified, one-third is generated from Fee for Service policies and two-thirds from Medigap policies. This information reflects the findings from a national contracted survey. Although we do not have priority-specific information from this survey, based on the higher incomes of Priority 7 veterans, we suspect they have a higher percentage of billable insurance than average. We are examining ways to obtain more accurate information about insurance coverage by all veterans.

Question. Are veterans required to tell the VA if they have other health insurance?

Answer. Veterans are asked, but not legally required, to disclose health insurance information to VA. Legislation is under consideration within the Administration to require veterans to disclose health insurance information.

Question. What authority does VA have to require this deductible?

Answer. VA does not currently have authority to require this deductible and has thus proposed legislation that, if enacted, would authorize the deductible.

Question. Does it require a specific change to the authorizing statutes?

Answer. Yes, and VA has proposed legislation to make the change.

Question. VA estimates that it will collect an additional $400 million as a result of this new cost share proposal, and that this funding will go back into the system to pay for veterans' care. But VA couldn't accurately estimate its total number of patients for this year. How can we be sure that VA is able to accurately estimate this savings?

Answer. In an effort to improve our workload projection capability, VA enlisted the support of a well-known actuarial firm, Milliman USA, to provide us with assistance in making forecasts of the patient population. This has placed us in a much stronger position to evaluate, and account for, the impact of a variety of different factors on the size and distribution of our future patient population. The Department's fiscal year 2003 budget is the first to present workload projections that reflect the expert assistance of this actuarial firm.

Milliman USA projected the reduced workload usage associated with this cost sharing proposal. Approximately 10 percent fewer Priority 7 patients will likely use

VA health care services altogether. There will be an overall 31 percent reduction in workload expenditures, since many patients who remain will use fewer VA services when faced with this charge. We project $885 million in savings directly related to the 31 percent workload reduction. Collections in fiscal year 2003 from the proposed cost sharing initiative are estimated at $260 million.

Question. The VA also tells us that if Congress rejects the cost share proposal, we will have to appropriate an additional $1.1 billion. Again, if VA couldn't accurately estimate its total number of patients for this year, how can we be sure that VA is able to accurately estimate this cost?

Answer. In an effort to improve our workload projection capability, VA enlisted the support of a well-known actuarial firm, Milliman USA, to provide us with assistance in making forecasts of the patient population. This has placed us in a much stronger position to evaluate, and account for, the impact of a variety of different factors on the size and distribution of our future patient population. The Department's fiscal year 2003 budget is the first to present workload projections that reflect the expert assistance of this actuarial firm. In addition, this budget does incorporate a "Base Health Care Demand Adjustment" initiative that identifies and requests the resources required to support an actuarial estimate of the demand and case mix changes needed for all seven patient priorities in fiscal year 2003. Because of this initiative, the fiscal year 2003 budget estimates should better account for the relationship of planned workload requirements and the full funding needed.

PRESCRIPTION DRUGS

Question. Can the VA quantify how the lack of a Medicare benefit impacts the VA health system?

Answer. As mentioned above, VA and the GAO are looking at the impact of the lack of a Medicare benefit for prescription drugs on VA health care. More than 50 percent of VA users are Medicare enrolled. Priority 7 Medicare enrollees increased 138 percent between fiscal year 1999 and fiscal year 2001. Based on fiscal year 2000 data, age 65+ Priority 7 pharmacy costs accounted for 29 percent of their total cost, compared to 13 percent of the total cost for Priority 1–6, age 65+.

Question. What is the VA's Prescription Drug benefit? How does the VA's program work?

Answer. VA provides medically necessary pharmaceuticals to enrolled veterans if prescribed by a VA authorized physician. This includes prescription and over-the-counter medications (OTC), as well as medical and surgical supplies. For over 50 years, VA has used drug formularies or drug lists. Over the years, the VA formulary has evolved from a static list of drugs that are available to VA physicians and patients to a dynamic process where the use of drugs is actively managed using the objective evidence culled from the medical literature.

Today, drug use in VA is managed through the VA National Formulary (VANF) process. The VANF process has a centrally managed drug list which is considered its core formulary (i.e., drugs listed on the VANF must be made available at VA medical treatment facilities, however, each VISN has the option of establishing a VISN formulary which can be used expand the list of drugs available through the VANF to meet the unique needs of a VISN). The VANF also incorporates a non-formulary request or waiver process whereby medically necessary drugs which are not included on the VANF or on the VISN formularies may be requested by individual physicians to meet the needs of individual patients.

Except for a very small number of exceptions, outpatient prescriptions are filled exclusively in VA operated pharmacies. Mail prescription service is provided through VA Consolidated Mail Outpatient Pharmacies (CMOPs), while in other cases, prescriptions are made available for pick-up at pharmacies located in VA medical treatment facilities. Maintenance medications are generally supplied in 90-day quantities though the VA CMOPs.

VA's pharmacy benefit also includes a co-pay system. In February 2002, the co-pay was increased from $2 for each 30-day supply of medication to $7 for each 30-day supply. Medical and surgical supplies and any medications used to treat a service-connected condition are generally exempt from co-payment. In addition, some veterans are exempt from all prescription co-payments (i.e., veterans that fall below the means test threshold and veterans who are greater than 50 percent service connected.

Question. How much does VA spend each year on pharmaceuticals?

Answer. In fiscal year 2000 VA spent $2.2 billion on pharmaceuticals, and $2.5 billion in fiscal year 2001. The estimate for pharmaceutical expenditures in fiscal year 2002 is $2.9 billion and fiscal year 2003 is $3.3 billion. VA manages costs by utilizing generic drug products whenever possible, by encouraging the appropriate

use of drugs through the VANF process, by lowering unit costs through standardization contracting, by decreasing the cost of the distribution of bulk drugs products through a Pharmaceutical Prime Vendor, by lowering the cost of dispensing prescriptions through the use of VA CMOPs, and by dispensing chronic medications in 90-day supplies.

Question. In December 2000, VA's Inspector General (OIG) recommended changes to make VA's prescription benefit more efficient. One of the recommendations is for the VA to fill privately written prescriptions. The Inspector General estimated that this would save VA over $1 billion per year. What is VA's response to this recommendation?

Answer. VA does not support the OIG's recommendation. OIG recommended that VA stop providing medical care and only provide pharmaceuticals. VA contends that this recommendation would lead to fragmentation of care and that it is not in the best interests of veterans. Additionally, if VA were required to fill privately written prescriptions for any veteran, the system would be overwhelmed due to insufficient infrastructure and resources to accommodate the additional workload. Using current expenditures, it is estimated that for each one million veterans who are provided the pharmacy benefit, VA's costs would increase by $1 billion annually. Further, VA would need to increase its staff of pharmacists by a very large number in an environment where they are in short supply and are able to command increasingly high salaries.

Question. What mechanisms does VA use to manage: drug use? distribution of drugs? costs?

Answer. To manage the appropriateness of drug therapy, the distribution of drugs, and the costs of drugs, VA uses a variety of formulary management mechanisms and techniques. VA created a Service Line call the Pharmacy Benefits Management (PBM) Strategic Health Care Group in 1995 to coordinate the VANF process and encourage the appropriate use of drugs by veterans. The VANF process involves several tools designed to encourage the appropriate use of medications and to positively impact the unit cost of drugs. Some of the tools include the development and dissemination of evidence-based clinical guidance [Drug Use Criteria, Pharmacologic Management Algorithms, Drug Monitoring Criteria, Drug Class Reviews and other clinical guidance documents, managing drug utilization data to impact prescribing behavior, performing national standardization contracting, encouraging improvements in inventory management, and engaging in pharmaceutical outcomes research.

To manage the distribution of pharmaceuticals to VA treatment facilities, VA uses a Pharmaceutical Prime Vendor, which distributes products to VA facilities at prices that are negotiated with the drug manufacturers. The current contract results in savings of over $50 million per year for VA below the VA contract price for pharmaceuticals. Distribution of drug products to individual veteran outpatients is accomplished by dispensing at VA treatment facilities and through VA mail prescription service. Over 50 percent of all VA prescriptions dispensed are mailed to veterans.

As a result of these initiatives, the average cost of a 30-day supply of medication in VA has increased very little over the past 3 years.

Question. And VA is able to do this without compromising the quality of care for veterans?

Answer. Yes, all indicators of care reflect improvements in veterans care. These include but are not limited to measures in the care of diabetes and blood cholesterol. In the Congressionally mandated study on the VA National Formulary, the Institute of Medicine concluded that there is no indication that the quality of care in VA has decreased as a result of the VANF process. Additionally, in its studies of the VA formulary management process, GAO concluded that the VA formulary process is clinically sound and that it meets the needs of veterans.

Question. VA's formularies help contain cost, while still ensuring that veterans have access to the best medical care. How are these formularies developed?

Answer. The foundation for formulary management decisions is a comprehensive review and analysis of the published medical literature. These reviews and analyses, performed by VA clinical staff, result in evidence-based decisions regarding which products should be included on the VANF, how those products should be used, and the place in therapy of those products relative to alternative drug therapies. The review processes focus primarily on a drug's safety and effectiveness, as well as on other measures of quality. Cost considerations, while important, are secondary to quality considerations when determining a drug's formulary status and place in therapy in VA.

Final decisions on formulary management are made by two groups of field-based clinical staff in VA. These two groups are the VA Medical Advisory Panel (MAP) and the VISN Formulary Leaders Committee (VFL). The first group is comprised

of 12 VA practicing physicians and one Department of Defense physician. This group provides physician oversight of the VANF process. The second group is comprised of 21 pharmacist or physician representatives from each of the 21 VA VISNs, the Director of the VA CMOP program, a National Center for Patient Safety pharmacist representative, a pharmacist representative from VA's National Acquisition Center (NAC), and a pharmacist representative from the Department of Defense's Pharmacoeconomic Center (PEC). VA physician subspecialty representatives groups are often invited to provide input on issues of interest prior to MAP and VFL formulary decisions.

VA offers one of the most generous pharmacy benefits and does so at an affordable cost, due to the managed formulary process. With rare exception, all available therapeutic drug classes of drugs available in the United States are represented on the VANF. The VA formulary management process provides a high level of access to pharmaceuticals for VA clinicians and veteran patients. VANF drugs comprise approximately 92 percent of all drug dispensing in VA, while VISN drugs comprise an additional 6 percent. Considering that VA provides medical/surgical items and OTC products, it is inarguable that the VA formulary process meets the needs of veteran patients and VA clinical staff.

Question. In January 2001, GAO reported some networks were not applying the formularies in a standardized way. Some networks were adding and omitting drugs on an ad hoc basis. What is VA doing to ensure that there are national standards for all VA networks—so that all veterans have access to the same drugs—no matter where they are?

Answer. VA has rewritten its policy on the national formulary process to address GAO's concerns, has made adherence to the VHA Directive on the VANF a topic for discussion in many forums with VA pharmacists and clinical leaders, and has made explicit requirements in the Directive for national, regional, and local clinical and administrative staff.

VA has taken the following specific actions: development of a template for VISNS to use for considering drugs for inclusion on their VISN formularies; review of all formulary actions taken by VISNS and distribution of that information among VISNS, requiring a national review of all New Molecular Entities approved by the FDA before a VISN can add it to its formulary, and a requirement that if a medication is added to 10 or more VISN formularies, a national review and decision will occur. Additionally, VA has added a requirement that if a veteran has therapy initiated in one VISN and transfers his care to another VISN, that the therapy will not be changed due to any variations with VISN formularies. Lastly, VA has started to review access to pharmaceuticals (down to the individual facility level) where there could be potential problems (i.e., drugs which are high cost, under used, over used, etc.) and is reporting that data to VISNs on a regular basis with a request for follow-up.

Question. How could VA's pharmacy benefits management initiatives serve as benchmarks for a future Medicare drug benefit?

Answer. VA's comprehensive approach of addressing the contracting, distribution and clinical use of drugs clearly demonstrates that evidence-based formulary management can reduce cost while maintaining or improving the quality of care and access to pharmaceuticals.

Evidence-based formulary decisions and contracting within a therapeutic class can manage cost and not compromise the quality of care. VA has been able to achieve high compliance to both the formulary and contracts. Utilization management through the use of disease and drug treatment guidelines also has application. Key to the success of either program is organizational buy-in. VA utilizes practicing physicians within the VA system as decision makers. Additionally, VA uses experts within the health care system when decisions are to be made in specific diseases, i.e., HIV/AIDS, diabetes.

Additionally, the use of a Pharmaceutical Prime Vendor, a Consolidated Mail Outpatient Pharmacy and clinical pharmacists who can help manage individual patient care would positively impact the system. Of course, considerable opposition to the inclusion of some of these tools in a Medicare drug benefit by various stakeholder groups should be anticipated.

Question. VA recently increased the Prescription Drug copayment from $2 to $7. How did the VA arrive at this amount?

Answer. VA may not require a veteran to pay an amount in excess of the actual cost of the medication and the administrative costs related to the dispensing of the medication. VHA conducted a study of the pharmacy administrative costs relating to the dispensing of medication on an outpatient basis and found that VA incurred a cost of $7.28 to dispense an outpatient medication even without consideration of the actual cost of the medication. This amount covers the cost of consultation time,

filling time, dispensing time, an appropriate share of the direct and indirect personnel costs, physical overhead and materials, and supply costs. It was thus determined that $7.00 would be an appropriate co-payment.

Question. Does the VA plan further increases or adjustments to the co-pay? What process will be used to determine any future changes to the co-pay?

Answer. The amount of the medication co-payment will be reviewed on an annual basis. Increases will be based on the Prescription Drug Component of the Medical Consumer Price Index.

NURSING SHORTAGE

Question. Does the VA agree that a quality work environment for VA nurses translates directly into quality of care for our veterans?

Answer. VA agrees that a quality work environment for nurses translates into quality of care for our veterans. Research has shown a strong link between positive nursing work environments (including the involvement of nurses in decisions that can have impact on patient care) and enhanced patient outcomes.[1]

The American Nurses Credentialing Center's (ANCC) Magnet Hospital Recognition Program is designed to recognize excellence in nursing care based on a quality work environment.[2] Research has shown that magnet hospitals demonstrate outstanding outcomes in patient and staff satisfaction, staff productivity, and reduced length of hospital stay for patients. The Tampa VA Medical Center is the first in VHA to have attained Magnet status.

Question. More and more, VA nurses are asked to perform duties that are not directly related to the care of veterans—like administrative and janitorial duties. But the VA doesn't allow nurses to negotiate over these duties. How does this affect retention of VA nurses? The quality of care for our veterans?

Answer. The Report of VHA's Nursing Workforce Planning Group states: "In VA, nurses are routinely required to "substitute" for absent allied or ancillary staff, such as laboratory or clerical support, simply because in the past there have always been nurses present in the care environment to do so. This substitution for other workers diminishes nurses' capacity to provide nursing care and worsens the effect of the nursing shortage."

VA recognizes that while the quality of our veterans care remains high, such utilization takes nurses and other healthcare providers away from patient care processes and results in strong employment dissatisfaction that impedes both retention and recruitment of staff.

Question. Would giving nurses collective bargaining authority provide a "double value" by both increasing the "quality of life" for nurses, and "quality of care" for veterans?

Answer. The Congress, in section 7422, title 38, U.S.C. extended collective bargaining rights to title 38 personnel to include nurses.

VA nurses currently have and utilize all collective bargaining authorities available to Federal employment. In addition, VA nurses are active participants in partnership councils at all levels of the organization.

Question. The VA Nurses Recruitment and Retention Act created a National Commission on VA Nursing. What is the status of this Commission?

Answer. The membership of the Commission has been appointed. The Commission will hold its first meeting in May 2002.

Question. Could the Commission look into the collective bargaining issue?

Answer. Yes. The Commission has been charged to consider legislative and policy changes to enhance recruitment and retention of nurses, and to make recommendations in these areas as appropriate.

Question. What other steps is the VA taking to recruit and retain nurses?

Answer. Understanding the gravity of the future nursing shortage situation, VA recognized the need to bring together nursing and health care management experts to fully explore all issues that have an impact on VA's ability to maintain a highly qualified nursing workforce. As a result, the Future Nursing Workforce Planning Group (Planning Group) was established in August 2000.

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[1] Aiken, L. et al. "Nurses' Reports on Hospital Care in Five Countries," *Health Affairs*, May/June 2001, 43–53.

Havens, D. S., & Aiken, L. H. (1999). Shaping systems to promote desired outcomes: The Magnet Hospital Model. *JONA, 29*(2), 14–20.

[2] ANCC refers to Magnet status as representing a culture of excellence that includes: nurses who have the status needed to influence people and procure necessary resources; good collaboration between nurses, physicians, and administrators; and established systems needed to insure nurse participation in policy decisions.

In January, VHA released A Call to Action—VA's Response to the National Nursing Shortage. The report is the product of VA's National Nursing Workforce Planning Group whose membership was made up of nurses from a variety of positions, labor partners, VA medical center administrators, and Human Resources experts. This group consulted with national experts in nursing, government and academe, conducted an extensive review of the literature and met with VA employees. What emerged as a result is a frank discussion of VA's ability to compete in today's nursing labor market and the barriers that impede nurse retention, recruitment and utilization. Recommendations for diminishing these barriers are presented; they range from the need for legislative initiatives to the need for flexibility and respect in the work environment.

To disseminate the Report's content, VHA has held policy level briefings and produced a national broadcast for all employees using the VA Knowledge Network. The report and its recommendations will be the subject of national meetings and will be considered by the VA Workforce Task Force and the National Commission on VA Nursing.

VA has placed significant emphasis on the education and training of its nurses. The National Nursing Education Initiative (NNEI), implemented in March 2000, is a VA established subcomponent of the Employee Incentive Scholarship Program (EISP) that supports educational opportunities for VA's registered nurses to expand their formal education. It helps ensure that VA nurses are educationally prepared to provide the highest quality of health care to veterans across the full range of clinical practice roles. Additionally, the NNEI will prepare nurses for their new and evolving roles as VA continues its transformation from a hospital-based system to one that focuses on primary care and care management in outpatient, home, and community settings. As of September 30, 2001, the NNEI accounted for nearly 90 percent of all the EISP participants. Academic year 2000–2001 was the first full year of operation of the NNEIEISP. At the conclusion of fiscal year 2001, 2,087 VA employees had been awarded EISP scholarships, including 1,870 registered nurses under the NNEI subcomponent. The total cost of these scholarships, many of which are multi-year awards that in some cases continue into academic year 2005–2006, is approximately $23.3 million. The portion of the EISP funding that was specifically for the NNEI amounted to $21.3 million.

Additionally VA has increased its emphasis on recruitment outreach for registered nurses. In fiscal year 2001, VA has more than doubled the number of the number nursing conventions, job fairs and other recruitment forums where it sponsors exhibits to promote VA as an employer of choice. Similarly, VA has increased its nationwide advertising which includes eye-catching display ads prominently placed in major newspapers and professional journals and internet advertising with links to VA's health care recruitment web site.

VA is in the process of implementing the Education Debt Reduction Program (EDRP) that provides the authority to implement to help recently appointed health care employees such as nurses reduce the interest and principle on government and commercial loans that they obtained to fund their health care education. It appears that some concerns with the National Partnership Council have been resolved and that the award process will begin in the very near future. The EDRP is expected to be a highly effective tool for recruiting nurses.

As another initiative, a senior VA nurse executive is now a member of the staff of the Healthcare Staff Development and Retention Office to facilitate the utilization of existing recruitment and retention programs and the creation of new programs.

Question. What will the VA spend on these initiatives in 2003?

Answer. Up to $10 million will be spent on the NNEI in fiscal year 2003 and $1.7 million is in the budget for VA Learning Opportunities Residency Program (VALOR). About $5 million is available for the EDRP. The lion's share of the VA's national health care advertising budget, which totals about $1.5 million, will be shifted to nursing.

Question. How can the VA–HUD Subcommittee help bolster these initiatives?

Answer. It is critical that VA be a competitive employer of new nursing graduates. The VA Learning Opportunities Residency Program (VALOR)[3], which has had a positive impact on nurse recruitment in the past and has won national acclaim, is a rich source of new nurses. VA will promote a positive work environment for nurses

[3]The nationally acclaimed Veterans Affairs Learning Opportunities Residency Program (VALOR) is an honors program administered by local VA facilities but funded centrally. VALOR provides specialized summer educational and clinical experiences to nursing students with GPA's of 3.0 or higher. Participants are paid 80 percent of RN pay and if they elect VA employment after graduation they are given special salary consideration. In fiscal year 2001 there are 267 VALOR students being supported in 77 VA medical centers.

and all employees and will continue to develop recruitment and retention strategies that enable competitive employment of a qualified nursing workforce.

COLLECTIONS

Question. The 2003 budget assumes that VA will collect $1.4 billion in 2003, an increase of about $500 million above the 2002 level. How much of this amount does VA estimate would come from the proposed $1,500 deductible?

Answer. An estimated $260 million revenue increase is expected to come from the $1,500 deductible proposal. This proposal is also expected to generate an overall net workload expenditure reduction of $885 million, for an overall reduction in the appropriation request of $1.145 billion for veterans' health services in fiscal year 2003.

Question. Last month, the VA's Inspector General reported on missed billing opportunities, backlogs of claims worth a billion dollars, and poor follow-up on bills. GAO has found similar problems about VA's collections efforts. What is VA doing to collect what veterans and taxpayers are owed?

Answer. For the past 4½ years VA has contracted with a private vendor to follow-up on third parties receivables over 90 days old. This contract has resulted in collections totaling $200 million at a cost of a little more than $4 million. This contract required the contractor to submit 5 additional follow-up letters to an insurance company for payment to VA for the service provided.

Additionally, the VHA Revenue Office is in the process of "testing" the concept of outsourcing follow-up activities between one VISN and the Allied Interstate Company (a collection company). For a period of 120 days, the company will attempt to resolve aged billing claims while on location in a VISN facility. This test will provide insight into how well a private sector billing company can provide outsourcing for billing services.

We have simultaneously encouraged VISNs to identify outsourcing opportunities, not only for follow-up activities, but also for coding and billing. A number of VISNs are in the process of developing statements of work for outsourcing and several others have issued solicitations.

Question. How much does VA spend on its collections efforts? For example, for every dollar spent on collections, how much does VA actually collect?

Answer. VA's cost to collect from third-parties is very difficult to compare with private industry's cost to collect. VA's measurement for this process is a cost to operate. VA's data systems cannot provide data for collections and costs to differentiate between first and third-parties. The cost accounting system records only total collections and cannot identify cost expenditures to the first and third-party level. There have been cost assessment studies done in prior years by contractors and one currently underway; both of which have shown (show) how the cost to collect/operate has declined over the past few years. This decrease in cost to operate can be attributed to a number of improvements in the process for billing and collecting of first and third-party receivables. These enhancements include the electronic generation of patient statements from one location, the receipt of payments for first party charges through a lock box bank, and the automatic posting of those payments to a patient's account. Additionally, improvements made to the third-party billing process include facilities using an Electronic Data Interchange (EDI) in the near future to submit bills to insurance companies electronically, centralization/consolidation of like collection functions, and outsourcing/contracting out follow-up activities.

Systems Flow, Inc., has been contracted to study and develop annual reports to Congress on an assessment and an interim evaluation of alternative business models presented in VHA's Business Plan for Revenue Collection. Systems Flow, Inc. reviewed three VISNs on various subject matters including cost to collect data. A draft based on preliminary data results (using December 2001 data) was issued February 12, 2002. The cost to operate on average for three VISNs for third-party collections averaged 22 cents to collect $1 and averaged 16 cents to collect $1 of total collections (first and third-party).

Question. Does the VA know to what extent it is owed by deadbeat third parties? Is VA able to estimate how much?

Answer. We are unable to systematically identify payers that routinely or frivolously deny payment of our claims. However, field staffs occasionally provide anecdotal information on the subject. Therefore, to provide an accurate response will require substantial systems development for monitoring and reporting on such occurrences. We anticipate a greater capacity to monitor such activity with advent of the Electronic Data Interchange (EDI).

Question. Why has the VA chosen to keep billing in-house, rather than contracting it out to the private sector, which has more experience in billing issues?

Answer. VA is in the unique situation of dealing with service connected and non-service connected veteran patients for billing purposes. Due to the various rules and regulations that deal with this situation, many private sector billing companies will have to modify their software in order to bill for VHA services. VHA's study of commercial-off-the-shelf billing products identified several vendors that could provide billing outsourcing with effective training and the upfront work with the VistA software to extract the episode of care information. To that end, the Office of Information's Software Design and Development section is in the process of making the VistA software "billing aware" so that it can be integrated with potential private sector billing companies. Another issue hindering the outsourcing of billing is obtaining security clearances for individuals performing billing work for a potential contractor. Security clearances must be obtained for each individual accessing the VHA computer systems. Further, the contractor must be physically located on VA property to stay within the VA computer systems firewall to preserve the security of the data. Another issue hindering the outsourcing of billing is the lack of consistent documentation and use of the Computerized Patient Medical Record System (CPRS) at all clinics within a medical center. These issues are being addressed by VHA management.

The VHA Revenue Office is in the process of "testing" the concept of outsourcing follow-up activities between one VISN and the Allied Interstate Company (a collection company). For a period of 120 days, the company will attempt to resolve aged billing claims while on location in a VISN facility. This test will provide insight into how well a private sector billing company can provide outsourcing for billing services. The Revenue Office will be conducting weekly conference calls on the status of this initiative with VISN 12, as well as receive monthly progress reports on the amount collected by Allied Interstate Company.

In addition, we have simultaneously encouraged VISNs to identify outsourcing opportunities, not only for billing, but also for coding and accounts receivable management. In fact, several VISNs have such outsourcing situations in progress and several others have issued solicitations. The VHA Revenue Office maintains a list of VISN/Medical Center contracts from across the country. This listing will be available to VISN/Medical Centers for information on contracts available.

The foregoing activities indicate a desire and commitment within VA to outsourcing options.

Question. Has VA been able to develop a list of "lessons learned" to maximize collections?

Answer. VHA has identified 24 action items to enhance revenue operations. Project Teams are pursuing the implementation of these action items in the areas of Billing, Coding, Insurance, Utilization Management and Accounts Receivable Management. These project teams will make recommendations for improvements to the Revenue program and develop training programs for facilities to implement best practices.

We are consolidating information into a central resource vehicle to assist field revenue staffs in maximizing their collection efforts.

WAITING TIMES

Question. What can the VA tell us about current waiting times? How long do veterans wait to get a doctors appointment? How long do they sit in the waiting room?

Answer. Eighty seven percent of primary care appointments and 83 percent of specialty care appointments are scheduled within 30 days of desired date. This measure includes ALL patients seeking an appointment. For new non-emergent patients seeking an appointment to primary care, the current waiting times is 58.7 days. In addition, 71 percent of patients reported that they waited 20 minutes or less to see their provider.

VHA tracks and monitors other information on waiting time to provide a richer context for evaluating performance. Information on performance for February 2002 is included in the table below. VHA tracks performance on these monitors over time to assess the effectiveness of corrective actions as well as to monitor the effect of other factors, such as eligibility changes and budgetary impacts on waiting times. Attachment A provides data on general trends of nationwide improvements for VHA's average wait times for primary care and specialty clinics.

OTHER VHA WAITING TIME MONITORS—FEBRUARY 2002

Measure	Specialty Clinic	Plan/days	Actual/days
Average next available primary care appointment	(Primary)	30	38

OTHER VHA WAITING TIME MONITORS—FEBRUARY 2002—Continued

Measure	Specialty Clinic	Plan/days	Actual/days
Average next available specialty appointment waiting time	Audiology	30	31.8
	Cardiology	30	35.8
	Eye Care	30	61.7
	Orthopedics	30	34.4
	Urology	30	41.1
Average primary care new appointment waiting time	(Primary)	30	58.7
Average specialty new appointment waiting time	Audiology	30	53.5
	Cardiology	30	35.7
	Eye Care	30	77.4
	Orthopedics	30	38.6
	Urology	30	45.5

Question. What are the goals for patient waiting time?

Answer. The Department level goals for waiting time for fiscal year 2003 are provided below.: The strategic goal for each of the performance measures below is 90 percent by 2006.

—89 percent of primary care veterans appointments will be scheduled within 30 days of desired date (excludes new enrollees who are pending scheduling of their first appointment);

—87 percent of specialist appointments will be scheduled within 30 days of desired date (excludes new enrollees who are pending scheduling of their first appointment); and

—72 percent of patients will report being seen within 20 minutes of their scheduled appointments at VA health care facilities.

Note: pending scheduling is defined as a patient who has requested their first appointment and is waiting to be scheduled.

Question. How were these goals developed?

Answer. In 1995, a survey was conducted for actual wait times, by clinic. The data were analyzed to determine which clinics had the most problematic wait times. Measures were prioritized for those clinics with the highest wait times. Targets were set based on community expectations based on literature searches and discussions with other managed care groups.

Question. What is the VA doing to develop a system to accurately quantify the current situation?

Answer. VHA has identified some immediate issues that must be addressed:

—The current "30 days measures" do not accurately reflect the experience of new patients.

—The present data exclude the wait time experience of new enrollees whose application for enrollment has been received but not processed and new enrollees who indicate a desire for primary care appointment that has not been scheduled.

VHA recognizes that data credibility is compromised as the current "VHA–OMB 30 day wait measure" appears to be far better than anecdotally reported wait experiences. Whether due to absence of available slot or other reasons, "waiting lists" of Veterans to be entered into the scheduling system are known to exist. "Waiting times" is an area of intense concern among facility and Network leadership.

In January 2002, VHA's Policy Review Board recommended and VHA's (Acting) Under Secretary for Health approved the following proposed actions:

—Improve construction and communication of current measures to better reveal wait experiences of both new and established patients in primary and specialty care.

—Transition OMB/GPRA/VA Strategic Measures to either supplement or replace "percent with 30 days" with average wait times for primary or specialty care categorized by "all patient" and "new patients"

—Include new patient wait data in primary and specialty care in all VHA wait times performance reporting

—Improve business processes to support improved data:

—Standardize the entry process for new enrollees, building on processes developed in VISN 8. This should include standard "pre-triage" questions to determine basic preference and reveal urgency of clinical needs at the time of enrollment. Consider use of triage clinics, if primary care slots not available. Incorporate principles of advanced access, including recommendations for primary care panel size range into standard entry process design.

—Formalize "electronic wait list" in VISTA to more consistently and accurately reflect demand across VHA, and reduce risk of enrollees lost to follow-up due to clerical error.
—Conduct periodic survey of new enrollees at defined periods after enrollment to assess their experience with waiting times.

Question. How much funding does VA anticipate devoting to quantify this problem in 2003?

Answer. The fiscal year 2003 budget includes a request for $159 million to improve access and service delivery.

CLAIMS PROCESSING TIMES

Question. What is the current processing time for claims?

Answer. The current (through February 2002) average completion time for rating claims is 222 days.

Question. What is the goal?

Answer. The fiscal year 2002 goal is 208 days.

Question. What lessons has the VA learned from past efforts to improve processing times?

Answer. Because of concern over the increasing VBA workloads and the length of time veterans were waiting for decisions on their claims, the Secretary established the VA Claims Processing Task Force. The Task Force was charged with assessing VBA's current operations and the impact of efforts to improve claims processing. The Task Force was asked to recommend measures and actions that would increase the efficiency and productivity of VBA operations, shrink the backlog, and reduce the time it takes to decide a claim.

The Task Force found that previous efforts to improve processing times had focused on the "back end" of the process—from preparation of the rating decision to award and decision notification. Nearly all clerical positions had been eliminated and replaced with additional "decision makers." The Veterans Services Representative (VSR) position was created, which has been assessed to include over 10,900 separate tasks (including clerical functions), any combination of which a VSR could be expected to perform on any given day.

It was the assessment of the Task Force that the broad scope of duties coupled with the administrative "clerical" functions actually reduced the time available for the VSR and the Rating Veterans Services Representative (RVSR) to make decisions. Little attention was paid to assuring proper and complete evidence development. As a result, claims were delayed time and time again as essential evidence was not solicited until months after the claim had been received.

We have learned that our attention must focus on the entire claims process, from the date the claim is received in the Regional Office to the time the final decision is made on the claim, including any appeals that might have been filed. The Task Force recommended specialization of claims processing in order to ensure complete and timely development, reduction of cycle time delays, improved quality of decisions and awards, and complete and understandable notification to claimants. In addition, the Task Force recommended re-establishment of a clerical position to handle the administrative function, thus freeing up more direct labor hours for the VSR and RVSR. We are confident that these actions will improve both the timeliness and quality of VBA decisions.

Question. How much funding does VA anticipate devoting to improving claims processing time in 2003?

Answer. For fiscal year 2003, $50 million has been budgeted for initiatives to improve claims processing. These initiatives focus not only on timeliness, but also on quality and other aspects of claims processing, and are not all short term initiatives. Examples are Virtual VA (VBA's imaging initiative), Systematic Individual Performance Assessment (SIPA), and Compensation and Pension Evaluation Redesign (CAPER).

Question. How many new employees?

Answer. These initiatives will require 106 additional FTE (20 for Virtual VA, 64 for SIPA, 6 for CAPER, and 16 for other VBA-wide initiatives).

Question. How will VA train new employees so they will be able to make a real difference?

Answer. Training programs have been created for delivery through a variety of media, but the cornerstone of training for both RVSRs and VSRs is the Compensation and Pension (C&P) Training and Performance Support System (TPSS). For RVSRs, formal training occurs over a period of 26 weeks. TPSS is supplemented with training by student and instructor guides that includes a variety of practical exercises. A great deal of time is also allotted for work with mentors, where stu-

dents are expected to demonstrate application of the knowledge they have obtained through success with live cases. For VSRs, formal training is outlined in the "VSR Field Guide". The Field Guide to VSR training website contains 48 weeks of training materials including the course curriculum, schedules, and all materials for instruction. Last year's VSR course design called for 12 weeks of initial instructor-led training. The purpose was to deliver uniform training in a compressed timeframe with as little impact as possible to the resources of the individual Service Centers. Stations would then continue training the remainder of the 48-week curriculum as trainees became more productive.

Question. How have the VA's new duty to assist requirements impacted processing times?

Answer. The Veterans Claims Assistance Act (VCAA) required that VBA readjudicate more than 98,000 previously denied claims, as well as review the 230,000 claims in our pending inventory at the time VCAA was enacted to ensure compliance with the Act. This major increase in our workload had a significant impact on the average processing times.

All VCAA claims have now been added to the inventory. At the same time, we have taken aggressive steps to increase rating production, which is the key to reducing the claims backlog and improving the timeliness of our decisions. From October 2001 through February 2002, VBA decided over 294,000 cases for a 5 month average of 58,800. This represents a 47 percent increase over fiscal year 2001 production levels. We expect our production to continue to increase as many of our recently hired employees gain additional experience and we begin to implement the recommendations of the Claims Processing Task Force.

We believe our increased production levels and the Task Force initiatives will now enable us to make major inroads into the pending inventory. Our goal is to reduce the pending rating inventory to 315,000 claims by the end of this year. Even though we project major reductions in our pending inventory, the average days to complete will continue to increase as we focus on completing the oldest claims in our inventory.

Question. Is the VA developing safeguards to ensure times won't get worse as it does more to help veterans develop their claims?

Answer. We have taken several steps to ensure our focus remains on timeliness and accuracy. We have developed output targets for each regional office, and established national standards for Veterans Service Representatives and Rating Veterans Service Representatives. We have established performance standards for regional office directors that include specific goals for improvement in the timeliness of rating claims, reduction in the pending inventory of claims, etc. These performance plans also state that if any goals are not met, the director must provide compelling mitigating reasons and identify actions being taken to improve the performance.

Wellness plans have already been requested of some station directors who have thus far failed to achieve goals specified in the performance plan. The wellness plan is a detailed analysis of the current situation, causes for the non-performance, and development and implementation of countermeasures. If wellness plans do not result in performance improvements and no mitigating reasons exist, appropriate administrative action will be taken.

We are currently piloting a recommendation from the Claims Processing Task Force to establish specialized teams within the claims processing functions of Triage, Pre-determination, Rating, Post-determination, Appeals, and Public Contact. The Triage team will assign work to the appropriate team or work the case in the Triage unit if an issue can be quickly resolved. The Pre-determination team will ensure complete and timely development of rating claims received from the Triage team. By addressing the current cycle time delays at the front end of both the rating and non-rating claims process, we expect significant improvement in the overall timeliness of claims processing. National implementation of this pilot will be complete by the end of this summer.

LONG TERM CARE

Question. What is the status of VA's implementation of long term care?

Answer. VA has implemented a number of the major long-term care provisions of the Millennium Act. Section 101(a), Nursing Home Care Eligibility, as implemented in February 2000. Further guidance was provided in November 2000 with issuance of VHA Directive 2000–044. Section 101(c), Extended Care Services and Extended Care Copayments, has been partially implemented with issuance of VHA Directive 2001–061 in October. This directive notes that VA will amend the regulations establishing the benefits package to include outpatient geriatric evaluation, adult day health care and home and community-based respite care. Home care, hospice/pallia-

tive care and inpatient respite were included in the benefits package under prior authority. The amended Medical Benefits Package, Copayments for Extended Care Services proposed regulation was published October 4, 2001. Final regulations were forwarded to OMB on March 14, 2002.

Section 102—Long—Term Care Pilots-are in progress at three VA sites (Dayton, Columbia, SC, and Denver, CO). The first veterans were enrolled in the pilot in mid-2001 and the final report to Congress will be submitted in April 2005, 9 months following the conclusion of the pilots. Section 103—Assisted Living Pilot—is in progress in VISN 20, Pacific Northwest. The first veterans were enrolled in this pilot in January 2002 and the final report to Congress will be submitted in October 2004, 90 days prior to the conclusion of the pilot. Lastly, implementation of Section 207—State Home Construction Grants—is nearly completed. Proposed regulations were published June 26, 2001 and were utilized to establish the fiscal year 2002 State Home Construction Priority List. Publication of final regulations is expected in April 2002.

Question. How much will VA spend on long term care in 2003?

Answer. VA projects that it will spend approximately $3.6 billion on long-term care in 2003. Of this amount, $3.2 billion is for institutional long-term care and $0.4 billion is for non-institutional long-term care.

Question. What is the status of the assisted living pilots?

Answer. VA's Assisted Living (AL) Pilot being conducted in Network 20 (Washington, Oregon, Idaho, Alaska) started admitting veterans in the pilot study group to AL facilities in January 2002. Contract issues and Institutional Review Board issues delayed implementation of this pilot program from the planned start of mid-2001, but all of these issues have now been resolved. The pilot will be conducted for 3 years, and the report to Congress on the outcomes will be provided 90 days prior to the completion of the pilot as required in the Millennium Act. VA's Health Services Research Centers of Excellence are conducting the evaluation of this pilot.

FORT HOWARD

Question. Will the VA continue to move forward with the Mission Change and Enhanced Use project underway at Fort Howard?

Answer. Yes. The Mission Change is currently in progress. The estimated date to complete the Mission Change is September 2002. In addition, the planning process for the revitalization of the Fort Howard campus into a "Continuum of Care Retirement Community" utilizing Enhanced-Use legislation has been initiated. There is a lot of interest in the project. This community concept would be a first in the VA, and may likely prove to be a model for other VA sites nationally where aging buildings and abundant property are a capital burden on the VA system.

Question. What changes can veterans, their families, and VA employees expect in the coming months?

Answer. The changes that veterans, their families, and employees will see in the upcoming months will be the progressive relocation of inpatient programs and administrative functions to other VAMHCS sites where excess capacity exists. The planned relocations will provide a better environment and accessibility for serving the health care needs of Maryland's veterans. No current program offered at Fort Howard will be eliminated. As most of the program moves are dependent upon various construction projects, the estimated date to complete the Mission Change is September 2002. The 32-bed Substance Abuse and Residential Rehabilitation Treatment Program (SARRTP) was relocated to Perry Point in February 2001. The Medical Care Cost Fund (MCCF) Office, also known as the Revenue Office, was relocated to Perry Point in June 2001. The Ventilator/Respiratory Therapy beds (12-bed unit) were relocated to Perry Point in December 2001. Other planned relocations and construction projects will follow this spring and summer. When the last of the inpatient moves are completed, the current Fort Howard primary care outpatient clinic will be relocated from the main hospital building to Building 249, which is located behind the existing hospital building and adjacent to the main parking lot.

Question. Will the outpatient services continue at the Fort Howard campus throughout the entire transition?

Answer. Yes. As noted above, when the last of the inpatient moves are completed, the current primary care outpatient clinic will be relocated from the main hospital building to Building 249. Veterans who are currently receiving primary care outpatient services will continue to receive these services without interruption during the transition. Although Building 249, which was built in 1992, is the newest building located on the Fort Howard campus, construction is scheduled to begin in April 2002 to make the space more functional for the needs of the primary care outpatient clinic.

Question. Veterans with inpatient needs will be referred to the Baltimore VAMC. What is the VA doing to prepare the Baltimore facility for its expected increase in workload? What facility improvements are being made? What is the VA doing to ensure that healthcare workers at the facility are able to provide quality customer service to an increased workload?

Answer. There will be no increase in inpatient workload at the Baltimore facility as a result of the Fort Howard Mission Change. The Baltimore facility supports the acute and critical care needs of veterans for the entire VAMHCS. Fort Howard is a sub-acute care facility. Upon completion of the Mission Change, the Fort Howard inpatient programs will be relocated to more modern and comfortable accommodations at the Perry Point and Loch Raven facilities. Over $7 million has been allocated for construction projects to accomplish the planned relocations (see attached list). The transfer of patient workload and staff from Fort Howard to the Perry Point and Loch Raven facilities will increase workload at these two locations; however, the overall system workload will not increase. Employees have been given the option to relocate with their programs, as appropriate. We believe that the veteran population will benefit from the planned relocations, and the current level of quality care and customer service will be maintained.

FORT HOWARD MISSION CHANGE PROJECT COST SUMMARY

Site	Project title	Project number	Project cost
	Fiscal Year 2000 Funding:		
LR	Renovate BRECC1 For Rehab Therapy (Design/Construction)	512–00–166	$179,650
PP	Relocate Cardiology To 19H	512–00–321	246,372
LR	Rehab/Admin Bumpout Addition (Design)	512–00–168	52,500
LR	Renovate Animal Facility For Orthotics (Design)	512–00–167	83,000
PP	Renovate 22H For SARTP (Design)	512–00–320	44,843
PP	Add Bathrooms 23A (Design)	512–00–322	27,880
PP	Renovate 13H For Admin Svcs (Design)	512–00–323	0
	Subtotal		[1] 634,245
PP	Renovate 14A & B	512–319	[2] 3,920,000
	Fiscal Year 2000 Total		4,554,245
	Fiscal Year 2001 Funding:		
PP	Add Bathrooms 23A	512–00–322	152,500
FH	Renovate Bldg 249 (Design)	512–00–120	51,500
	Subtotal		204,000
	Fiscal Year 2002 Funding:		
LR	Rehab/Admin Bumpout Addition (Construction)	512–00–168	378,854
LR	Renovate Animal Facility For Orthotics (Construction)	512–00–167	400,000
FH	Renovate Bldg 249 (Construction)	512–00–120	375,000
PP	Renovate 13H For Admin Svcs (Construction)	512–00–323	390,071
PP	Renovate 22H For SARTP (Construction)	512–00–320	379,222
	Fiscal year 2001 and 2002 total		[3] 1,923,147
	Funding Pending:		
BT	Provide A&MMS Space in Warehouse	SB–01–104	359,000
BT	Renovate 2nd Floor Audiology		20,000
LR	Renovate B–4 basement area for EMS Offices & Linen Carts		75,000
LR	Convert EMS Linen Cart Rm In BRECC to Offices		25,000
LR	Add Offices In B–4 Near Security (w/o bathroom)		75,000
LR	Expand Dental Suite @ BRECC	SB–02–202	80,000
	Funding pending total		634,000
	Grand Total		7,315,392

[1] $486,000 received in FCP 073 in fiscal year 2000.
[2] $3,920,000 approved for 14H.
[3] $2.0M received in FCP 1934 in fiscal year 2002.

Question. Will the VA stick to the current timetable that calls for the Mission Change to be complete by September 2002, and for the Enhanced Use to be complete by January 2003?

Answer. The VAMHCS is doing everything possible to ensure the timelines presented to date are maintained. As most of the program moves are dependent on the

completion of various construction projects, the estimated date to complete the Mission Change is September 2002. The Enhanced-Use portion of the project is a more complex and difficult process to forecast. A contract was awarded to a consultant to conduct an Environmental Assessment and the historical, marketing, land planning, and financial feasibility studies for the Enhanced-Use portion of the project. These studies are necessary to properly validate the proposed concept and identify any potential concerns. The marketing, land planning, and financial feasibility studies have been completed. The historical study is currently under final review by the Maryland Historical Trust and the Historic Preservation Officer, VA Central Office. At or near completion of the Environmental Assessment, a formal request to continue pursuit of the Enhanced-Use portion of the project will be forwarded to VA Central Office for review and approval. Based on current estimations by the Office of Asset Enterprise Management, VA Central Office, the Enhanced-Use process takes approximately 12 months to complete which results in the awarding of a contract to a developer. It is unlikely that the formal Enhanced-Use process will be completed by January 2003 as previously planned.

Question. Has the VA bid the Enhanced Use portion of the project in January 2002 as planned? If so, was notice provided to the Committee? If not, what is the delay?

Answer. No. The formal Enhanced-Use process of the project was expected to begin in January 2002 with the submission of a Business Plan. This Business/Concept plan is the first step in the formal process leading to execution of an Enhanced-Use project. Subsequent steps necessary prior to "bidding" include plan approval, conducting a public hearing, and notification to Congress of the Department's designation of the site for an Enhanced-Use lease. As noted in the response above, prior to submission of the Business Plan (formal request to continue pursuit of the Enhanced-Use project) there are several studies that must be completed to properly validate the proposed project and identify any potential concerns. Most of these studies have been completed with the exception of the Environmental Assessment. At or near completion of the Environmental Assessment, a formal request to continue pursuit of the Enhanced-Use process will be forwarded to VA Central Office.

Question. If the State does not authorize a new State Veterans Home at Fort Howard, what impact will it have on the Enhanced Use plan?

Answer. If the State of Maryland does not authorize a new State veterans Home at Fort Howard, there will be no impact on the enhanced-use plan. If the State does not build at Fort Howard, the land will be utilized to further enhance the retirement community, as appropriate.

MAJOR CONSTRUCTION

Question. The 2003 budget request includes 4 seismic projects in California totaling $94 million. While each of the 4 projects are on VA's priority list, the request skips over projects that are identified by VA as a higher priority—for example, projects in Cleveland and Anchorage are of higher priority to VA, yet they are not requested. What is the rationale for this?

Answer. All of the mentioned projects are important to VA, however, when putting together recommendations for the President's fiscal year 2003 budget request the concern for the life and safety risk associated with potential seismic related structural failure of the listed facilities outweighed the Cleveland and Anchorage projects.

Question. What is the authorization status of each of the projects on the VA's fiscal year 2003 Priority Major Medical Construction Projects list? For each project that is authorized, please provide: the date the project was authorized, the legislative citation, and when the authorization expires. Please note each project that is not authorized. Please also note the CARES status of each project.

Answer. The proposed SCI/Blind Rehabilitation Project for Hines is the only project on the List of 20, which is currently authorized for expenditure of funding. This is also the only project associated with a completed CARES study.

Question. What are the VA's plans for the CARES process?

Answer. The VA's current plans for Phase II of the CARES process will begin in Spring 2002. Phase II will call for all of the remaining Networks to develop CARES plans based on actuarial projections provided, space and facility assessments and other guidance and criteria provided to them by VACO. Preparations in VACO have begun to initiate this process. All studies and decisions should be completed within the next 2 years.

MINOR CONSTRUCTION

Question. The Committee has not yet received notification of the fiscal year 2002 minor construction projects. Please provide this list to the Committee.

Answer. Attached are VHA minor projects that were approved by a Department wide workgroup (as required by the Committees) and included in the fiscal year 2002 operating plan. This plan may be revised as needed. VA will forward the operating plan to the Committees as revisions are made.

2002 Minor Operating Plan

Network No	Facility	Division	Project Number	Project Title	Budget Category	Cost Target [1/]	FY 2002 Planned Obligations [2/]
1	Togus VAM&ROC		402-265	Ambulatory Surgery	OP	$1,660,000	$145,000
1	White River Junction		405-063	Building#28 Renovations	OT	$1,326,599	$79,280
1	Bedford VAH		518-300	Renovate and Expand B-4 NHCU	IP	$3,983,750	$3,983,750
1	Boston HCS	Boston	523-331	AUDIOLOGY & SPEECH PATHOLOGY CONSOLIDATE	OP	$1,160,000	$1,020,000
1	Boston HCS	Boston	523-342	SUPPORT SERVICE MODIFICATIONS JP	OP	$1,240,000	$1,090,000
1	Boston HCS	W. Roxbury	523-337	PACU & SURGICAL STEPDOWN B1-3S	IP	$2,680,000	$2,380,000
1	Boston HCS	W. Roxbury	523-338	SURGICAL SUPPORT SPACE (WR)	IP	$735,000	$660,000
1	Boston HCS	W. Roxbury	523-343	SUPPORT SERVICE MODIFICATION, WR	PP	$1,255,000	$1,105,000
1	Boston HCS	W. Roxbury	523-344	Medical Nursing Unit B1-2S	IP	$2,156,250	$1,906,250
1	Boston HCS	W. Roxbury	523-346	INFRASTRUCTURE IMPROVEMENTS WEST ROXBURY	PP	$1,390,000	$1,290,000
1	Manchester VAMC		608-310	Relocate IPCU and NHCU Improvements	IP	$2,703,200	$230,000
1	Providence VAMC		650-330	RENOVATE DIAGNOSTIC SERVICES	OP	$2,605,000	$2,365,000
1	Connecticut HCS	West Haven	689-352	Ward Up-Grade	IP	$3,275,625	$2,875,625
1 TOTAL						**$26,170,424**	**$19,129,905**
2	Albany VAMC	Albany	528-301	Renovate ICU/CCU	IP	$2,790,107	$2,568,000
2	Canandaigua VAMC	Canandaigua	532-313	HVAC, PATIENT BUILDINGS 3 AND 9	IP	$3,840,000	$3,440,000
2	Syracuse VAMC	Syracuse	528-702	Expand Emergency Department	OT	$3,946,850	$3,532,000
2	Syracuse VAMC	Syracuse	528-704	Construct Addition for MRI Suite	OT	$2,900,000	$368,000
2 TOTAL						**$13,476,957**	**$9,908,000**
3	Bronx VAMC		526-314	Expand Eye Clinic	OP	$2,987,500	$300,000
3	New York Harbor HCS	Brooklyn	630-401	ER/ Admitting Area Upgrade	OP	$3,032,500	$2,787,500
3	New York Harbor HCS	Brooklyn	630-404	Hemodialysis Renovation	OP	$2,999,500	$250,000
3	New York Harbor HCS	Brooklyn	630-405	MRI/Urgent Care	OP	$2,925,000	$250,000
3	New Jersey HCS	East Orange	561-307	Upgrade Surgical Suite	IP	$3,398,750	$285,000
3	New Jersey HCS	East Orange	561-308	Consolidate MICU & SICU	IP	$3,918,750	$325,000
3	Hudson Valley HCS	Castle Point	620-319	Outpatient Dental/SPD	OP	$3,000,000	$2,750,000
3	Hudson Valley HCS	Montrose	620-322	Consolidate Outpatient Building 3	OP	$2,390,000	$240,000
3	New York Harbor HCS	New York	630-Q89	MODERNIZE CLINIC, 8W	OT	$2,778,560	$2,600,000
3	Northport VAMC		632-315	RENOVATE OUTPATIENT PSYCHIATRY	OP	$3,429,340	$3,150,000
3	Northport VAMC		632-316	RENOVATE ACUTE MED/SURG UNIT	IP	$2,875,000	$250,000
3 TOTAL						**$33,734,900**	**$13,187,500**
4	Wilmington VAM&ROC		460-302	Enhance Amb. Surgery	OP	$3,786,000	$3,451,000
4	Altoona VAMC		503-303	Expand Primary Care Clinics	OP	$3,700,000	$482,000
4	Butler VAMC		529-307	Expand Primary and Specialty Clinics	OP	$2,989,000	$280,000

2002 Minor Operating Plan

Network No	Facility	Division	Project Number	Project Title	Budget Category	Cost Target [1/]	FY 2002 Planned Obligations [2/]
4	Coatesville VAMC		542-306	RENOVATE BUILDING NO.59	IP	$3,811,850	$3,480,850
4	Philadelphia VAMC		642-314	Connecting Bridge to Nursing Home	OT	$1,601,500	$100,000
4	Wilkes-Barre VAMC		693-307	Renovate Ward 4W for Amb Care	OP	$2,669,000	$2,415,000
4 TOTAL						**$18,557,350**	**$10,208,850**
5	Maryland HCS	Baltimore	512-505	Surgical & Managed Care OPC Improvements	OP	$3,774,059	$3,324,059
5	Washington VAMC		688-320	OUTPATIENT SURGICAL CENTER	OP	$3,775,250	$3,321,250
5 TOTAL						**$7,549,309**	**$6,645,309**
6	Beckley VAMC		517-200	Specialty Clinics Expansion	OP	$1,479,000	$140,250
6	Beckley VAMC		517-305	Clinical Addition Phase 2	OP	$2,812,134	$2,659,800
6	Hampton VAMC		590-228	Renovate and Expand Hemodialysis	OP	$2,794,000	$2,544,000
6	Asheville VAMC		637-309a	Correct SPD Deficiencies	OT	$1,177,192	$1,177,192
6	Salem VAMC		658-301	Upgrade HVAC/Expand Amb. Care	OP	$1,167,000	$114,000
6 TOTAL						**$9,429,326**	**$6,635,242**
7	Augusta VAMC		509-317	ICU Renovation DD	IP	$3,677,443	$366,476
7	Charleston VAMC		534-312	Clinical Specialties Addition	OT	$3,900,000	$370,000
7	Columbia VAMC		544-311	Consolidate IP/OP Pharmacies	OP	$3,521,791	$3,113,567
7	Alabama Veterans HCS	Montgomery	619-111	Consolidate Business Office/Admin Functions	OT	$2,681,156	$2,681,156
7 TOTAL						**$13,780,390**	**$6,531,199**
8	Miami VAMC		546-102	HVAC UPGRADE	IP	$2,579,000	$2,315,000
8	San Juan VAMC		672-401	OPA BACKFILL BLDG. 1	OP	$2,997,465	$2,725,000
8	San Juan VAMC		672-701	DIALYSIS, FISCAL, PROSTHETICS RELOCATION	OP	$2,999,257	$2,729,257
8	San Juan VAMC		672-702	RENOVATE WARDS 4A,2D1 & 2D2	IP	$2,999,696	$2,729,696
8	San Juan VAMC		672-711	RENOVATE WARDS 2B2 & 2C2	IP	$2,995,000	$2,725,000
8	Tampa VAH		673-316	Construct Cath Lab 2	OP	$1,145,000	$150,000
8	Tampa VAH		673-405	Renovate CCU	IP	$2,968,000	$298,000
8	Tampa VAH		673-508	ORL AMB CARE IMPROVE, PH 2	OP	$2,688,000	$2,454,000
8 TOTAL						**$21,371,418**	**$16,125,953**
9	Lexington VAMC		596-310	Establish Ambulatory Surgery, Ph 2, CDD (C)	OP	$2,213,000	$2,153,000
9	Lexington VAMC		596-319	CONSOLIDATE PHARMACY OPS (C)	OP	$3,735,000	$3,435,000
9	Louisville VAMC		603-312	Create Public Restrooms	OT	$1,780,000	$1,615,000
9	Mountain Home VAMC		621-305	Relocate Surgical Suites, Bldg. 200	IP	$4,000,000	$400,000
9	Nashville VAMC		626-304	LABORATORY FUNCTIONAL & INFRASTRUCTURE IMPROVE	OT	$2,511,000	$262,000
9 TOTAL						**$14,239,000**	**$7,865,000**
10	Cincinnati VAMC		539-312	Primary Care Addition	OP	$3,895,000	$355,000
10	Cincinnati VAMC		539-313	Expand/Remodel SICU	IP	$3,357,000	$301,000
10	Cleveland VAMC		541-305	Renovate/ Relocate Hemodialysis	OP	$2,000,000	$2,000,000

2002 Minor Operating Plan

Network No	Facility	Division	Project Number	Project Title	Budget Category	Cost Target [1/]	FY 2002 Planned Obligations [2/]
10	Dayton VAMC		552-310	Install Central Air Conditioning, Bldg 410	IP	$2,530,000	$220,000
10 TOTAL						**$11,782,000**	**$2,876,000**
11	Danville VAMC		550-306	Replace Boilers (3) & Controls - Boiler Plant	PP	$3,744,000	$250,000
11	Indianapolis VAMC		583-320	EXPAND CLINICS & RELOCATE WAREHOUSE	OP	$3,996,000	$3,505,000
11	Saginaw VAMC		655-302	Renovate B22 Basement for MCCR	OT	$750,000	$690,000
11 TOTAL						**$8,490,000**	**$4,445,000**
12	Hines VAH		578-314	UPGRADE EM/STANDBY GENERATORS	PP	$3,657,500	$3,332,500
12	Hines VAH		578-319	RELOCATE/CONSOLIDATE ICU UNITS	IP	$3,771,750	$3,771,750
12	Hines VAH		578-321	EYE/ENT CLINICS B-200	OP	$2,232,500	$2,232,500
12	Hines VAH		578-323	RELOCATE CONSOLIDATE PHARMACY SERVICE	OP	$3,076,687	$2,875,625
12	Hines VAH		578-329	AMBUL. CARE SUB/SPECIALITY CLINICS 4TH FLOOR B-200	OP	$3,712,191	$3,450,750
12	Iron Mountain VAMC		585-030	Consolidate ICU - 3West	IP	$1,762,300	$1,762,300
12 TOTAL						**$18,212,928**	**$17,425,425**
13	Fargo VAM&ROC		437-304	Remodel For Surgical Nursing Unit	IP	$3,968,250	$3,630,500
13	Fargo VAM&ROC		437-305	Medicine Nursing Unit Renovation	IP	$3,884,832	$330,624
13	Sioux Falls VAH&ROC		438-383	Additional Clinic Space	OP	$3,640,000	$3,360,000
13	St. Cloud VAMC		656-315	Expand Ambulatory Care, Bldg. 1	OP	$3,975,000	$300,000
13 TOTAL						**$15,468,082**	**$7,621,124**
14	Central Iowa HCS	Des Moines	636-302	Correct Outpatient Deficiencies	OP	$2,362,000	$2,090,000
14	NE-W Iowa HCS	Iowa City	636-331	Renovate 7th Floor & 5 West	IP	$1,793,369	$1,793,369
14	NE-W Iowa HCS	Grand Island	636-324	Renovate Nursing Home Care Unit	IP	$3,545,163	$362,910
14 TOTAL						**$7,700,532**	**$4,246,279**
15	Wichita VAM&ROC		589-301	Consolidate Specialty Clinics	OP	$3,247,500	$3,247,500
15	Kansas City VAMC		589-313	RELOCATE PCU	IP	$2,300,000	$200,000
15 TOTAL						**$5,547,500**	**$3,447,500**
16	Gulf Coast HCS	Biloxi	520-303	WARD RENOVATION PATIENT PRIVACY, BLDG 2	OT	$2,760,000	$2,500,000
16	Fayetteville VAMC		564-221	EXPAND URGENT CARE AND PRIMARY CARE	OP	$3,646,220	$290,000
16	Houston VAMC		580-304	CONSOLIDATED MENTAL-HEALTH 6TH FLOOR	IP	$3,000,000	$2,750,000
16	Central Arkansas HCS	Little Rock	598-352	AMB.CARE/ER IMPROVEMENTS	OP	$1,797,700	$1,637,700
16	Central Arkansas HCS	Little Rock	598-354	Expand Research	OT	$4,000,000	$3,717,000
16	New Orleans VAMC		629-302	RENOVATE 9TH FLOOR FOR PTSD & MENTAL HEALTH	IP	$3,285,000	$275,000
16	Shreveport VAMC		667-042	Replacement O.R.s (Inpt. and Outpt.)	IP	$3,780,000	$3,438,000
16 TOTAL						**$22,268,920**	**$14,607,700**
17	North Texas HCS	Dallas	549-210	Patient Privacy/UFAS Def. Ph.6	IP	$1,700,000	$1,500,000
17	North Texas HCS	Dallas	549-306	Upgrade Bldg. 1, Mental Health PP/Safety Phase I	IP	$1,700,000	$200,000
17	North Texas HCS	Dallas	549-313	Ambulatory Care Renovation PHII	OP	$2,000,000	$1,800,000

2002 Minor Operating Plan

Network No	Facility	Division	Project Number	Project Title	Budget Category	Cost Target [1/]	FY 2002 Planned Obligations [2/]
17	North Texas HCS	Dallas	549-315	Patient Privacy/UFAS Def. Phase 7	IP	$1,700,000	$200,000
17	South Texas HCS	San Antonio	671-221	MICU RELOCATION	IP	$3,330,000	$3,330,000
17	Central Texas HCS	Temple	674-206	Domiciliary Programs Consolidation	IP	$1,912,000	$150,000
17	Central Texas HCS	Temple	674-280	Basement Renovation Bldg.204	PP	$980,000	$80,000
17 TOTAL						**$13,322,000**	**$7,260,000**
18	New Mexico HCS	Albuquerque	501-313	Mental Health Expansion	OP	$1,500,000	$150,000
18	Amarillo HCS		504-214	Expand Specialty Care	OP	$680,000	$620,000
18	West Texas HCS	Big Spring	519-302	Environmental Improvements - NHCU	IP	$2,800,000	$2,500,000
18	Phoenix VAMC		644-208	Relocate GI, Pulmonary, and Cardiology to 6th Flr	OP	$1,814,750	$1,644,750
18	Phoenix VAMC		644-209	Renovate Ward 4C	IP	$1,450,000	$132,000
18	Northern Arizona HCS	Prescott	649-401	RENOVATE 1ST FLOOR B107 FOR CLINICAL DIAG. SVC'S	OP	$1,123,000	$1,123,000
18	Northern Arizona HCS	Prescott	649-402	Renovate 2nd Floor B107 for Mental Health Clinic/S	OP	$1,115,000	$1,115,000
18	Southern Arizona HCS	Tucson	678-311	Ambulatory Surgery Consolidation	OP	$2,000,000	$200,000
18 TOTAL						**$12,482,750**	**$7,484,750**
19	Montana HCS	Ft Harrison	436-102	SEISMIC CORRECTIONS;BLDG 154A (AMB CARE)	OT	$825,000	$770,000
19	Montana HCS	Ft Harrison	436-103	SAME DAY SURGERY/RECOVERY RELOCATION	OP	$634,500	$580,500
19 TOTAL						**$1,459,500**	**$1,350,500**
20	Portland VAMC		648-307	Consolidation of ICU's. Bldg 100	IP	$3,987,649	$3,752,649
20	Portland VAMC		648-309	B-6 Seismic Corrections	PP	$2,633,150	$219,000
20	Portland VAMC		648-310	B-16 Seismic Corrections	PP	$2,822,250	$238,000
20	Roseburg HCS		653-317	Expand Radiology	OP	$3,076,900	$265,000
20	Puget Sound HCS	American Lake	663-322	Remodel Pharmacy, B81	OP	$1,551,000	$1,395,000
20	Puget Sound HCS	American Lake	663-325	Correct Seismic Defs. B6 (A)	OP	$2,742,950	$257,000
20	Puget Sound HCS	American Lake	663-328	Renovate B85, Floor 3 (A)	OP	$2,192,750	$189,000
20	Spokane VAMC		668-305	Renovate ACU Ward	IP	$1,485,000	$1,350,000
20 TOTAL						**$20,491,649**	**$7,665,649**
21	Central California HCS	Fresno	570-206	Remodel 6-East for Inpatient Psych	IP	$2,820,000	$2,820,000
21	Palo Alto HCS	Livermore	640-336	REPLACE HVAC, BLDG. 64	OT	$2,136,000	$1,926,000
21	Palo Alto HCS	Menlo Park	640-414	SEISMIC CORRECTION, B-137	PP	$2,867,000	$290,000
21	Palo Alto HCS	Palo Alto	640-340	RENOVATE DIETETIC AREA,BLDG 329	OT	$3,053,000	$300,000
21	Palo Alto HCS	Palo Alto	640-354	SEISMIC CORRECTION/PATIENT PRIVACY, B2 C-WING	PP	$2,990,000	$2,690,000
21	Sierra Nevada HCS	Reno	654-305	Operating/Recovery Room and ICU Suite Improvements	OP	$2,705,403	$289,864
21	San Francisco VAMC		662-314	Expand Ambulatory Care, Building 200, First Floor	OP	$2,790,675	$2,531,625
21 TOTAL						**$19,362,078**	**$10,847,489**
22	VA Southern Nevada	Las Vegas	593-201	MOFH Clinical Expansion	IP	$3,838,260	$324,360

2002 Minor Operating Plan

Network No	Facility	Division	Project Number	Project Title	Budget Category	Cost Target [1/]	FY 2002 Planned Obligations [2/]
22	Loma Linda VAH		605-310	OUTPATIENT RECONFIGURATION	OP	$3,895,000	$3,600,000
22	Loma Linda VAH		605-311	Operating Suite Expansion.	OT	$1,725,000	$1,725,000
22	Loma Linda VAH		605-312	Remodel Primary Care Module 4	OP	$870,000	$820,000
22	San Diego VAMC		664-316	CYSTOSCOPY REMODEL OR 8	OP	$620,000	$620,000
22	San Diego VAMC		664-318	ELECTROPHYSIOLOGY LAB 4 WEST	OP	$592,000	$592,000
22	Greater Los Angeles HCS	W. Los Angeles	691-327	B500 5th Floor Special Procedures	OP	$3,960,541	$3,617,500
22	Greater Los Angeles HCS	W. Los Angeles	691-328 WL	Prosthetic, Eye and ENT Clinics Center	OP	$3,793,012	$406,394
22 TOTAL						**$19,293,813**	**$11,705,254**
				GRAND TOTAL		**$334,190,826**	**$197,219,628** [2/]

[1/] The cost target column refers to the total project cost over several years.
[2/] Planned obligations for each project refers to the amount of funding VA intends to obligated this fiscal year.
[3/] The total unobligated funds available for VHA Minor Construction is $217,285,000. Additional projects may be reviewed and added to the operating plan. Revised plans will be forwarded to the Committees.

Question. In fiscal year 2002, the Committee provided $32 million above the budget request for minor construction projects. Please identify the projects funded as a result of this increase.

Answer. VHA received $17.2 million of the additional funds. Out of the $17.2 million, $6 million has been allocated to seismic projects and $11.2 million was distributed to the VISNs in support of their greatest minor construction needs. NCA received an additional $2.8 million, VBA an additional $10 million, and Staff Offices obtained an additional $2 million over the original 2002 request.

Question. What percentage of funding is for minor construction will support improvements to VA medical research facilities?

Answer. Based on the fiscal year 2002 minor construction applications and operating plan, only one project was identified for research. That project totaled $3.7 million and equates to 2.3 percent of the appropriation of $161.5 million.

Question. In fiscal year 2002, the Committee provided $25 million for CARES approved minor construction projects. How will VA allocate this funding?

Answer. VISN 12 received $17.5 million in CARES funding with $1.5 million set aside to fund design work for additional VISN 12 CARES projects. The remaining $6 million will be allocated to other approved CARES projects.

HOMELAND SECURITY

Question. VA's Fourth Mission is to serve as a backup to the DOD healthcare system in times of national emergency. What does VA propose to spend in 2003 to prepare for this mission?

Answer. VA's Preparedness Review Working Group identified a need to provide direct interface and exchange of data with the DOD patient evacuation system to be better prepared to assess hospital capability and capacity, track active duty casualties transferred to VA, and maintain casualty data within VA's VISTA system while military active duty patients are receiving treatment within VA's healthcare system. The report also recommended providing 1–800 access capability for information and location of military patients.

GERIATRICS

Question. The fiscal year 2002 Senate VA–HUD Report directed VA to report on the feasibility of extending geriatric fellowships to 2 years, and to make additional recommendations to make geriatric fellowship more competitive with the private sector. The Committee appreciates receiving this report.

While the report noted that VA had created a specialized 2 year geriatric fellowship, but did not address the issue of making all geriatric fellowships 2 years. What is the VA's response to this specific issue?

Answer. VA supports two programs for physician training in geriatrics. The first of these is geriatric medicine residency (or fellowship) positions in Accreditation

Council for Graduate Medical Education (ACGME)-accredited subspecialty residency training programs. The second program that VA supports is its Post-residency Special Fellowship Program in Advanced Geriatrics. VA established this program when some VA and non-VA geriatric leaders expressed concerns that 1 year of geriatric medicine subspecialty residency training was insufficient to educate leaders in geriatrics. They asked VA to continue its residency training and to develop advanced geriatric medicine training opportunities. VA agreed. Continuing to fund ACGME-accredited geriatric medicine and geriatric psychiatry residency training positions, it also established a 2 year VA Special Fellowship Program in Advanced Geriatrics.

VA believes that it is important to support both of these programs to meet the clinical needs of geriatric patients as well as to develop leaders in geriatrics for academic centers and health systems. The 1 year clinical residency programs accredited by the ACGME provide the credentials necessary for practice in the specialty of geriatrics. The program length is set by the accrediting agency. The 2 year, VA post residency Advanced Geriatrics Fellowship Program develops geriatrics leaders for VA and the Nation.

Question. What is the VA doing to actually implement the recommendations of the report?

Answer. VA established its Post-residency Special Fellowship Program in Advanced Geriatrics in 2000. This program is for post-residency physicians who have completed ACGME-accredited subspecialty residency training in geriatric medicine or geriatric psychiatry and want to lead geriatrics in academic centers and health systems. Fellows receive 2 years of additional training in geriatric research, advanced education, and advanced clinical care. Fellows spend approximately 75 percent of their time in geriatrics research and education and 25 percent in advanced clinical care. In 2000, VA competitively selected seven Geriatric Research, Education, and Clinical Center (GRECC) sites to implement the Advanced Geriatrics Fellowship Program. The West Los Angeles/Sepulveda GRECC was selected as the hub site to coordinate fellowship activities. The first fellows were selected in 2001, and the second cadre will begin in 2002. The Hub site has coordinated curriculum development, recruitment and evaluation at the selected sites. Accomplishments include:

—A coordinated series of recruitment activities has been undertaken.
—A cadre of fellows have been recruited and participated in a nationally coordinated curriculum of geriatrics education.
—A series of two-way interactive videos has been initiated.
—Fellows have been provided with travel and tuition assistance to attend at least one national geriatrics meeting a year.
—As fellows enter their second year of fellowship training, special attention will be paid to mentoring in career development and leadership development.
—A plan for evaluation of the program has been developed and is underway

MEDICAL RESEARCH

Question. The budget request is $394 million. What does that buy?

Answer. The 2003 request of $409 million will allow VA to fund 2,780 research and development projects and 2,907 full-time equivalents. After adjusting for the CSRS and FEHB accruals of $15 million, the request is $394 million. This request consists of a program increase of $23 million. This program increase includes $12 million for payroll and inflation adjustments and $11 million for new research initiatives. The new research initiatives include the following:

—Two new Quality Enhancement Research Initiative Centers.
—Chronic disease management for Myocardial Revascularization On and Off Cardiopulmonary Bypass and Open Versus Endovascular Surgery for Abdominal Aortic Aneurysms.
—New studies focused on ensuring homeless and minority veterans in rural areas receive equal access to health care and ensuring quality of care outcomes for primary care for diseases of particular importance in woman.
—Diseases of the brain (e.g., Alzheimer's and Parkinson's) to include the following initiatives:
  —New Parkinson's Disease projects include stem cell and fetal transplantation research in animal models, advances in neuroimaging technology to monitor the progression of the disease, the role of neurotransmitters other than dopamine in Parkinson's Disease, gene therapy, and mechanisms of damage to nerve cells.
  —Neurorehabilitation researchers continue to capitalize on new findings surrounding the brain and its ability to reorganize following injury-ischemic or traumatic. Initial success utilizing constraint-induced therapies for restora-

tion of upper limb functions in hemiplegic patients requires evidence to assure optimal clinical implementation. In addition, premliminary research into motor therapy for lower limb function and speech-language recovery, although not as advanced, is showing cause for optimism in the neurorehab community. The coupling of pharmacotherapies with physical therapy remains a course towards recovery of function that is promising, although not yet fully understood. An additional adjunctive therapy with promise is functional electrical stimulation (FES), which has only begun to be explored. Although intensive physical therapy shows promise for recovery, it also requires inordinate and expensive clinical resources. Robotic technology is seen as a solution, not only in response to manpower issues, but to delivering precise and consistent therapy, thereby enhancing improvement. Technology for the upper limb is under development with VA sponsorship. Similar lower limb technology is not as advanced. Finally, application of neurorehab approaches has only just begun to be studies for Parkinson's Disease, ALS, and Alzheimer's Disease.

Other important areas that may receive additional funding include aging, micro technology, stroke, multiple sclerosis, chronic viral diseases, and patient outcomes in rehabilitative care.

In addition to the $409 million in the Medical and Prosthetic Research appropriation, the Medical and Prosthetic Research program is supported with $401 million from Medical Care and $656 million from other Federal and private medical research organizations such as the Department of Defense, National Institutes of Health, and pharmaceutical companies. The $1.5 billion in total funding will allow VA to maintain research centers in the areas of Gulf War illnesses, diabetes, heart disease, chronic viral diseases (e.g., HIV/AIDS), Parkinson's disease, spinal cord injury, prostate cancer, depression, environmental hazards, and women's issues, as well as rehabilitation and Health Services Research and Development field programs.

Question. How does VA prioritize research?

Answer. VA currently focuses more than 99 per cent of its Medical and Prosthetic Research budget on its nine designated research areas: Aging and Age Related Changes, Acute and Traumatic Injuries, Chronic Diseases, Health Services and Systems, Mental Health, Military Occupational and Environmental Exposures, Sensory Disorders and Loss, Special (Underserved, High Risk) Populations, Substance Abuse.

The Office of Research and Development receives input from multiple sources to prioritize research that will best meet the needs of the veterans population: the National Research Advisory Council, veterans service organization, other VA and VHA offices.

Question. The budget request supports 3,167 FTE, the same as the 2002 level. Why is the current estimate significantly lower—2,983 FTE?

Answer. VA submitted a fiscal year 2002 budget request of $360.2 million and 3,167 full-time equivalents (FTE). The fiscal year 2002 current estimate of $371.0 million and 2,983 FTE is the result of fiscal year 2002 Congressional action, which supports the proposed increase in the fiscal year 2002 pay raise from 3.6 to 4.6 percent. The reduction of 184 FTE reflects the staffing requirement to maintain the mix of projects estimated for fiscal year 2002.

QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER S. BOND

COLLECTIONS

Question. I believe that VA must improve its collections from veterans' private health insurers. GAO recently testified that "long-standing problems in VA's revenue operations appear to persist, and when compared to private sector standards, VA's collections performance is poor." In fact, VA has over $700 million in outstanding receivables. First, how is VA improving its collection efforts? Second, what is VA doing to collect its outstanding receivables?

Answer. For the past 4½ years VA has contracted with a private vendor to follow-up on third parties receivables over 90 days old. This contract has resulted in collections totaling $184 million at a cost of a little more than $4 million. The VHA Revenue Office is in the process of identifying requirements to develop a Request for Proposals (RFP) to outsource accounts receivable management of third-party accounts. We anticipate that multiple awards would be forthcoming from this effort and expect a September 2002 award. Several VISNs have outsourcing efforts in progress and others are in the process of soliciting bids.

In addition, VHA has identified twenty-four action items to enhance revenue operations. Project Teams are currently implementing action items in the Billing, Coding, Insurance, Utilization Management and Accounts Receivable Management areas.

Question. Some believe that VA should be able to collect more than $1.4 billion as projected in your budget request. Is this possible?

Answer. The projected $1.4 billion includes $260 million for the proposed $1,500 deductible. If the $1,500 deductible is not implemented, the projected collection figure should be revised downward to $1.2 billion.

[Dollars in Millions]

	October–February fiscal year 2002	Fiscal year 2002 projected collections	Fiscal year 2003 projected collections
MCCF	380	805	1,084
HSIF	1	225	364
Extended Care Revolving Fund	0	20	40
Total	381	1,050	1,488

CARES—VISN 12 IMPLEMENTATION

Question. Last month, you made an announcement recommending the realignment of facilities in VISN 12. Your recommendation includes the closure of one of four Chicago medical centers and the construction of a new $40 million spinal cord and blind rehabilitation center at Hines. Your recommendation also includes other costs such as the creation of new community-based outpatient clinics. Do you have a cost estimate of the total amount of funds that VISN 12 will need to implement your recommendation?

Answer. The costs for each option were identified in the VISN 12 report. The three approved options have costs of: Option B—$71.4 million, Option G—$33.8 million, and Option I—$7.6 million, for a total of $112.8 million. This figure reflects the order of magnitude costs for easily identifiable major capital needs. It will be upwardly adjusted as a result of the implementation plan. That plan will include the full spectrum of capital investment requirements to put into operation the approved options B, G, and I.

Question. One of your press releases stated that VA expected to save an "estimate $720 million over the next 20 years." Can you explain this cost savings estimate? How will the appropriations committee see the impact of these savings in future budget requests? Assuming no additional legislative mandates are enacted, can the appropriators expect the savings from CARES to translate into lower budget request needs?

Answer. A substantial portion of the estimated savings will be generated through the eventual closure or substantial downsizing of the Lakeside VAMC facility. Operating costs for utilities and the buildings and grounds, salaries for in-direct patient care staffing, and clinical program efficiencies all contribute to the savings. In addition, there is a potential for a revenue income if VA can successfully identify an Enhanced Use Lease partner for the property. Other savings accrue through a comparison of the life cycle costs for each option over the 20 year period calculated. Cost savings will be re-invested throughout the VISN 12 facilities and CBOCs in order to increase clinical staffing (reduction of waiting times) and provide otherwise limited or difficult to obtain services to veteran patients. Two new CBOC's are planned to be established in order to provide more accessibility to VA health care services for Veterans.

CARES—NEXT STEPS

Question. With the completion of CARES in VISN 12, I would like to hear about the next phase of CARES. VA's original plan was to implement the CARES studies in three phases. VA's fiscal year 2003 budget justifications specifies that after completing VISN 12, Phase II would be carried out, covering 8 networks, and then complete CARES for the rest of the Nation. Are your current plans to still carry out CARES in these Phases? What are your expected timeframes in completing these Phases?

Answer. VA's current plans are to complete the CARES planning process in all of the remaining Networks in Phase II. The current expected timeframes call for the planning process to be initiated in the Networks in 2002. Networks would develop their proposed plans under guidance from VACO and with actuarial and other

data. At the end of October, their proposed plans would be sent to VACO. Following a period of review in VACO, a CARES commission would review the plans, hold public hearings, take public comment and ultimately provide final recommendations to the Secretary. The Secretary would then make decisions on those recommendations and announce them sometime in Summer 2003.

Question. I am concerned about VA's in-house ability to perform the studies. Two questions: one, do you have the in-house expertise and staffing resources to perform the CARES studies and two, how will you ensure that the studies are objective? I am worried that if the VISN directors are in charge of conducting their own studies, there will be a conflict-of-interest.

Answer. The VA will contract for actuarial studies to project veteran enrollment for 20 years for each Network and facility. The VA has the in-house capability, which may in some specific situations or issues that arise, have to be supplemented by contractors in the other areas required for the CARES plans. Staffing in VACO has been approved by VA, and recruitment is underway.

The studies will be objective for several reasons. First, the Networks will be given specific guidance and criteria which they must use in order to complete their plans. Secondly, the VA CARES Office will be reviewing Network plans to make sure that the guidance has been followed. Thirdly, VA is planning to use a CARES commission, which will also review all the plans, hold hearings and allow for public comment.

FUNDING FOR CARES

Question. The last area of CARES that I would like to ask you about is funding. Your budget request only proposes $40 million to fund CARES. This is a $60 million reduction from the fiscal year 2002 enacted level. I am concerned that when the CARES studies are completed, there will not be adequate funding available to pay for the realignment costs. Based on the small funding request for CARES, is it your expectation that very little if any at all CARES studies will be completed and implemented in fiscal year 2003? If you expect the studies to be completed in fiscal year 2004, can we expect a major budget request for CARES projects? Do we need to examine any changes in the funding process to take care of current and future CARES project needs?

Answer. Implementation of the VISN 12 CARES study options will be fully underway in fiscal year 2003 and the requested funding is expected to be sufficient to cover any design or design and construction initiatives expected to be obligated during that fiscal year. The remaining CARES service delivery options are expected to be developed in fiscal year 2003 so only minimal design dollars for a few of those selections are expected to be needed. It is expected that fiscal year 2004 and future budget years will be when the major funding needs for CARES initiatives will result. There are no changes in the funding process for CARES needs known at this time. As always, ensuring that initiatives are both authorized and adequately funded will require clear and open communications between VA and both authorizing and appropriations committees.

CONSTRUCTION FUNDING

Question. I am puzzled by the request for $94 million in the major construction account to fund four new seismic repair projects in California and another $130 million in the minor construction account to fund other projects. VA is proposing to rehabilitate these facilities without any CARES review. Further, in its February 2002 list of priority major medical construction projects, the four California facilities are ranked 1, 3, 5, and 8. (#2 is for an ambulatory care project in Cleveland and #4 is for general upgrades in Anchorage). To add to my confusion, VA justified the inclusion of these four seismic projects because they were ranked #1, #2, #3, and #7 on its list of 73 identified "Exceptionally High Risk" facilities based upon a government-wide seismic review. Your staff has also indicated that, despite the expected decrease in patient population, visits, and bed needs at these four facilities, the main structures proposed to be upgraded will survive a CARES review.

First of all, can you explain why VA continues to propose funding for capital improvements in Major and Minor Construction accounts while we are awaiting the restructuring plans from the CARES assessments? Why do we even have these separate priority lists instead of having one just based on CARES? Can you explain to me how these four projects were included in the budget request even though they do not all rank in the top four of any VA construction list I have seen? Second, what criteria are you using to make these exceptions to the CARES process? How big is this "exceptions to CARES" universe? Lastly, how do you plan to reconcile the funding of these exceptions with the planned CARES studies? Will an area such as San

Francisco have any incentive to perform a legitimate CARES study if they believe that their projects will get funded outside the process?

Answer. There are many large veteran population areas that are currently only served by single VA facilities. VA fully expects to maintain a viable presence in these areas even though the type of services may change over time as the veteran population ages and demands changing services. Infrastructure projects, like the seismic structural projects or projects that upgrade the electrical distribution system within an aged facility are meant to ensure a continued viable presence for whatever functional need is defined through the CARES process. The CARES process will assist in defining the types and quantities of services these facilities should be configured to house. In the case of a campus facility with a large main building and multiple smaller buildings, the expectation is that as the workload at those facilities decreases over the next 20 years, that services will be consolidated into the main facility structures, making many of the "out buildings" unneeded by VA. The " incentive" for a facility like San Francisco is that they will need future projects other than the seismic upgrade to reconfigure their internal spaces to efficiently meet the changing missions they will be assigned through the CARES "enhanced services" realignment.

VA–DOD COST-SHARING

Question. Another area that I believe needs some further exploration is cost-sharing arrangements with the Department of Defense. I am aware that VA and DOD have made some joint arrangements such as in the pharmaceutical area. GAO reported last year that VA and DOD saved more than $40 million in fiscal year 2000. I understand that you created your own internal task force to examine VA–DOD cost-sharing. Further, a Presidential Task Force was created last May by President Bush to improve coordination of health care delivery activities between VA and DOD in order to improve benefits and services for veterans. Could you elaborate on these cost-sharing efforts? What did your own internal task force accomplish? Also, I would like to hear your views on the Presidential Task Force and how you are supporting it.

Answer. Section 3(e) of the VA–DOD Health Resources Sharing Act (38 USC 8111) requires that "any funds received through earnings in VA–DOD sharing agreements shall be credited to funds that have been allotted to the facility that provided the care or services." VA has followed this policy since the law was implemented. The law provides an incentive for VA facilities to enter into agreements with DOD and has benefited veterans by allowing facilities to provide services to veterans that would not otherwise have been available.

While the primary focus of the law is to allow facilities to expand services for its beneficiaries, cost savings (cost avoidance) to the budget do occur, especially in the purchase of services. By spending less on goods and services facilities have more money available. VA purchased $22.6 million from DOD in sharing agreements in fiscal year 2001 and estimates purchases of $22.9 million in fiscal year 2002 and $23.2 million in fiscal year 2002 and fiscal year 2003. VA provided reimbursement for VA/DOD sharing services of $38.6 million in fiscal year 2001 and estimates reimbursement of $39.6 million in fiscal year 2002 and $41.3 in fiscal year 2003. However, VA purchases in facility-to-facility sharing are difficult to quantify and are quite small. For fiscal year 2001, VA purchased $20.4 million from DOD in local sharing agreements (about .09 percent of VA's fiscal year 2001 budget).

VA–DOD cost savings can be documented through joint procurement efforts, primarily in pharmaceuticals. As of the end of February 2002, there were 54 joint VA/DOD joint contracts for pharmaceuticals; 37 additional joint contracts are pending award. Sixteen joint contracts were not awarded due to the lack of cost savings to the government through their award. The total estimated cost savings in fiscal year 2001 for both Departments from these contracts were $98 million ($80 million for VA and $18 million for DOD.

The VA/DOD Executive Council, co-chaired by the VA Under Secretary for Health and the Assistant Secretary of Defense for Health Affairs, serves as an umbrella organization for coordinating policy decisions between the two departments. Last year the Executive Council established a new Financial Management Work Group to review and make recommendations to reduce financial and billing practice barriers to interagency coordination. The Work Group meets regularly and has conducted a detailed review of reimbursement policies and practices between the VA and DOD. The Financial Management Work Group has identified those VA and DOD policies and practices requiring clarification or modification to remove reimbursement barriers and disincentives and developed recommendations for streamlined financial processes and practices.

One of the identified barriers to increased Departmental collaboration, execution of agreements and contracts has been the negotiation process, more specifically pricing issues. During the 1990's, flexibility was given to VA and DOD personnel to establish locally developed rates for medical sharing agreements. This resulted in the proliferation of rate setting mechanisms, as well as many independent rate structures for these agreements. To streamline practices between the two Departments the Financial Management Work Group is exploring development of a single payment schedule for exchange of services between the two departments. The discussions center on developing a national pricing methodology that would be regionally adjusted. The Work Group recently reported its progress to the VA/DOD Executive Council and the Joint Executive Councils meeting hosted by the VA Deputy Secretary and the DOD Under Secretary for Personnel and Readiness. A final recommendation on the policy and proposed methodology is anticipated in late 2002.

As you know, President Bush established the President's Task Force to Improve Health Care Delivery for Our Nation's Veterans (PTF) by Executive Order 13214 on May 28, 2001. The PTF is comprised of 15 commissioners led by two co-chairs. Support includes a professional staff headed by an Executive Director and the PTF has established seven work groups to review specific areas of interest. VA provides staff, administrative and budgetary support to the PTF, as well as requested briefings and information. Both VA and DOD have provided detailees as subject matter expert staff to the PTF.

The PTF conducts monthly open meetings attended by the Task Force members and the public. VA and DOD have appeared before the PTF and have presented overview briefings on the VA and DOD health care delivery systems benefits packages and the DOD TRICARE program. The VA/DOD Executive Council Work Group Co-Chairs have provided the PTF staff with joint briefings on work group activities as requested. PTF members and/or staff have toured VA/DOD joint venture facilities in Alaska, Nevada, New Mexico, and Florida and plan multiple site visits around the country in the coming months.

HOMELESSNESS

Question. I do not understand why there exists a significant population of homeless veterans on our streets. To address homelessness, I have been working with a number of my Senate colleagues, such as Senator Specter on the VA committee, to develop a more holistic Federal approach to prevent and end homelessness. One of the group's recommendations that was recently enacted was the reactivation and funding of the Interagency Council on the Homeless. I am please that Secretaries Martinez and Thompson are participating in this council but it is important that other agencies, including VA play a active role. Can you tell me how VA plans to participate in this Council? HUD Secretary Martinez is the current chair but the position rotates annually. Is this something that you would be interested in chairing?

Answer. On December 21, 2002 President Bush signed the Comprehensive Homeless Assistance Act of 2001 into law (Public Law 107–95). Among the provisions this law calls upon VA, Housing and Urban Development (HUD) and the Department of Labor (DoL) to take cooperative actions to more fully address the problems of homelessness among veterans.

Section 11 mandates that the Interagency Council on Homeless (ICH) .."shall meet at the call of its Chairperson or a majority of members, but not less often than annually." The ICH held its first meeting and HUD Secretary Mel Martinez was elected Chair, Health and Human Services (HHS) Secretary Tommy Thompson was elected Vice Chair and Mr. Phillip Mangano was selected as ICH Executive Director. I look forward to working on the ICH and plan to both actively participate and will take a leadership role with its work.

I would like to inform you that on April 9–11, 2002 VA–HHS and HUD co-sponsored a policy academy for State-level planning teams to improve coordination within State planning efforts to end chronic homelessness. This type of effort is exactly the kind of joint Federal and State coordination that will make meaningful progress toward ending chronic homelessness in America. VA will continue to support these types of activities that will improve coordination of service delivery.

Public Law 107–95 also creates a fifteen member homeless advisory committee to provide recommendations to the Secretary of Veterans Affairs. I have appointed the committee members and we expect that committee to hold its first meeting in June, 2002. In addition, ex-officio members from the Departments of Defense, Labor, Housing and Urban Development, and Health and Human Services will actively participate. I am extremely pleased that these efforts, along with the tens of thou-

sands that receive medical care and benefits from my Department is making a real difference in the lives of veterans and their family members.

VETERANS EQUITABLE RESOURCE ALLOCATION ("VERA")

Question. GAO recently reported that VA can make several improvements to its funding allocation to its networks. Although you concurred with GAO's findings and recommendations, it was unclear when you would make some of these improvements. Can you give me a sense of what changes to VERA you are considering and when they might go into effect? I would especially like to hear if you plan to include Priority 7s in the formula and how you plan to address GAO's concerns about the use of the National Reserve Fund to supplement networks' funding allocation.

Answer. The VERA Patient Classification Workgroup is currently reviewing the following potential VERA refinements for fiscal year 2003 implementation and beyond:

—Inclusion of Priority 7c veterans in the Basic Vested Care component of VERA,
—Use of multiple pricing groups, expanding from 3 to 10 price groups,
—Use most recent 1 year workload versus 3 years for Basic Care and 5 years for Complex Care,
—Update the fiscal year 1995 allocation split between Basic and Complex Care Price Groups to reflect changes in the distribution of actual costs between the two groups,
—Use of reinsurance threshold for high cost patients, and
—Use of Diagnostic Cost Groups with reinsurance threshold and Complex Care flags.

The workgroup is expected to evaluate the above issues and complete its recommendations for refinements to the fiscal year 2003 VERA methodology for review by the VHA Policy Board by July 2002.

Each year since fiscal year 1999, a supplemental funding process has adjusted VERA allocations. The need for adjustments to the VERA model does not necessarily mean that the model is flawed or that a particular VISN is inefficient or mismanaged. This does not mean that incentives to improve do not exist, however; a VISN could be very effectively managed but still require a VERA adjustment because of one or more factors. The reasons for the supplemental funding adjustments vary by network. However, some of the factors involved include: Amount of VHA budget relative to its workload; policy changes in the VERA model, workload changes in the VERA model, and variation in actual budget year execution from planning estimates for: (1) other revenue from 1st and 3rd party health insurance collections, (2) other anticipated reimbursements, (3) projected workload changes and estimated expenditure, and fixed infrastructure costs that cannot be changed in the short-term.

Additionally, during the course of the fiscal year, VHA reviews the status of each network in terms of its projected workload and revenues; including VERA, 1st and 3rd party collections, and reimbursements; relative to actual and projected workload and expenses.

Over the course of this year, and the next 5 years, the refinements to VERA should respond to various stakeholder concerns; be more consistent with enrollment policy; improve an existing system that is widely understood and independently validated; and continue to tie resources to clinical performance (i.e., patient workload). VHA is committed to ensuring that efficiently managed networks are not disadvantaged as a result of anticipated VERA changes and those that are not as efficiently managed will improve over time.

CLAIMS PROCESSING

Question. Over the past 2 years, VA has hired hundreds of new staff to improve the processing of claims benefits. But, despite the new staff, VA still projects the average number of days to process claims to increase from 181 days in 2001 to 208 days in 2002. Can you explain why your projection is expected to increase?

Answer. The primary reason for the increase in the average number of days to process claims is a significant increase in the volume of incoming work. The increased volume is attributed to the following factors:

—The review of more than 98,000 previously-denied cases, as well as 230,000 claims in our pending inventory to ensure compliance with the Veterans Claims Assistance Act (VCAA).
—VA's expanded outreach efforts to separating service members (Benefits Delivery at Discharge initiative).
—Receipt of 66,000 Type 2 diabetes claims based on exposure to Agent Orange.

—The requirement to review 13,000 previously-adjudicated diabetes claims under the Nehmer stipulation. (In the case of *Nehmer* v. *VA*, plaintiffs' attorneys and VA agreed, in a 1991 Stipulation and Order, on a process for applying an earlier than usual effective date for certain claims for benefits based on Agent Orange exposure. As a result of court decisions in the Nehmer case, VA is required to re-adjudicate over 13,000 diabetes claims.)

All of the VCAA claims have now been added to the inventory. Following the initial surge of Type 2 Diabetes claims, the incoming volume of Diabetes claims is expected to taper off. We have also completed a significant portion of the Nehmer reviews.

At the same time, the aggressive steps we have taken to increase rating production have had a positive result. In the latter months of fiscal year 2001 and into this year, production of rating decisions significantly increased—which is the key to reducing the claims backlog and improving the timeliness of our decisions. From October 2001 through February 2002, VBA decided over 294,000 cases for a 5-month average of 58,800. This represents a 47 percent increase over fiscal year 2001 production levels. We expect our production to continue to increase as many of our recently hired employees gain additional experience and we begin to implement the recommendations of the Claims Processing Task Force.

We believe our increased production levels and the Task Force initiatives will now enable us to make major inroads into the pending inventory. Our goal is to reduce the pending rating inventory to 315,000 claims by the end of this year. Even though we project major reductions in our pending inventory, the average days to complete will continue to increase as we focus on completing the oldest claims in our inventory.

Question. Do you believe that VBA has enough staff or do you anticipate more hiring in the next few years?

Answer. VBA secured funding during fiscal year 2001 to support the hiring and training of more than 1,000 new employees. The addition of this many employees in such a short period of time was critical to the Administration's ability to manage the increased workloads resulting from the Veterans Claims Assistance Act and the addition of Type 2 diabetes to the list of Agent Orange presumptive conditions. A hiring initiative of this magnitude strains VBA's training infrastructure and places a burden on its core of senior-level field employees.

VBA must now continue to focus on maximizing the impact of this hiring and ensure employee retention. As these recent hires are assimilated into the organization and gain experience, we fully expect these employees to make a significant contribution toward achievement of our claims processing goals. Essentially, this is a period of stabilization as VBA assesses the recent hiring and training of the new employees and implements the Task Force recommendations. Once we achieve a more stable situation, we will be able to make a reasoned assessment of our future staffing needs.

However, we do know that our hiring and training will continue based on the large numbers of decision-makers eligible to retire over the next few years. Therefore, although our fiscal year 2002 and fiscal year 2003 budgets maintain relatively stable staffing levels, our plans call for significant hiring to replace losses due to retirement and other factors. Even with our aggressive hiring over the past 2 years, 26 percent of VBA's current workforce (nearly 3,350 employees) are now eligible or will be eligible to retire in the next 3 years. Based on experience, we know that at least 25 percent of those eligible to retire will do so, and that a certain percentage of non-eligible personnel will leave the Department as well. These figures demonstrate how critical our succession planning efforts remain.

PHYSICIANS PAY AND MEDICAL SCHOOL AFFILIATIONS

Question. With changes being considered for physicians pay in order to recruit and retain these professionals to meet the health care needs of veterans, how does the dual compensation of many of these physicians by the VA and the universities affect the achievement of VA's health care mission? As you prepare a legislative proposal for physicians pay, are there any changes you are considering that might affect this relationship?

Answer. The working relationship between the Department and our university affiliates is a close one, resulting in numerous benefits to VA and its veterans, as well as the universities. Among the advantages that VA derives are the exposure to and the availability of the latest developments and innovations in health care treatments, technology, medical research, and procedures. The compensation that physicians receive for their work as faculty appointments is fair compensation for their duties in resident education and supervision, and assists VA in offering competitive

salaries, as well as a recruitment tool to attract those professionals with an interest in academic medicine and teaching.

At the same time, VA is aware of the potential for divided loyalties, or at least the perception that VA's interests are not paramount. The affiliation relationship is indeed a matter for review and consideration in developing a legislative proposal. If physicians are not able to receive compensation from the universities, VA must be able to offer significantly higher salaries in order to recruit and retain high quality clinicians, teachers, and leaders in many locations.

HOMELAND SECURITY

Question. What preparedness initiatives are underway and how much do you expect VA to spend in fiscal year 2002 and 2003 for these initiatives? Do you expect to receive any funds from HHS or FEMA? How much money do you need to address adequately VA's homeland security needs?

Answer. Based on recommendations contained in the Preparedness Review Working Group report, the Department is pursuing the following critical initiatives:

—Pharmaceutical and medical supply caches
—Personal Protective Equipment and training for VA medical centers
—Education, training and exercises for staff to respond to WMD attack
—Upgrade and train VA security forces
—Establish a centralized Incident Reporting Center
—Upgrade and test back up systems of Veterans Benefits Administration's three technical centers and upgrade communications
—Establish mirror ITSS server farm to maintain mission readiness
—Establish an Office of Operations, Security and Preparedness to coordinate Departmental emergency preparedness programs
—Plan to replicate VBA IT infrastructure
—Upgrade VA primary continuity of operations site
—Develop web-based tracking system and establish 1–800 number for information on location of military patients
—Develop web site or toll free number for referral of severely disabled service members to Vocational Rehab & Employment Services

VA will be spending $54.54 million in fiscal year 2002. We have projected funding requirements of $92 million for fiscal year 2003. VA's fiscal year 2003 Budget Request includes $55 million for Emergency Preparedness in Medical Care. VA has been meeting with officials at HHS and will meet with FEMA officials to brief them on VA emergency preparedness capabilities.

INTELLECTUAL PROPERTY RIGHTS

Question. What is the status of the agreements being reached with medical schools? How many are there? Are they in compliance with the law (Bayh-Dole Act)? Will these be put into place with all schools?

Answer. VA continues to seek Cooperative Technology Administration Agreements (CTAA) with its affiliated universities. These agreements permit co-ownership between VA and its affiliates for inventions resulting from research that used VA assets (appropriated dollars, including grants to investigators; salaries; and laboratory facilities). VA has established CTAAs with 36 universities since it began this initiative less than 2 years ago. These agreements are consistent with the requirements of the Bayh-Dole Act. Inventions developed through NIH and VA funded research can be assigned jointly to VA and the affiliated university.

VA would prefer to establish CTAAs with all affiliated universities because these agreements facilitate local cooperation, strengthen long-term affiliations, and recognize fairly the VA's role in research and innovation. However, these agreements on intellectual property are not a required component of the local VA and individual university affiliations. The Administration is considering legislation that would codify CTTAs between VA and its affiliate universities.

QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

Question. Mr. Secretary, in the past year all the veterans hospitals and clinics in Iowa have either stopped taking new patients or had delays of several months in scheduling new appointments. Can you tell me the current wait for appointments for new (non-emergent) patients at each of Iowa's facilities, the current plans for improving the situation, and how long you anticipate waits will be when those plans are implemented?

Answer. To date, the Iowa City VAMC has allocated resources to activate plans developed to meet the unprecedented veteran care demand. Additional exam room space has been created, providers have been hired, and other numerous actions are currently taking place to enable the Iowa City VAMC and its associated CBOCs to see the veterans on the waiting list as soon as possible. Existing providers have been able to absorb additional patients into their current panels. A New Patient Clinic at the Iowa City VAMC started seeing patients on January 28, 2002, where two providers continue to see 16 new patients per day. Three new providers have been hired, and recruitment is currently ongoing for a fourth provider for Iowa City and/or the CBOCs. Contracting options are also being considered at some of the smaller CBOCs. We expect all veterans on the waiting list to have an initial appointment by the end of September 2002.

The VA Central Iowa Health Care System Primary Care Service Line continues to clinically review new enrollees for emergent and non-emergent care at the Des Moines, Iowa division. Every effort is made to accommodate the veteran's choice for the primary site of care, i.e., a community based outpatient clinic (CBOC) or the VA medical facility in Des Moines or Knoxville, Iowa. The average wait time for non-emergent care at the Des Moines VAMC is 73 days; the Knoxville VAMC is 64 days; the Mason City CBOC is 67 days; and the Fort Dodge CBOC is 56 days. Primary care staff continues to manage unprecedented growth within appropriated funding by evaluating systematic approaches to reduce wait times using advanced clinic access' concepts to help predict and respond to daily demand for care and by maintaining adequate staffing levels through recruitment of employees as vacancies occur and the use of Locum Tenens staff when employee recruitment is not successful.

Question. Can you also compare the waits for appointments for new non-emergent patients in each of the VISN's?

Answer. The following information on new patients is provided for each VISN as of February 2002.

VISN	AUDIOLOGY	CARDIOLOGY	COMBINED PRIM/CARE	EYE CARE	ORTHOPEDICS	UROLOGY
1	55.2	27.3	53.8	64.1	38.3	34
2	39.2	30	39.3	48.4	25	39.7
3	47.5	52.6	57.3	66.4	24.4	36.6
4	49.5	33.7	55.9	101.7	52	42.8
5	26.8	27.7	39	43.1	27.6	27.6
6	30.2	34.4	60.6	95.7	48	51.5
7	34.2	33.3	65.9	61.8	30.9	36.2
8	109.4	37.4	67.9	73.8	34.7	47.1
9	56.8	30.7	81.7	78.8	39.8	49
10	38.4	32.6	49.1	79.5	41.2	74
11	43.5	36.4	64.2	72.2	38.1	37
12	59.6	39.8	55	103.7	31.9	55.3
15	57.2	30.6	63.3	91.4	50.5	40.5
16	44	33.1	53.3	70.4	28.5	41
17	19	38.4	52.8	64.5	58.3	54.4
18	28.5	41.3	69.6	89.7	50.5	43.5
19	47	36.1	61.1	57.1	54.2	40.8
20	34.8	21.4	35	51.7	28.9	55.5
21	37.2	32.4	55.4	66.4	61.7	40.1
22	64.2	47.3	43.9	64.1	19.4	60.3
23	37.6	35	76.8	161.1	45.4	41
Nat'l	53.4	35.7	58.7	77	38.6	45.5

Question. A recent GAO report found that the VERA model is unfairly hurting several VISN's and examined the effects of including Priority 7 patients, using more patient categories, and using more recent data to determine the distribution. A RAND study looked at other issues in the VERA model. Can you tell me what changes, if any, you plan to make to the VERA model in distributing fiscal year 2003 funds? Please also give me any analysis the VA has done on how changes to the VERA model would affect the distribution of health care funds.

Answer. The VERA Patient Classification Workgroup is currently reviewing the following potential changes to VERA for fiscal year 2003 that will address the issues raised in the recently completed (February 2002) GAO evaluation of VERA. The workgroup is expected to finalize its recommendations for refinements to the VHA Policy Board by July 2002.

—Inclusion of Priority 7c veterans in the Basic Vested Care component of VERA
—Use of multiple VERA pricing groups, i.e., increase from three to 10 pricing groups
—Update the fiscal year 1995 allocation split between Basic and Complex Care Price Groups to reflect changes in the distribution of actual costs between the two groups
—Change the basis for estimating VERA Basic and Complex Care workload to a 1 year actual compared to the current 3 year for Basic and 5 year forecast for Complex
—Use of a re-insurance threshold in the VERA methodology for high cost patients
—Use of Diagnostic Cost Groups (DCGs) with a reinsurance threshold and Complex Care flags

In addition, the RAND Corporation's VERA study is in its second phase and is to be completed by September 2002. The Phase II VERA study is addressing a quantitative analysis of the VERA issues identified in its Phase I study to include: improved case-mix adjustment; geographic differences in prices paid for non-labor inputs and contract labor costs; the impact of teaching and research; and, the impact of the facilities' physical plants.

Various VERA simulations for fiscal year 2003 are being estimated based on potential refinements. Definitive fiscal year 2003 VERA distributions will depend on the Medical Care appropriation passed by Congress and the VERA refinements approved by the VHA Policy Board.

Question. I often hear reports that while the veterans' health facilities in Iowa and nearby States have severe shortfalls of funds, other areas have (and are keeping) large surpluses. Can you tell me what the shortfall or surplus was for each VISN in fiscal year 2001 and what is anticipated in fiscal year 2002?

Answer. To determine whether a network has a shortfall or surplus, if any, VHA reviews each network's financial status in terms of projected revenues including VERA, 1st and 3rd party collections and reimbursements, relative to actual and projected workload and expenses. This analysis is what drives the VERA adjustment process. In fiscal year 2002, as a result of this process, the five networks received a VERA adjustment (supplemental): VISNs #1, #3, #12, #13 and #14 (VISN# 13 and VISN #14 are now VISN #23).

The "Summary of the VERA Adjustments, fiscal year 1999-fiscal year 2002" table indicates Iowa's network (previously VISN #14; now VISN #23) received supplemental funding in each of the past 3 fiscal years.

SUMMARY OF THE VERA ADJUSTMENTS, FISCAL YEAR 1999-FISCAL YEAR 2002

[Dollars in millions]

VISN	Name	Fiscal year			
		1999	2000	2001	2002
8	Bay Pines, FL	$4.0	.....	.....	.....
9	Nashville, TN	5.0	.....	.....	.....
3	Bronx, NY	.....	$66.2	$73.8	$128.5
13	Minneapolis, MN	.....	14.7	44.7	43.9
14	Lincoln, NE	.....	9.8	48.3	32.9
1	Boston, MA	.....	.....	53.2	41.3
12	Chicago, IL	.....	.....	.....	20.8
	Total	9.0	90.7	220.0	267.4
	Percent of Total System-Wide Allocation	0.1	0.5	1.2	1.5

The VERA methodology is workload driven and networks receive funding allocations commensurate with three workload components, i.e., Basic Vested Care, Basic Non-Vested Care, and Complex Care. A Network's total revenues include VERA distributions derived from the Medical Care appropriation, 1st and 3rd party health insurance collections, and other anticipated reimbursements. A network can retain all collections and reimbursements, and has the incentive to increase non-appropriated revenues each year. As shown in the fiscal year 1996-fiscal year 2002 VERA Allocations with Adjustments and Estimated Receipts" table, VISNs #13 and #14, now VISN #23, are rated at about the national average increase for the period fiscal year 1996-fiscal year 2002. The national average increase of VERA allocations with

adjustments and estimated receipts for fiscal year 1996-fiscal year 2002 is 32.89 percent; VISN 13 had a 32.78 percent increase and VISN 14 had a 29.52 percent increase.

TABLE 20: FISCAL YEAR 1996—FISCAL YEAR 2002 VERA ALLOCATIONS WITH AdJUSTMENTS AND ESTIMATED RECEIPTS

[Dollars in millions]

VISN	Network	Fiscal year 1996 Allocations And Receipts	Fiscal year 1997 VERA and Receipts	Fiscal year 1998 VERA and Receipts	Fiscal year 1999 VERA and Receipts	Fiscal year 2000 VERA and Receipts	Fiscal year 2001 VERA and Receipts	Fiscal year 2002 VERA and Receipts	Percent Changes						
									Fiscal year 1996–1997	Fiscal year 1997–1998	Fiscal year 1998–1999	Fiscal year 1999–2000	Fiscal year 2000–2001	Fiscal year 2001–2002	Fiscal year 1996–2002
1	Boston	$856	$848	$854	$821	$853	$936	$965	−1.02	0.78	−3.89	3.91	9.72	3.09	12.68
2	Albany	438	435	441	431	478	516	527	−0.68	1.32	−2.12	10.81	7.94	2.18	20.38
3	Bronx	1,024	1,019	1,021	994	1,010	1,038	1,094	−0.48	0.16	−2.61	1.57	2.84	5.38	6.87
4	Pittsburgh	776	781	819	828	901	988	1,004	0.53	4.85	1.21	8.72	9.71	1.61	29.31
5	Baltimore	426	444	484	489	527	575	590	4.21	9.00	1.15	7.74	9.17	2.48	38.48
6	Durham	687	713	749	754	828	893	924	3.68	5.12	0.67	9.77	7.88	3.50	34.49
7	Atlanta	781	819	896	922	983	1,057	1,113	4.54	9.83	2.88	6.62	7.49	5.27	42.52
8	Bay Pines	962	1,021	1,113	1,161	1,339	1,427	1,535	6.06	9.03	4.34	15.34	6.56	7.59	59.54
9	Nashville	691	703	741	746	811	857	897	1.76	5.37	0.69	8.74	5.58	4.76	29.86
10	Cincinnati	513	533	558	574	639	682	717	3.86	4.78	2.95	11.32	6.66	5.14	39.87
11	Ann Arbor	656	659	665	687	726	794	805	0.39	0.97	3.36	5.58	9.38	1.43	22.72
12	Chicago	839	832	840	820	868	928	948	−0.78	0.91	−2.38	5.87	6.95	2.13	13.02
13	Minneapolis	420	428	443	455	474	536	557	1.96	3.43	2.69	4.17	13.28	3.91	32.78
14	Lincoln	293	290	294	301	324	374	380	−1.18	1.35	2.59	7.64	15.50	1.39	29.52
15	Kansas City	587	618	645	635	669	717	760	5.25	4.41	−1.56	5.36	7.23	6.00	29.54
16	Jackson	1,077	1,139	1,245	1,283	1,434	1,497	1,555	5.76	9.30	3.08	11.73	4.39	3.90	44.40
17	Dallas	592	630	688	687	774	831	883	6.32	9.17	−0.13	12.72	7.39	6.21	49.04
18	Phoenix	495	528	579	597	715	752	766	6.58	9.67	3.16	19.64	5.25	1.84	54.62
19	Denver	368	386	412	407	449	488	512	4.82	6.79	−1.27	10.28	8.70	4.95	39.05
20	Portland	589	626	681	704	789	834	870	6.38	8.64	3.51	11.95	5.73	4.36	47.77
21	San Francisco	690	724	755	773	850	929	977	4.93	4.29	2.29	10.00	9.35	5.13	41.54
22	Long Beach	903	921	966	957	1,000	1,076	1,106	2.00	4.88	−0.95	4.51	7.60	2.84	22.54
	VHA Totals	14,664	15,092	15,886	16,028	17,439	18,726	19,487	2.92	5.27	0.89	8.81	7.38	4.06	32.89

Note: The fiscal year 1998 MCCF totals include fiscal year 1997 4th quarter collections. The fiscal year 2002 MCCF and Reimbursement figures represent projected collections. The numbers may not add due to rounding. Fiscal year 1999 includes VERA plus 20 million earmarked by the Congressional Appropriations Conference Committee for Network 3. Fiscal year 1999 includes VERA plus adjustments for newly decentralized programs for networks which exceed the 5 percent limitation. Fiscal year 1998, fiscal year 1999, fiscal year 2000 and fiscal year 2001 include supplemental funding adjustments. Fiscal year 2000 figures have been adjusted to reflect the centralized funding of Prosthetics for fiscal year 2001. Fiscal year 2002 includes the VERA adjustments for 5 networks. Fiscal year 2001 figures have also been adjusted to reflect the rescission (43 million).

Question. According to press reports last year, the VA health care system was short $400 million for fiscal year 2002. President Bush reportedly promised to make up some of that shortfall, but has not sent us a request for additional funds or reprogramming of funds. Can you tell me how large is the current estimated shortfall, whether you will be requesting additional funds for fiscal year 2002, how those funds will be distributed, and how else you will make up the shortfall?

Answer. Based on the continuation of full enrollment, VHA determined there would be a shortage of over $400 million in fiscal year 2002, after available resources were subtracted from projected expenditures. By taking additional management actions that will lessen expenditures, it is estimated that the shortage will be reduced to $142 million, which is the amount related to the decision to continue enrolling new Priority 7 veterans. To make up the difference between any shortfall and the anticipated supplemental, VHA anticipates savings from a multi-year effort to improve standardization and compliance in the procurement of equipment, pharmacy, and medical supplies. Other savings are expected from program efficiencies related to new criteria to assess community-based outpatient clinics and centrally managed programs.

VA made a request to the Administration for supplemental funding of $142 million that was forwarded to Congress in on March 21, 2002. VA can provide health care to an estimated 143,039 Priority 7 new enrollees during fiscal year 2002 with $142 million in supplemental funding. This will ensure VA has health care funding consistent with the President's decision to keep VA veterans' enrollment open for all veteran health care. The $142 million will be distributed based on each VISN's updated Priority 7 Basic Vested workload.

Question. Many of our veterans seek care at VA hospitals because of the excellent pharmacy benefits, sometimes even if they have another primary care physician. As you know, our elderly on Medicare do not have coverage for prescription drugs. Would it relieve some of the burden on the VA if Congress passed a real prescription drug benefit in Medicare?

Answer. Providing a prescription drug benefit for Medicare beneficiaries would certainly have some impact on the VA, however exact impact is currently unknown. Veterans come to the VA for a number of reasons besides the fact that VA provides services that aren't covered by Medicare. VA health care integrates a full continuum of care for veterans of all ages, including mental health services and prescription drugs. VA also emphasizes preventive care and leads the nation in many measures of performance in this regard. VA also provides many services that are tailored to meet the needs of service-disabled veterans. So, in addition to the economic factors, we believe many patients come to VA because of the quality of care that we provide.

QUESTIONS SUBMITTED BY SENATOR TED STEVENS

Question. First, to qualify for the veterans home purchase rate reduction, a veteran must have left active duty military service prior to 1977. This provision cuts off many younger veterans who served in the Vietnam and Persian Gulf Wars and other conflicts such as Granada and Panama. In addition, I am told the provision will lapse in 2007 so that many veterans will no longer be eligible for the program after 2007 unless they have been out of the service for more than 30 years. This 30-year limitation needs to be removed so that the five States currently participating in the program can serve more veterans and to end this discrimination against younger veterans. Can we get your support in trying to rectify this discriminatory treatment for younger veterans who need the one percent rate reduction allowed under the program to be able to afford homes?

Answer. We are aware that the basic criteria for Alaska Housing Finance Corporation (AHFC) Veterans Mortgage Program (VMP) are that the veteran must have entered the service prior to 1977 and cannot have been discharged for more than 30 years. AHFC requires that when veterans apply to them for a loan, they submit a VA issued Certificate of Eligibility along with their DD214 so that it can be determined when they went into the military and what date they were discharged.

However, this program is administered by AHFC, not VA. Therefore, we have no authority over the provisions of the program.

Question. My next question deals more directly with Alaska. Alaska will soon reach the maximum amount it can bond for under the veterans rate reduction program based on both State and Federal law. We need the Federal cap lifted so that we can serve more veterans in our State. Alaska State officials tell me that the issue of the State's internal bonding limit will go before the voters of Alaska this fall as a bond vote to increase the State authorization level. However, we also need

the overall Federal cap lifted. Alaska has the most veterans per capita of any State and we are competing with huge States like California and Texas for these limited dollars. Can we expect your support in trying to raise the amounts that can be bonded for under this program?

Answer. VA has no knowledge of or authority with respect to a Federal cap that may exist on bond issues.

QUESTIONS SUBMITTED BY SENATOR TIM JOHNSON

Question. There is growing concern in South Dakota about budget shortfalls in the VA for fiscal year 2002. While there have been attempts to address the budget shortfall through management efficiencies, it appears very unlikely these steps will be enough to address the budget deficit. With this in mind, will there be an Administration request for a VA health care supplemental for fiscal year 2002? If so, how much will the Administration request? Will this request cover the entire budget shortfall in States like South Dakota?

Answer. When the President made the decision to continue open enrollment, it was understood that adequate funds would be made available to support his decision. Therefore, VA made a request to the Administration for supplemental funding of $142 million, which was forwarded to Congress in on March 21, 2002. VA can provide health care to an estimated 143,039 Priority 7 new enrollees during fiscal year 2002 with $142 million in supplemental funding. This will ensure VA has health care funding consistent with the President's decision to keep VA veterans' enrollment open for all veteran health care. If received, the $142 million will be distributed based on each VISNs updated Priority 7c Basic Vested workload.

To make up the difference between any shortfall and the anticipated supplemental, VHA anticipates savings from a multi-year effort to improve standardization and compliance in the procurement of equipment, pharmacy, and medical supplies. Other savings are expected from program efficiencies related to new criteria to assess community-based outpatient clinics and centrally managed programs. In addition, on February 25, 2001, the Acting Under Secretary for Health approved the transfer of $162 million of centrally managed program funds for distribution to all VISNs. Of this amount, VISN #23 received $7.2 million (of which old VISN #13 received $4.4 million and old VISN #14 received $2.8 million in additional funds).

Question. I am very concerned that efforts to address the budget shortfall within VISN 23 is starting to have a negative impact on patient care. For example, there are ongoing discussions regarding the surgical unit at the Hot Springs VA Medical Center. The Hot Springs surgical unit has had difficulty recruiting and retaining professional staff. One of the proposals under consideration is to close the Hot Springs surgical unit to all but minor, outpatient procedures and move the remaining surgeries to Ft. Meade VA Medical Center. Can you update me on the current situation with the Hot Springs VAMC surgical unit and can you offer solutions as to how we can keep the surgical unit fully operational?

Answer. The surgical unit at the VA Black Hills Health Care System (BHHCS), Hot Springs division, is currently short two nurses; one operating room nurse and one nurse manager. The VA BHHCS has developed a very aggressive and creative plan to fill these positions. In addition to the typical markets where the VA Medical Center in Hot Springs normally recruits nurses, the facility has expanded its search for nurses to wide ranging markets such as Sioux Falls, South Dakota; Omaha, Nebraska; Denver, Colorado; and Minneapolis, Minnesota. In addition, the VA Black Hills HCS is offering a $5,000 sign-on bonus for the nurse manager and a $2,000 sign-on bonus for the OR nurses. VA Employees are being offered a $500 "finders fee" if they assist in the successful recruitment of operating room personnel at the VA Hot Springs medical facility. The community of Hot Springs has also been helpful in the search for VA staff. The Job Service office is engaged in local (Rapid City area) recruitment at no cost to VA. Every effort is being made to assure uninterrupted surgical service at the Hot Springs VAMC and VA officials are optimistic that the positions will be successfully recruited.

Question. As you know, the Independent Budget for fiscal year 2003 calls for approximately $1.7 billion more for VA health care needs than what is included in the President's request. Will the President's fiscal year 2003 request for VA health care be sufficient to fund all VA facilities and functions? If not, how much do you estimate the VA will be short for fiscal year 2003?

Answer. There are many variables that impact health care in general (new diseases, new treatments, inflation changes, etc.) and that impact veterans use of VA health care (other health care alternatives, availability and accessibility of VA services, etc.)., it is very difficult to be certain that the fiscal year 2003 budget will be

adequate to support the health care demand of all enrollees. However, this budget incorporates a "Base Health Care Demand Adjustment" initiative that identifies and requests the resources required to support an actuary estimate of the demand and case mix changes needed for all seven patient priorities in fiscal year 2003. Based on this initiative, this year's budget estimates should better account for the relationship of planned workload requirements and the full funding needed.

Question. As you and I have discussed, there have been several attempts to cap enrollment at South Dakota CBOCs in the last few months. Can you assure me these clinics will stay open and available to all veterans who need service?

Answer. Since 1995, VA has activated over 700 new CBOCs to bring health care closer to veterans' homes. Recent evaluations show CBOCs provide high quality heath care and are effective in improving access to VA services. Since their inception CBOCs have been very popular with veterans. The number of CBOCs in VISN 23 totals 35 and to meet the growing number of veterans seeking care at a CBOC, VISN 23 has steadily increased capacity. However the number of new veterans seeking VA care at CBOCs in VISN 23 has exceeded expectations, which has resulted in some CBOCs reaching capacity. Following is a status on CBOC capacity in South Dakota, which is managed by the VA Black Hills Health Care System (BHHCS). CBOCs in Pierre, Winner, Rosebud, and Eagle Butte are open to new enrollments and will continue to enroll veterans as long as there is capacity. The CBOC in Rapid City, which is staffed by VA with two physician and two mid-level providers has approximately 2,615 veterans enrolled. One physician provider is not able to see patients at this time and this has resulted in the clinic being at capacity for new patients. Veterans interested in enrolling for VA care at the Rapid City CBOC are being referred to the Fort Meade or Hot Springs VA Medical Centers. VA BHHCS is working on plans to resolve the physician issue at the Rapid City CBOC so that enrollment can be resumed.

Question. What was the purpose of the merger between VISN 13 and VISN 14? What will be the impact on patient care? Will there be any budgetary savings? If so, how much?

Answer. The merger of the two networks should be transparent to veterans. Each medical facility within the Veterans Integrated Service Network (VISN 23) fulfills important missions for VA and there are no plans to reduce or eliminate VA programs or services in any of the States served by the network. The new Network will continue to face a number of challenges including managing unprecedented growth within appropriated funding; exercising stewardship of all resources; increasing market share; continuously improving quality of care and veteran satisfaction with that care; fully integrating administrative and clinical programs and processes; investing in capital improvements and information technology; and effectively communicating with veteran groups, labor partners, educational affiliates and other stakeholders. And when you look at the challenges faced by the two relatively small networks, it makes good sense to form one integrated health care delivery structure in order to enhance service and improve access across the Midwest. Individually the two VISNs excel in many areas; both rank high in patient satisfaction; both maintain excellent Joint Commission for Accreditation of Health Care Organizations (JCAHO) scores; and both are proven strong performers in quality measures. Together they share many commonalities. The two VISNs are in close geographic proximity and encompass veterans' populations residing in largely rural areas. Significant financial challenges and small, declining veterans' populations create urgency for improving coordination of care and collaboration between health care providers. Following are some examples of what we can expect to gain from integrating the two Networks.

Improved Coordination and Collaboration.—The new VISN brings together a richer mix of experience and greater flexibility in allocating resources. Individually, VISNs 13 and 14 excelled in practices which, when shared, will enhance the performance of both Networks. For example, VISN 14 excels in the coordination and completion of compensation and pension exams. By sharing exemplary practices across the Midwest, it is expected that compensation and pension exams will be completed in a more timely manner. In mental health, we are seeing the benefits of integration by the two mental health staffs working together to develop a proposal for establishing a Mental Illness Research and Education Center (MIRECC) in VISN 23. In prior years, proposals submitted by former VISNs 13 & 14 were not approved. The new network, VISN 23, offers the opportunity to study and treat a larger veteran population and has improved chances for the Network to be selected as a MIRECC. Other areas benefiting from combining experience and resources are cardiac services, telephone triage, pharmacy formulary and pharmaceutical purchasing, laboratory contracting, and the exploration of opportunities for successfully managing the large rate of growth in our community based outpatient clinics.

Budget Flexibility.—Combining the budgets of former VISN 13 and 14 will give VISN 23 greater flexibility in allocating the estimated one billion dollars on VA programs and services. There will be opportunities to implement management efficiencies and exemplary practices by integrating fiscal services, consolidating business offices, and materiel service functions, such as contracting, logistics, supply, and warehouse functions. An integrated senior leadership team will work cooperatively to prioritize and coordinate health care programs in order to assure equitable access to care across the Midwest. While the merger, in and of itself, will not bring financial stability to the Networks, the merger is expected to generate cost savings through economies of scales and reduced administrative overhead. The estimated $1–6 million saved, over a period of time, will be redirected into expanding access and enhancing services for veterans throughout the Midwest.

Quality.—VISNs 13 & 14 are strong performers in quality measures. Both demonstrated excellent performance in fiscal year 2001 and ranked exceptional within the Veterans Health Administration (VHA) in the areas of clinical practice guidelines and 30-day mental health follow-up scores. Overall inpatient and outpatient satisfaction scores for both Networks were among the best in VHA. Network leaders will build on these successes and seize opportunities for enhancing quality, expanding access, gaining efficiencies and improving veteran satisfaction in areas that are less than exceptional.

Question. Veterans in my State are very concerned about the current eligibility standards for Priority 7 veterans. Priority 7 veterans are those who lack a disability related to their military service or whose income is higher than the current VA eligibility standards. The current income standard is $24,000 annually for a single, or $28,000 for a couple, and applies to 40 percent of the veterans in South Dakota. Assets, such as land, are included in the calculation of income. This is a concern for many farmers and ranchers in my State who may own land worth a considerable amount, but whose actual yearly income is well below the VA threshold. The Administration's proposal to impose a $1,500 co-pay on all Priority 7 veterans would be particularly onerous on these veterans. Do you support changing the law regarding eligibility standards for Priority 7 veterans to address this problem?

Answer. We examined many options for implementing the deductible, including the cost impact on Priority 7 veterans. We believe the proposal in the President's Budget will ensure that VA will be able to provide high-quality care to our nation's veterans in the most cost-effective manner.

QUESTIONS SUBMITTED BY SENATOR PETE V. DOMENICI

VETERANS DEPARTMENT AND DOD COORDINATION

Question. According to the President's budget submission, the Veterans and Defense Departments historically has shown little cooperation between these departments. In the status report on selected programs for the Defense Department, DOD received an "ineffective" rating in coordination with the Veteran's Affairs Department.

Veterans switch back and forth between VA and DOD Hospitals with Doctors not informed as to what care the patient received at the other hospital. The president's budget submission suggests that communications between the VA and DOD Hospitals would improve the quality of care veterans receive.

In what areas, other than medical care, would the two departments benefit from sharing resources? In areas where the VA & DOD has been sharing resources, what have the results been in terms of savings to the budget?

Answer. *Medical Care.*—Section 3(e) of the VA–DOD Health Resources Sharing Act (38 USC 8111) requires that "any funds received through earnings in VA–DOD sharing agreements shall be credited to funds that have been allotted to the facility that provided the care or services." VA has followed this policy since the law was implemented. The law provides an incentive for VA facilities to enter into agreements with DOD and has benefited veterans by allowing facilities to provide services to veterans that would not otherwise have been available.

While the primary focus of the law is to allow facilities to expand services for its beneficiaries, cost savings (cost avoidance) to the budget do occur, especially in the purchase of services. By spending less on goods and services facilities have more money available. However, VA purchases in facility-to-facility sharing are difficult to quantify and are quite small. For fiscal year 2001, VA purchased $20.4 million from DOD in local sharing agreements.

VA–DOD cost savings can be documented through joint procurement efforts, primarily in pharmaceuticals. As of the end of February 2002, there were 54 joint VA–

DOD joint contracts for pharmaceuticals; 37 additional joint contracts are pending award. Sixteen joint contracts were not awarded due to the lack of cost savings to the government through their award. The total estimated cost savings in fiscal year 2001 for both Departments from these contracts were $98.3 million ($80.1 million for VA and $18.2 million for DOD).

Veterans Benefits Administration.—In an effort to explore opportunities and common areas of interest, the Acting Under Secretary for Benefits recently initiated dialogue with the Assistant Secretary of Defense for Force Management Policy to create a VA/DOD Joint Benefits Council. As planned, the council will foster a formal partnership between our respective departments and serve as a standing forum for expanding interagency collaboration to ultimately improve the delivery of benefit services to veterans and service members. Preliminarily, expanded data and information sharing, refinement of transition/separation procedures and protocols, and collaborative pursuit of improved access to military records have been identified as "top tier" objectives.

There are no data presently available to quantify any budget savings which may have been realized by VBA as a result of our expanded partnership with DOD. We believe it would be extremely difficult, if not impossible, to identify and track such savings. However, we can assure you that efficiencies resulting from continued and enhanced collaboration between VA and DOD would be applied to further improve the claims process.

National Cemetery Administration.—The National Cemetery Administration (NCA) purchases headstones and markers to mark the graves of veterans, not only in VA national cemeteries, but also in all other Federal national cemeteries, State veterans cemeteries, and when requested, in private cemeteries. NCA has an automated, on-line system for ordering headstones and markers. The Department of the Army's Arlington National Cemetery also orders its headstones and markers through this on-line, automated system. This sharing of resources has resulted in increased efficiencies in the ordering process.

Question. What steps would need to be taken, with respect to information technology, in order to break down the wall that exists between the two departments?

Answer. There are three principle areas where effective data exchange between the Department of Defense (DOD) and the Department of Veterans Affairs (VA) would significantly improve service for our nation's military personnel and our veterans:

—Military personnel information provided to VA by DOD;
—Military eligibility and enrollment data provided to VA by DOD; and,
— Exchange of medical information between VA and DOD.

Efforts are underway between the two Departments to address these areas. Additionally, DOD and VA have established an Executive Steering Committee (ESC) cochaired by the VA's Deputy Secretary and DOD's Under Secretary for Personnel and Readiness. This ESC is addressing not only those issues where information technology would help break down barriers, but also other areas where both Departments could achieve performance improvements, such as reduced cost for bulk purchasing of pharmaceuticals. With respect to the three areas where information technology could be an enabler, details of efforts that are underway are discussed below.

—DOD is developing the Defense Integrated Military Human Resources System (DIMHRS) as a future replacement for legacy military personnel systems. The Veterans Benefits Administration (VBA) and the Veterans Health Administration (VHA) have provided DOD with functional requirements as part of the design phase of DIMHRS. We will continue to follow up with DOD to ensure data currently received by paper documents is received electronically in the future.
—As part of the fiscal year 2004 budget formulation process, VA will sponsor a One-VA Eligibility and Enrollment initiative for obtaining necessary data from the DOD Eligibility and Enrollment system called DEERS/RAPIDS. An analysis of alternatives (AOA) will be conducted as part of the budget formulation process. Alternatives to be considered include reusing the DEERS/RAPIDS system to meet VA's eligibility and enrollment requirements, including VA requirements in the DEERS/RAPIDS system so that VA can obtain required data directly from DOD, implementing a Commercial Off the Shelf (COTS) Customer Relations Management (CRM) software package that would interface with DEERS/RAPIDS, as well as other potential alternatives. The results of the AOA will produce a recommended approach for the fiscal year 2004 budget.
—VA and DOD have developed the Government Computer Patient Record (GCPR) system that allows VA to have access to clinical data from DOD hospitals. GCPR is in the final stages of testing and we anticipate full fielding of GCPR within VA during the next 90 days. GCPR is a one-way interface from DOD to VA. VHA is working with DOD's Health Affairs to determine how to expand

this capability for two-way data exchange. A key element of determining the way ahead is in establishing common data definitions between DOD and VA for health data. This work is in process.

Additionally, VA and DOD have formed a close collaborative partnership, under the titles of the Federal Health Information Exchange (FHIE) and HealthePeople (Federal), to exchange data and develop a common health information infrastructure and architecture comprised of standardized data, communications, security, and high performance health information systems.

This two phase effort will exchange patient data and will result in computerized health record systems that ensure interoperability with DOD's CHCS II and VA's HealtheVet strategy for VistA (HealtheVet-VistA). The first phase, FHIE, of this plan focuses on DOD providing information to VA clinicians and includes the Federal Health Information Exchange (FHIE, formerly Government Computer-Based Patient Record) effort, already in testing as of the end of calendar year 2001. The second phase, HealthePeople (Federal), is a joint VA and DOD effort to:

—Improve sharing of health information,
—Adopt common standards for architecture, data, communications, security, technology and software,
—Seek joint procurements and/or building of systems,
—Seek opportunities for sharing existing systems & technology, and
—Explore convergence of VA & DOD health information applications consistent with mission requirements.

Question. When veterans apply for benefits at the VA they must submit pages of information on paper, which in many cases are available on DOD computers, what steps should be taken so that this information would be available electronically to the VA?

Veterans Health Administration.—When veterans apply for medical benefits from VHA, they only need to fill-out the Application for Health Benefits, VA Form 10–10EZ. An application can be completed at any VA health care facility, community based clinic or on-line at http://www.va.gov/. The electronic application has been very well received in the veteran community. While some of the information required, e.g., basic demographic data would be available from DOD, other information, e.g., income, eligibility status would not. In addition, VA is working with DOD to examine potential collaborative use of DEERS/RAPIDS for VA health, benefits, and other services.

Veterans Benefits Administration.—Every effort should be made to fully leverage the data and technology capabilities of DOD to enhance delivery of services to veterans. The availability of accurate military service information is critical to accurate and timely VBA eligibility determinations and benefit decisions. Current data and information exchange processes between VBA and DOD are often fragmented. However, improvement efforts are underway. For example, to facilitate the automated collection of essential military information, VBA has entered into an interagency agreement with the Defense Manpower Data Center to establish an electronic exchange of demographic and military history data from the Defense Enrollment Eligibility Reporting System (DEERS). In addition, VA is working with DOD to examine potential collaborative use of DEERS/RAPIDS for VA health, benefits, and other services.

Question. Of the 1.8 million persons in New Mexico's population, veterans make up nearly ten percent of all New Mexicans. We know that the average age of these veterans is rising sharply, and that despite the expansion program I initiated in 1999 for the use of flat markers at Santa Fe National Cemetery, given the current rate of interments, the Cemetery will run out of space by 2008.

Could you provide an update on the planning study that my legislation directed the VA to undertake to determine the efficacy of establishing a National Cemetery for Veterans in Albuquerque?

Answer. Section 613 of the Veterans Millennium Health Care and Benefits Act of 1999 (Public Law No. 106–117) required the Department of Veterans Affairs to contract for an independent demographic study to identify those areas of the country with the greatest number of veterans that will not have reasonable access to a burial option in a national or State veterans cemetery within 75 miles of their residence. The report will provide an assessment of the number of additional cemeteries needed to ensure that a national or State veterans cemetery is within 75 miles of the residence of 90 percent of veterans beginning in 2005 and projecting out to 2020.

The study will address the concerns raised in the Conference Report accompanying the fiscal year 2002 appropriations bill for VA. The analysis will take into account the future burial needs of veterans throughout the United States, including the needs of veterans in the area of Albuquerque, as well as all of New Mexico's veterans. The Honorable Robin L. Higgins, Under Secretary for Memorial Affairs,

has met with Congresswoman Heather Wilson regarding this study and will continue to work with members of Congress to ensure that the burial needs of veterans are met. We anticipate that the final report will be completed and delivered to Congress later this spring.

Question. I have worked very hard to bring more VA clinics to New Mexico to meet the blooming health care needs of our veterans. Still, our veterans have many pressing health care concerns and they need better access to VA facilities. Indeed, the only VA hospital in the State is in Albuquerque, yet by land mass, New Mexico is the fifth largest State. Geographically, this makes it very difficult on veterans who need care.

The reality is, we need more VA clinics in New Mexico, or a better delivery system for providing care to veterans. How will the VA approach this problem and enhance the ability of veterans who reside in rural areas to more easily access the care they need? Could you provide some suggestions specifically tailored to the needs of New Mexico veterans on this matter?

Answer. VHA currently operates 13 Community Based Outpatient Clinics (CBOCs) in the State of New Mexico. Present locations include: Alamogordo, Artesia, Clovis, Espanola, Farmington, Gallup, Hobbs, Las Cruces, Las Vegas, Raton, Santa Fe, Silver City, and Truth or Consequences. In addition, two of these sites—Las Vegas and Espanola—provide services at an additional 10 access points through a contractual arrangement. These additional locations include: Chama, Coyote, Embudo, La Loma, Penasco, Roy, San Miguel, Springer, Truchas, and Wagon Mound. Thus, a total of 23 sites provide veterans in New Mexico with convenient, local access to VA outpatient services throughout the State. Later this fiscal year, the New Mexico VA Health Care System (NMVAHCS) plans to open an additional CBOC in Durango, Colorado that will expand service to approximately 1,800 veterans residing in Northwestern New Mexico and Southwestern Colorado.

During the past 5 years, the number of veterans treated in New Mexico CBOCs has risen by over 40 percent, from 11,700 unique patients in fiscal year 1997 to over 16,500 in fiscal year 2001. The largest annual increase (12.1 percent) occurred between fiscal year 2000 and fiscal year 2001 with the opening of the Alamogordo and Truth or Consequences CBOCs.

Although there are no plans to open additional CBOCs in fiscal year 2003, the NMVAHCS has made specific plans to increase the number of veterans served in the Silver City CBOC (expanding services to accommodate 2,000 patients up from 1,600), in Raton (expanding services to accommodate 1,800 patients up from 1,000), and in Gallup (expanding services to accommodate 1,800 patients up from 1,000).

Furthermore, plans are underway to expand the scope of mental health services provided in New Mexico CBOCs. Additional resources will initially be targeted initially for CBOCs that have an enrollment of at least 1,000 veterans and a veteran mental health penetration level of less than 10 percent. Mental health services will be expanded at Espanola, Gallup, Hobbs, Raton and Silver City. Counseling and psychiatric services will be increased to an appropriate level and the use of telemedicine and fee basis will also be increased where feasible. These actions will enable the network to increase the number of days per week that counseling, psychosocial services, and psychiatric medication services will be available to New Mexico veterans.

Question. I regularly meet with veterans groups from New Mexico who tell me that they are facing a critical direct care shortage. They simply cannot find enough nurses or certified nursing assistants to meet health care demands. What is your assessment of the root cause of this problem?

Answer. The national nursing shortage stems from a variety of factors. In its report of August 2001, VA's Future Nursing Workforce Workgroup cited the following factors that contribute to the shortage:

—A decline in enrollment in schools of nursing.
—Aging of the nursing workforce (average age nationally, 45.2 years, VA 46 years.).
—Average age of a new graduate in nursing has climbed to 30.5 in 1995—2000 versus 24.3 in 1995 or earlier.
—Poor image of nursing as a career choice and more career choices for women.
—Pay inequities.
—Perceived negative work environments.
—Inadequate numbers of qualified faculty to educate the numbers of nurses needed.
—Projected increase in aging veterans who will require more complex care by increasingly greater-skilled nurses.

While the New Mexico VA Health Care System did experience nursing shortages in 2000 and 2001, they currently have a nurse vacancy rate of 4.4 percent, with only

11 positions unfilled (3 of which have been selected and are pending a start date). The health care system has been successful in recruiting and retaining enough nurses to adequately staff their operating beds and clinic operations in all areas except for the Spinal Cord Injury (SCI) Center.

Question. Does the VA have a plan to address this shortage of nurses?

Answer. Yes. To help recruit and retain nurses in general, the NMVAHCS has taken several actions:

—On-site critical care courses are provided.
—Reimbursement of past nursing education expenses is provided to qualifying nurses.
—Tuition reimbursement is provided to staff seeking to obtain nursing degrees.
—Participation in the Veterans Affairs Learning Opportunities Residency Program (VALOR).
—Monthly advertisements in local newspapers for new nurses.
—Attendance at Health Career Fairs
—Attendance at Career Fairs for new graduates.
—Advertisement on the VA Intranet for nurse transfers to the NMVAHCS.

To help recruit nurses for the Spinal Cord Injury Center, the following additional actions have been taken:

—Recruitment Bonuses are offered.
—Through close collaboration with the University of New Mexico, a SCI nursing course has been developed and was offered at the University in November 2001. A second offering of the SCI nursing course will occur in April 2002.

QUESTIONS SUBMITTED BY SENATOR LARRY E. CRAIG

Question. Currently, your budget contemplates moving the VETS program from the Dept of Labor to VA. In my State there is some unrest about the potential ramifications to Veterans that may be harmed by such a move. The details I understand are still in process of being worked out; once the details are finalized I would appreciate your office coming over to brief my staff and I on the details of how this will impact the Veterans of Idaho.

Answer. I will be happy to arrange for you and your staff to be fully briefed on the details of this initiative as soon as the Administration submits its bill to Congress.

I want to share with you, however, two essential elements of the Administration's proposal that will be beneficial to all veterans. The new grant program will be competitive and performance-based. These are two essential components directly affecting grantee performance.

First, VA intends to set clear, obtainable and easily measured outcome performance standards. Measures such as the number of veterans who obtain a job and duration of employment are examples of such outcome measures.

Second, there must be something at risk for the grantees in order for VA's grant oversight to be effective. Simply stated—rewards for exceptionally high performance and a costs for failing to deliver agreed upon outcomes. Quite frankly, a new grant program that is not competitive in nature can only fare marginally better than the existing programs. This is not to suggest that the competition must be at the national level, competition within States can be just as effective.

Question. Three years ago we lost one of our two doctors from our Pocatello facility. Initially VA informed me that they would be able to address the doctor deficit via nurse practioners. Over time it has become apparent that this is not sufficient. Over a year ago VA initiated a doctor search for the Pocatello facility. VA indicates to my staff that they can't find a willing doctor in the area, though there is a residency program in the vicinity with an ample supply of willing and able medical professionals. Currently, because of the doctor deficit there at Pocatello, we have some Veterans who commute from Salmon to Pocatello that now have to go to Salt Lake City which is a 5 hour drive in order to obtain treatment. When do you anticipate resolving the doctor deficit in Idaho?

Answer. We have recently resolved this issue with the selection of Dr. Walaliyadda for the physician position. The selection of Dr. Walaliyadda is currently in the approval phase. Dr. Walaliyadda is expected to start in this position by July 1, 2002, or sooner if possible.

Question. Your 2003 Budget proposes imposing a $1500 medical deductible for Priority 7 veterans. What other alternatives have you reviewed and dismissed before deciding on this approach?

Answer. We also considered such alternatives as imposing an enrollment fee, a first-user fee, other deductible options, and limiting enrollment.

Question. Could you provide me some details and background on the $1.5 billion in collections that you anticipate? How does this compare with what has been collected over the past 5 years? What do you anticipate collecting over the next 5 years, will it be collected at a comparable rate or will it increase or decrease?

Answer. The projected fiscal year 2003 revenue collection is $1.488 billion, which represents a 42 percent increase over the projected fiscal year 2002 revenue collection of $1.050 billion. The primary reasons for the increase in fiscal year 2003 to $1.488 billion are $260 million projected as collections for the $1,500 deductible; a $364 million full-year estimate for the $5 increase in medication co-payment (from $2 to $7); and $40 million representing a full-year estimate for the long-term care co-payment.

REVENUE COLLECTIONS BY FISCAL YEAR

[Dollars in Millions]

Fiscal year	Amount	Percent Inc.
Actuals:		
1997	$520	.....
1998	560	7.7
1999	574	2.5
2000	573	−0.2
2001	771	34.6
Projected:		
2002	1,050	36.2
2003	1,488	41.7
2004	1,627	9.3
2005	1,739	6.9
2006	1,881	8.2
2007	1,981	5.3
2008	2,039	2.9

Question. In the recently submitted President's Budget, one of your goals is to reduce the process time of processing claims from 165 days down to 100 days. Why did you choose 100 days vs. say, 90 or even 30 days? What is the comparable amount of time it takes for industry to process a claim?

Answer. The goal of 100 days on average to process rating-related claims was chosen for several reasons. VA is required by Federal regulation and the Veterans Claims Assistance Act (VCAA) to afford veterans every opportunity to notify us of any evidence they feel is relevant to their claims. VA is obligated to exhaust all efforts to obtain that evidence, whether the evidence comes from within VA, another Federal agency, or a private source.

When attempting to obtain evidence from private sources, VA must allow 60 days for a response before performing any action on the claim. Private sources are under no obligation to submit evidence to VA in a timely manner. Additionally, a physical examination is required in most cases to ascertain the extent of a disability and determine the veteran's overall disability compensation rating. While it is in the best interest of the veteran and VA to process the claim as quickly as possible, the reality is that most claims require some type of evidentiary development that adds to the time it takes to process the claim.

VA is required to establish that the claimed disability was incurred in, aggravated by, or otherwise determined to be a result of military service. In addition, VA must determine the percentage at which a veteran's disability detracts from his or her overall ability to function. Finally, VA must determine the amount of compensation based on a combined disability rating evaluation, as well as processing any ancillary benefits to which the veteran may be entitled.

Given these realities, the goal of 100 days is thought to be a challenging yet attainable goal.

It is difficult to compare the VA's claims processing function to private industry. The closest comparison would probably be disability determinations that take place in the insurance industry. However, most disability determinations by the insurance industry are made without the requirement to establish a link between the claimant's disability and the working environment. Evidentiary requirements are also much more exhaustive for VA.

Question. When do you anticipate eliminating the backlog?

Answer. VA's goal is to reduce the inventory to approximately 250,000 rating-related claims by the end of fiscal year 2003. Our interim goal for the end of this fiscal year is to reduce the rating inventory to approximately 315,000 pending claims.

Our efforts to achieve these goals are showing positive results. VBA significantly increased its production of rating decisions in the latter months of fiscal year 2001 and into this year, which is the key to reducing the claims backlog. From October 2001 through February 2002, VBA decided over 294,000 cases for a 5 month average of 58,800. This represents a 47 percent increase over fiscal year 2001 production levels. We expect our production to continue to increase as many of our recently hired employees gain additional experience and we begin to implement the recommendations of the Claims Processing Task Force.

Even with the increased production, our current pending inventory remains unacceptably high. This is due to a significant increase in the volume of incoming claims, attributed to the following factors:

—The review of more than 98,000 cases under the Veterans Claims Assistance Act (VCAA).

—VA's expanded outreach efforts to separating service members (Benefits Delivery at Discharge initiative).

—Receipt of 66,000 Type 2 diabetes claims based on exposure to Agent Orange.

—The requirement to review 13,000 previously-adjudicated diabetes claims under the Nehmer stipulation. (In the case of *Nehmer* v. *VA*, plaintiffs' attorneys and VA agreed, in a 1991 Stipulation and Order, on a process for applying an earlier than usual effective date for certain claims for benefits based on Agent Orange exposure. As a result of court decisions in the Nehmer case, VA is required to re-adjudicate over 13,000 diabetes claims.)

All of the 98,000 VCAA claims have now been added to the inventory. Following the initial surge of Type 2 diabetes claims, the incoming volume of diabetes claims is expected to taper off. We have also completed a significant portion of the Nehmer reviews. We therefore believe our increased production levels and the Task Force initiatives will now enable us to make major inroads into the pending inventory.

Question. Under the Veterans Benefits Administration, specifically the Housing program, you are currently in the process of completing an A–76 study for potentially contracting out the property management function. How significant is this activity as far as dollars and people, and what is the breakdown by State?

Answer. At the inception of this A–76 cost comparison the Property Management Operation involved 276 FTE at 46 regional offices around the country. There are currently 185 FTE at those offices. A breakdown of the 276 FTE and the current 185 FTE is provided below along with pre A–76 local program expenditures for management brokers, repair cost, and sales brokers. Unfortunately, final program modifications and savings cannot be determined until the A–76 award decision is rendered.

VA PROPERTY MANAGEMENT ACTIVITIES

State	VA Regional Office	1999 FTE	Jan–02	Avg. Expenditures Per Property
Alabama	Montgomery	4	5	$4,113
Alaska	Anchorage	1	0.5	11,020
Arizona	Phoenix	10	8	8,258
Arkansas	Little Rock	4	1	5,831
California	Los Angeles	24	8	8,222
California	Oakland	13	7	12,364
California	San Diego	14	3.5	11,477
Colorado	Denver	3	4	8,967
Florida	St. Petersburg	13	12	9,822
Georgia	Atlanta	16	14	10,960
Hawaii	Honolulu	1	0	6,308
Idaho	Boise	1	2	11,151
Illinois	Chicago	11	4	7,854
Indiana	Indianapolis	2	2	9,402
Iowa	Des Moines	2	2	5,703
Kansas	Wichita	3	2	12,146
Kentucky	Louisville	2	1	6,271
Louisiana	New Orleans	6	4	6,788
Maryland	Baltimore	4	3	17,474
Michigan	Detroit	11	7.5	8,967

VA PROPERTY MANAGEMENT ACTIVITIES—Continued

State	VA Regional Office	1999 FTE	Jan–02	Avg. Expenditures Per Property
Minnesota	St. Paul	6	5	8,807
Mississippi	Jackson	3	2	6,560
Missouri	St. Louis	7	3	7,334
Nebraska	Lincoln	1	1	10,205
New Hampshire	Manchester	4	4.5	16,663
New Jersey	Newark	3	5	10,816
New Mexico	Albuquerque	1	3	10,337
New York	Buffalo	1	1	5,913
New York	New York	3	5	5,477
North Carolina	Winston-Salem	11	4.38	10,495
Ohio	Cleveland	4	5	6,269
Oklahoma	Muskogee	5	1	4,034
Oregon	Portland	1	2	8,000
Pennsylvania	Philadelphia	3	4	7,697
Pennsylvania	Pittsburgh	2	2	8,109
Puerto Rico	San Juan	1	0	5,667
South Carolina	Columbia	7	1	6,263
Tennessee	Nashville	5	1.25	5,522
Texas	Houston	17	13.1	12,852
Texas	Waco	13	4	12,133
Utah	Salt Lake City	0	1	11,910
Virginia	Roanoke	14	14	7,922
Washington	Seattle	7	5	13,579
Wisconsin	Milwaukee	3	0	10,865
	Washington DC	9	7	14,037
National Total		276	184.73	

Note: Some stations have jurisdiction over other States.

SUBCOMMITTEE RECESS

Senator MIKULSKI. The subcommittee stands in recess until next week when we will take the testimony of Housing and Urban Development.

Secretary PRINCIPI. Thank you.

Senator MIKULSKI. Thank you.

[Whereupon, at 11:22 a.m., Wednesday, March 6, 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 2003

WEDNESDAY, MARCH 13, 2002

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

The subcommittee met at 9:35 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Barbara A. Mikulski (chairman) presiding.

Present: Senators Mikulski, Bond, and Craig.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

STATEMENT OF HON. MEL MARTINEZ, SECRETARY OF HOUSING AND URBAN DEVELOPMENT

OPENING STATEMENT OF SENATOR BARBARA A. MIKULSKI

Senator MIKULSKI. Good morning, everybody, to HUD; The subcommittee will come together.

This morning we are taking the testimony from our Secretary, Mel Martinez. We look forward to hearing the Secretary present the administration's appropriations request and the priorities of the administration for the Department of Housing and Urban Development.

I apologize for the Committee starting late. It took me an hour and 45 minutes to get here from Baltimore today. So we are going to move on quickly.

Mr. Secretary, let me start by once again thanking you for the collegiality in which you have worked with the Subcommittee. I believe both Senator Bond and I feel that we have excellent response from you and your staff and that our conversations have been candid and focused on empowering people in neighborhoods. So we thank you for that and look forward to that.

Secretary MARTINEZ. Thank you.

Senator MIKULSKI. Mr. Secretary, I have three goals this morning. I want to make sure that HUD continues to stay focused on its core program, housing programs. And it also that it has enough resources for them. I want to hear your views on how we can also help communities that are under stress.

In terms of those communities that are under stress, it is those that have also been stressed both by age, demographic change, and the changing HUD programs. The stressed communities I am talk-

ing about are particularly in cities where parts of cities are what we call the "middle ring" of a city, that are often are like little suburbs within a city. They were not the inner core. They were not the neighborhoods under siege. But right now they are feeling older. Predatory practices are beginning to come, blight begins to come. But most of all, using FHA programs, we are concerned that people buying homes, cannot keep them up and keep them going.

The other part is in the suburbs where public housing was not built. And there was the great thinking of using Section 8 so that people would have choice and mobility. But they went into apartment buildings that then became public housing by proxy. You and I visited some of those in Prince George's County just a couple of weeks ago. By "public housing by proxy," I mean a privately held complex that rented to the poor. That was a good idea. Then they abandoned their complex while renting to the poor. They either abdicated their mortgage requirements and certainly abdicated the service and maintenance requirements.

And therefore, FHA subsidized, Section 8 subsidized by tenants, all have become public housing by proxy with none of the social services, none of the empowerment and, most of all, these apartments have become incubators for the distressed communities around them.

HOPE VI is expiring, and we are very interested in your thoughts on HOPE VI and those issues, as well as issues related to management and oversight. Without good HUD oversight, we see HUD at its worst. Instead of helping poor and hard-working families to get to a better life, HUD ends up lining the pockets of scums so that they can have a better life.

So, we want to really look at these neighborhoods. We are here to make sure that the poor have a way to a better life, not the scums having a better life. So, I think we are all in agreement on the priorities; and we look forward to working towards them.

Some of the issues we are talking about are the $1 million for home-owner counseling. We are committed to the American dream. But often, people who are not prepared for home-ownership nor have the resources to sustain home-ownership end up not being able to fulfill their responsibilities. And it does not work. We really need pre-purchase counseling. I want to hear more about that.

I am also concerned about what has happened in some community development corporations. The vast majority of CDC's are great engines of redevelopment in our communities. But some CDC's have now been created as almost faux corporations. Again, skimming off the bucks and then leaving very little to show results.

A recent article in The Washington Post about some occurrences in the District of Columbia shows an example of this. And this is not finger-pointing at the District of Columbia or CDC's; I am a big believer in them. There was a guy who was the chief executive of the Anacostia Economic Development Corporation. He took $25,000 from the group and invested in raw gold in Mali, nothing to do with investing in the District of Columbia.

And another has taken nearly $40 million in public and private funds and has yet completed 12 of its 37 projects in 10 years. So, we need to look at how we can work with those CDC's and yet pre-

vent waste, fraud, and abuse, so that the good ones can really be what we call those public/private partnerships.

PREPARED STATEMENT

There is much more to be said in detail, as we go through the hearings, the capital management programs, the details, the budget, but those are my large area policy goals. And I am going to now conclude my remarks and ask unanimous consent that my full statement be in the record.

[The statement follows:]

PREPARED STATEMENT OF SENATOR BARBARA A. MIKULSKI

I would like to welcome Secretary Martinez to his second budget hearing before this Subcommittee.

I have three goals for the hearing today. The first is to make sure that HUD is committed to its core housing programs and has enough resources for them. Second, we want to hear the Secretary's views on how we can help communities that are under stress. I'd like to hear from the Secretary about how the HOPE VI program can best serve these communities, how we can help people who are "aging in place" stay in their neighborhoods, and, how we can prevent concentrations of poverty from destabilizing communities. Lastly, I'd like to address problems that I see in the oversight of HUD programs. We want HUD to be a good steward of the tax payer dollar and a good neighbor in our communities. This subcommittee wants to help HUD achieve these goals.

The Administration's budget fully funds Section 8 renewals and requests modest increases to HOME and CDBG block grant programs. Unfortunately, the Administration proposes to cut the Public Housing Capital Fund by $400 million, even though public housing units have a $22 billion backlog in capital repairs.

HUD programs are seeing an increase in demand, but they don't get increased resources in this budget. This is true for Elderly and Disabled Housing programs and for permanent housing for the homeless.

And, there are still serious problems in the Section 8 program. Working families moving from welfare to work depend on this program, but some vouchers aren't being used, despite this high demand. Vouchers can't solve all of our problems. Senator Bond and I believe that we need to do more housing production; we'd like to hear your views on housing production.

HOPE VI expires this year. In June HUD will submit a report to Congress on lessons learned in the HOPE VI program. In the meantime, we want to hear your thoughts on what the program has achieved. What works? And what doesn't? I know in Baltimore they're gearing up to start a new HOPE VI development, so they'd welcome guidance from the Department. It's also time to take inventory. We want to know if we've met the need out there for severely distressed housing. If we have, is it time to sunset HOPE VI?

We have neighborhoods that are under stress. Oftentimes this is because government walked away, or the landlords walked away. We have a real problem of predatory lending in communities across the Nation. The poor are being gouged, the taxpayers are paying for it, and scam artists are profiting. And predatory lending has resulted in neighborhoods that were once stable turning into neighborhoods under stress.

Secretary Martinez and I have formed the Prince George's County to combat the problems that we saw when we visited the inner beltway communities of the County. There, we saw the effects of absenteeism. We need to work together to build neighborhoods where people live, work, shop, worship and raise their families.

Also of great concern to me are the needs of our aging population. Our senior citizens, particularly our frail elderly, have special needs. The housing stock for our elderly is out of date with today's needs; the elderly need services and affordable housing in communities, not just buildings.

In order to have a strong HUD, we need to have a well-managed HUD. HUD must have good information technology systems, thorough oversight of programs, and tough enforcement. Without good oversight we see HUD at its worst: instead of helping poor and hardworking Americans to get a better life, HUD is lines the pockets of scum so that they can have a better life. HUD needs to turn this equation around.

The GAO has found serious deficiencies in the IT systems at HUD's four Homeownership Centers. These deficiencies affect HUD's ability to target high risk lenders and to investigate cases of fraud. These deficiencies hurt the work we're doing on predatory lending with HUD.

Around the country communities are being hurt by these schemes. Unscrupulous investors buy up foreclosed properties. They flip the properties to unsuspecting homebuyers. They inflate the costs of the houses, they hide fees and balloon payments. They gouge the poor, they rip off tax payers, and they destroy communities. I'm pleased that the budget includes $35 million for homeowner counseling.

Clearly, better oversight of programs could have prevented the scandals being uncovered here in D.C. with Community Development Corporations. We know that the vast majority of CDCs are great engines of redevelopment in poor communities. But, these CDCs managed to scam the government, and hurt neighborhoods.

We know that some of this money came from HUD programs. One of the groups profiled was the Asset Control Area receiver for the City. This is what the editorial board of the Washington Post has to say on February 28:

"The articles . . . show how CDCs, charged with bringing stability and development to scarred communities, have instead left a trail of sick business districts, boarded-up apartment buildings and weed-filled lots across the city . . . Albert R. "Butch" Hopkins Jr., chief executive of the Anacostia Economic Development Corp. in Southeast Washington, invested $25,000 from one of the group's for-profit subsidiaries to buy . . . raw gold in Mali . . . Robert Moore's Development Corp. of Columbia Heights in Northwest Washington has taken in nearly $40 million in public and private funds, holds a large portfolio of properties—some of which it received free from the city and yet has completed only 12 of its 37 major construction projects in the past decade."

We know that Secretary Martinez shares these concerns with us. We look forward to working with Secretary Martinez to help HUD fulfill its mission and be a real partner to communities.

We'll look forward to your testimony.

Senator MIKULSKI. And I will turn to my colleague, Senator Bond.

STATEMENT OF SENATOR CHRISTOPHER S. BOND

Senator BOND. Thank you very much, Madam Chair. And I join with you in welcoming Secretary Martinez to testify on the budget request for 2003. Last year was the Secretary's first opportunity to testify before this subcommittee. And I found the Secretary's testimony frank and refreshing. But I look forward to the second year of testimony now that he has a full year of what I would call the "HUD experience" under his belt.

About a quarter of a century ago, I lost a reelection race I was supposed to win. And one of the most consoling things that a friend of mine said was "experience is what you get when you expected to get something else."

Senator BOND. And I have a feeling that Secretary Martinez has been having a lot of experience. I had a little experience yesterday, I just started to mention. There was a bill that, in flush times with big budgets, might have been very nice. There was the Murkowski-Daschle bill to create $100 million grant program for a rural access to electric infrastructure, $100 million for a rural recovery community block grant program, $20 million in a grant program from community electrification grants, all coming out of HUD.

I put a hold on it, and it was passed yesterday afternoon by unanimous consent; and this is—it is just $220 million that we do not have in the budget. So, Mr. Secretary, we need to work with you on perhaps visiting that effort.

But let us get on to the things that are before us. We have to do some tough battles in this subcommittee, balancing the afford-

able housing and economic development needs against priorities for veterans, environmental protection, continuing investment in science, technology, the expanding, greatly expanding, requirements of FEMA, particularly related to homeland defense.

But there are special challenges in HUD. As we have said, HUD has been troubled and dysfunctional for a long time. Its primary program missions have some real questions about them, as the Chair has already mentioned. I know you have taken some steps to reform staffing requirements. You are following through on contracts for the development of new computer and IT systems. These are really not sexy, front-page stories. But I think it is only through basic reforms like this that you will be able to get a handle on the billions of dollars going through the department.

I have a number of concerns with the budget. I understand the department has requested almost $2 billion to cover all renewing, expiring Section 8 contracts. But Section 8 is probably one of the most troubling programs. Every year the administration, be it Democrat or Republican, glosses over the way many Section 8 programs are administered, while the costs to the taxpayers continue to escalate.

The programs lose over $1 billion annually due to fraud, neglect, and abuse. I think it is time to fix it so we ensure Section 8 assistance really goes to the low income families to find and obtain affordable housing. I am tired of the myth that Section 8 vouchers mean freedom to rent where you want to live. In too many parts of the country, that is a hollow promise. There are not available rental properties. And to give out vouchers in St. Louis County, for example, is a wasted effort.

Yet instead of addressing the shortage of affordable housing, we continue to get OMB recommendations to convert project-based Section 8 assistance to tenant-based Section 8 assistance, leaving low-income families without affordable housing in many areas with a shrinking stock of housing. I am especially concerned about the lack of affordable housing for the elderly and for persons with disabilities. But we need some support from OMB.

And in addition, OMB is pushing to cut, again, the funding for public housing capital by over $400 million despite a backlog of some $22 billion in needed repairs. The OMB suggests capital resources can be made up through the borrowing of private capital, which would then be supported by Section 8 project-based assistance. What HUD does not advertise is that the proposal is designed to convert this project-based assistance into vouchers and privatize the public housing units. That means that the highest quality public housing units will be lost to low-income use, without any guarantee that needed affordable housing units will be preserved for low-income families in tight rental markets.

In addition, the cost of this public housing proposal would be carried by the Housing Certificate Fund, which already has costs of some $20 billion per year. I think it is a shell game especially shifting the costs from public housing capital to the Housing Certificate Fund. And I really—I have a long way to go before I can be sold on that turkey.

There are a number of other issues that I think we need for HUD to address. I would like to thank OMB for proposing, once again,

to eliminate the Rural Housing and Economic Development Program that I fought so hard to get established a few years ago. It may be because I have said bad things about OMB in the past. And I intend to continue.

We also need the Administration's help in re-authorizing the HOPE VI program. It is slated for termination at the end of the year. I think we need a comprehensive review and reformulation of the program. But it is working. We want to make sure that we improve it and make it continue.

Finally, real concerns about renewing expiring contracts under Shelter-Plus Care, Section 811 housing. I do not think the budgets for either are adequate. Shelter-Plus Care includes no funding for the cost of expiring contracts and that is not right.

Well, having said that, Mr. Secretary, we have a lot of work to do. And I look forward to your testimony.

And I thank the Chair.

Senator MIKULSKI. Senator Craig, would you like to say something now?

STATEMENT OF SENATOR LARRY E. CRAIG

Senator CRAIG. Thank you.

Mr. Secretary, it is obvious that we all share passion as it relates to your agency. And I think you do, too. And we appreciate you being here this morning.

Madam Chairman, I am sorry about your struggle to get here this morning. What has happened is that Marylanders have seen rain for the first time in, I guess, months. And it was such a surprising occurrence, they all stopped to look at it.

Senator MIKULSKI. That is exactly right, instead of looking at the road.

Senator CRAIG. Exactly. Now, you know what we who live in desert States experience when the rain comes; we all rejoice. And I think that is what folks in this area were doing this morning.

Mr. Secretary, I share some of the same passions with some different focuses than do my colleagues, in part because I do not have some of the inner-city concerns that are expressed by the Chairman or by the ranking member. They have those, and I support their concerns. But let me thank you for the work you have done with the U.S. Department of Justice to restore HUD to what I think are some original goals and missions.

I was more than a bit incensed by the former practice of reprogramming housing dollars for gun buy-back programs, funds that were originally dedicated for house construction and mortgage assistance programs. It was a detrimental and, I think, reckless public policy, especially to the poor and the under-served. It was a political statement made on the part of a former Secretary of HUD and Administration. I believe it served little value.

I think it is also important that HUD no longer serves as a litigious tool against the manufacturers of firearms. Your dissolution of HUD's role as a police agency to attack the Second Amendment, I think, was a responsible, Constitutionally tenable policy decision, not to mention a victory for taxpayers who were wrongfully forced to unjustifiably subsidize an inter-governmental political agenda that I have mentioned.

Next, I wholeheartedly acknowledge the necessity for access to affordable housing for the disabled, the infirm, and the elderly. HUD's effort to crack down on egregious violators and those who callously disregard the rules should be applauded, and I do it. And I know you are concerned about it.

However, despite HUD's programs to educate developers and construction workers about the vague regulations and the ambiguous guidelines under the Federal Fair Housing Accessibility Standards, there are still incidents in my State of Idaho where scrupulous, honest home builders and developers are pursued in a manner that resembles bounty hunting. Now I know you have changed that. You have changed the incentive there. And that is the way it ought to be.

We need to be in the business of educating. And we need to be in the business of searching for and evaluating compliance directives and doing that in a way that is responsible, both for those who would be subject to the directives and those for whom access is a problem, because they are disabled or elderly or infirm. We do not need to drive away responsible builders who want to provide that kind of housing and want to comply, only to find out that someone is going through their facilities, whispering under their breath: If we search long enough, we will find and file a violation.

That has happened too many times. I know you are working to correct it; I appreciate it. HUD needs—has a responsibility and a mission that I think you have it headed toward. It has a lot of fine, responsible employees who want to do the right thing. And it can be done without a visible, high-profile political agenda.

With that, I thank you for being here. There are a variety of questions that, if I stay long enough, we will visit about, or I will submit them for the record.

Madam Chairman, let us proceed. Thank you.

Senator MIKULSKI. Thank you. Excellent points, Senator.

Yes, Mr. Martinez. Please go ahead.

STATEMENT OF HON. MEL MARTINEZ

Secretary MARTINEZ. Thank you, Madam Chair and Ranking Member Bond and Senator Craig. It is a pleasure to be back with you today. And I think, as Senator Bond said, we are all a year older and a year wiser, to be sure, Senator. But it has been an exciting opportunity to serve in a Department where I think we are at a very close heartbeat of what is the American dream for so many families.

And so, Senator, I enjoyed our opportunity to visit in your State, to see some of the problems that you are dealing with. Amazingly enough, those very problems you are speaking of are what were the middle-class suburbs of the 1950's and 1960's that are now becoming areas under stress. It is something that I am very familiar with from my home community.

But on to our budget, the 2003 budget, for the Department of Housing and Urban Development. It is a $31.5 billion budget, which represents a funding level increase of 7 percent over the fiscal year 2002. At a time when dollars are especially precious and the cost of homeland security is consuming many Federal re-

sources, this shows the President's commitment to improving housing and communities.

By helping Americans to become home owners, ensuring affordable housing opportunities for those who rent, and renewing communities, and preserving a safety net for the most vulnerable, this budget will enable HUD to make a tremendous difference in the lives of millions of Americans.

The housing market in 2001 was extremely vigorous. And we enter a new year with home ownership rates at a record high. Because we know that home ownership gives families a stake in their communities and creates wealth, the HUD budget makes owning a home a viable option for even more Americans. President Bush and I are committed to expanding home ownership, especially among minority families.

As a first step, our budget quadruples the American Dream Downpayment Fund to $200 million. This Presidential initiative will help an estimated 40,000 first-time home buyers with a high down payment and closing costs that are often a significant obstacle to home ownership.

A tax credit for developers for single family affordable housing will promote home ownership opportunities among low-income households by supporting the rehabilitation or new construction of homes in low-income urban and rural neighborhoods.

Our budget proposes tripling funding for the Self-Help Homeownership Opportunity Program, the SHOP program, to $65 million, as committed by the President last spring. That will make possible the construction of an additional 3,800 homes for many disadvantaged Americans. SHOP is an excellent example of Government maximizing its resources, working with the private sector partners and community organizations like "Habitat for Humanity."

Another exciting home ownership initiative targeted at low-income families will allow them to put a year's worth of their Section 8 rental vouchers toward a home down payment. And because we consider it to be a invaluable tool for prospective home buyers and renters, the HUD Budget process proposes also making housing counseling a separate program. The increase in sub-prime lending has made financial literacy more important than ever; armed with the facts, a consumer is far less likely to be victimized by predatory lending. We are funding the Housing Counseling Program at $35 million, a $15 million increase over the previous fiscal year.

While we consider home ownership to be an important goal, we recognize that it is not an option for everyone. Therefore, our Budget preserves HUD's commitment to expanding the availability of affordable housing for many of Americans who rent their homes. The Section 8 Tenant-Based Program, today, assists 2,000,000 families. Our Budget provides an additional 34,000 housing vouchers. The Budget also dedicates $16.9 billion to protect current residents by renewing all expiring Section 8 contracts.

To encourage the production of moderate-income rental housing in under-served areas, the HUD Budget would reduce the mortgage insurance premium for the Federal Housing Administration multi family insurance. Three times over the last 8 years, HUD has been

forced to shut down our multifamily mortgage insurance program because of a lack of credit subsidy.

We made a commitment to a comprehensive review of the credit subsidy program. Through our review, we were able to lower premiums, create a self-sustaining program, provide the industry with stable financing at a much lower cost, and provide thousands of new opportunities for rental housing across the country.

Today I am happy to report that our FHA business is strong, both for single family and multi family housing. In fact, business is so strong that if our insurance commitments continue at the current rate for the rest of the year, we will exceed our statutory limits for both MMI Fund and the GI Fund. If that continues, I will have to come back here and ask the Congress to raise the statutory ceilings enacted last October.

I am particularly pleased with our multi family business this year. Through the first 5 months of the fiscal year, FHA has issued insurance commitments totaling close to $1.4 billion, compared to $900 million for the same period a year ago; that is up 50 percent. Many in the industry and some in Congress were worried that raising the insurance premium would damage the multi family industry. Clearly, that has not happened.

FISCAL YEAR 2003 BUDGET HIGHLIGHTS

The 2003 Budget gives HUD new resources to further our mission of supporting the Nation's most vulnerable. This includes low-income families, homeless men and women, the elderly, individuals with HIV/AIDS, victims of predatory lending practices, and families living in housing contaminated with lead-based paint. Let me highlight some of those proposals.

To better coordinate the work of the many Federal agencies that reach out and provide continuum of care to homeless men, women, and families, the Budget calls for doubling HUD funding for the newly reactivated Interagency Council on the Homeless. Additionally, converting three competitive homeless assistance programs into one consolidated grant will eliminate the workload and expense of administering three separate programs. More importantly, it will give local jurisdictions new discretion in how dollars are spent.

In addition to that, and something I really love, is that it will take from 18 months, the grant process, and compress that to 3 months before the money gets out the door.

HUD's Lead Hazard Program is a central element of the President's effort to eradicate childhood lead poisoning in 10 years or less. The HUD Budget will fund the program at $126 million, a substantial increase over the previous year.

The HUD budget also proposes spending $251 million under HUD's Section 811 program to improve access to affordable housing for persons with disabilities. Many of the additional 34,000 Section 8 vouchers will be to assist non-elderly, disabled individuals.

Initiatives, such as the HOME Investment Partnership Program and the CDBG program, address the Nation's critical housing needs and stimulate economic development and job growth. Combined, these two programs will distribute an additional $200 million formula dollars to State and local governments.

We have increased the CDBG formula grants next year by $95 million to $4.4 billion. In addition, we have proposed changing the distribution of CDBG formula funds by reducing the size of grants going to some of our wealthiest communities. This will help bring dollars into those areas where they can do the most good and where they are needed the most.

I am also excited about our brand, new concept to address the large backlog of repair and modernization projects in public housing. The Public Housing Reinvestment Initiative represents a new way of leveraging the value of public housing by allowing Public Housing Authorities to borrow funds to make needed capital improvements. This will unlock the value of public housing assets by allowing PHA's to convert public housing units to project-based vouchers.

Innovative thinking like this represents a departure from the way things were done so often in the past. But being effective does not mean spending more money, necessarily. Government works best by being a good steward and facilitator and looking for results.

I am pleased that the President's budget reflects our commitment to efficiency, accountability, and the principles of excellence expressed through the President's management score card. When Government spends efficiently, the funds go much further; and we reach many more citizens.

I am happy to tell you that, while virtually all agencies of the Federal Government were given a red listing on the President's score card, HUD already has moved out of the all red. And we already enjoy a number of yellows and even some greens. And so that is, Senator Bond, making us even more popular at OMB. So we are very excited with that.

But let me just thank the committee for your cooperation and your help and your support through this past year. I find our interaction to be very positive in the bipartisan spirit in which it is done. And I look forward to your continued guidance as we go through this budget process.

I would like to take a moment to introduce several people that are here with me today, because they might be important in answering some questions. I just want to tell you that I am extremely proud of the team we have assembled at HUD. In fact, we have a team that I think is the best that HUD has ever had.

And I am proud to say we also have some additional members of our team that are awaiting Senate confirmation, including the very important Inspector General, which has, for several months, been awaiting Senate final action. And I would urge the Senators, if it is within your purview, to encourage the Senate to move forward on all of HUD's pending nominees; most specifically and most urgently the Inspector General.

But let me say that these folks are doing a terrific job for the people of America. John Weicher, who is our Federal Housing Commissioner; Mayor Roy Bernardi, who is in Community Planning and Development; Michael Liu in Public and Indian housing; and, of course, Melody Fennel in Congressional Affairs, whom you know well.

And not to diminish the folks to the right, but we will leave it at that. Anyway, these are the Assistant Secretaries, I should say.

And, of course, Rob Woodson, who is my new Chief of Staff, and I am very proud to have him.

So with that, I would be pleased to attempt to answer your questions.

Senator MIKULSKI. Well, thank you very much, Mr. Secretary.

[The statement follows:]

PREPARED STATEMENT OF MEL MARTINEZ

Chairwoman Mikulski, Ranking Member Bond, Distinguished Members of the Committee:

Thank you for the opportunity to join you this morning to outline the proposed fiscal year 2003 Budget for the Department of Housing and Urban Development (HUD).

The $31.5 billion HUD budget represents a funding level increase of 7 percent over fiscal year 2002. At a time when dollars are especially precious, and the cost of homeland security is consuming many Federal resources, this shows the President's commitment to improving housing and communities.

By helping Americans become homeowners, ensuring affordable housing opportunities for those who rent, renewing communities, and preserving a safety net for the most vulnerable, this budget will enable HUD to make a tremendous difference in the lives of millions of Americans.

The housing market in 2001 was extremely vigorous, and we entered the new year with homeownership at a record high. Because we know that homeownership gives families a stake in their communities and creates wealth, the HUD budget makes owning a home a viable option for even more Americans. President Bush and I are committed to expanding homeownership—especially among minorities.

As a first step, our budget quadruples the American Dream Downpayment Fund, to $200 million. This Presidential initiative will help an estimated 40,000 first-time homebuyers a year overcome the high down payment and closing costs that are significant obstacles to homeownership.

A new tax credit for developers of single-family affordable housing will promote homeownership opportunities among low-income households by supporting the rehabilitation or new construction of thousands of moderately priced homes in low-income urban and rural neighborhoods. This credit of $1.75 per capita matches in size the existing Low-Income Housing Tax Credit and like the existing Credit would be administered by the States. As these new homes are occupied by people who were previously renting, their old apartments will become available for others to rent, thereby effectively increasing the supply of affordable rental apartments in many locations.

Our budget proposes tripling funding for the Self-Help Homeownership Opportunity Program (SHOP) to $65 million, as committed to by the President last spring. That will make possible the construction of an additional 3,800 homes for disadvantaged Americans. SHOP is an excellent example of government maximizing its resources by working with private-sector partners like Habitat for Humanity.

Another exciting homeownership initiative targeted at low-income families will allow them to put up to a year's worth of their Section 8 rental vouchers toward a home down payment. Because we consider housing counseling a valuable tool for prospective homebuyers and renters, we propose funding the program at $35 million—a $15 million increase over the previous fiscal year. The increase in sub-prime lending has made financial literacy more important than ever; armed with the facts, a consumer is far less likely to be victimized by predatory lending.

While we consider homeownership to be an important goal, we recognize that it is not an option for everyone; therefore, our budget preserves HUD's commitment to expanding the availability of affordable housing for the millions of Americans who rent their homes.

The Section 8 tenant-based program today assists nearly two million families. Our budget provides an additional 34,000 housing vouchers, an increase of one and one-half percent. The budget also dedicates $16.9 billion to protect current residents by renewing all expiring Section 8 contracts.

To encourage the production of moderate-income rental housing in underserved areas, the HUD budget would reduce the mortgage insurance premium for Federal Housing Administration (FHA) multifamily insurance.

Three times over the last 8 years, HUD has been forced to shut down our multifamily mortgage insurance programs because of lack of credit subsidy.

We made a commitment to a comprehensive review of the credit subsidy program. Through our review, we were able to lower premiums, create a self-sustaining pro-

gram, provide the industry with stable financing at a much lower cost, and provide thousands of new opportunities for rental housing across the country.

Today, I am happy to report that our FHA business is strong, both for single family and multifamily housing. In fact, business is so strong that if our insurance commitments continue at the current rate for the rest of the year, we may exceed the currently appropriated limitations for both the MMI Fund and the GI Fund.

If that continues, I will have to come back here and ask Congress to raise the statutory ceilings enacted last October.

I am particularly pleased with our multifamily business this year. Through the first 5 months of the fiscal year, FHA has issued insurance commitments totaling close to $1.4 billion—compared to $900 million for the same period a year ago. That is up 50 percent.

Many in the industry and some in Congress were worried that raising the insurance premium would damage the multifamily industry. Clearly, that has not happened.

The 2003 budget gives HUD new resources to further our mission of supporting the Nation's most vulnerable. This includes low-income families, homeless men and women, the elderly, individuals with HIV/AIDS, victims of predatory lending practices, and families living in housing contaminated by lead-based paint.

Let me highlight just a few of our proposals.

To better coordinate the work of the many Federal agencies that reach out and provide a continuum of care to homeless men, women, and families, the budget calls for doubling HUD funding for the newly reactivated Interagency Council on the Homeless. Additionally, converting three competitive homeless assistance programs into a consolidated grant will eliminate the workload and expense of administering three separate programs. More importantly, it will give local jurisdictions new discretion in how those dollars are spent.

HUD's Lead Hazard Control program is the central element of the President's effort to eradicate childhood lead poisoning in 10 years or less. The HUD budget will fund the program at $126 million, a substantial increase over the previous year.

The budget also proposes spending $251 million under HUD's Section 811 program to improve access to affordable housing for persons with disabilities. And many of the additional 34,000 Section 8 housing vouchers will aid non-elderly, disabled individuals.

Initiatives such as the HOME Investment Partnerships Program and the Community Development Block Grant (CDBG) address the Nation's critical housing needs and stimulate economic development and job growth. Combined, these two programs will distribute an additional $200 million in formula funding to State and local governments.

We have increased CDBG formula grants next year by $95 million, to $4.4 billion. In addition, we have proposed changing the distribution of CDBG formula funds by reducing the size of grants going to the wealthiest communities. This will help bring dollars into those areas where they can do the most good.

I am excited about a brand-new concept to address the large backlog of repair and modernization projects in public housing. The Public Housing Reinvestment Initiative represents a new way to leverage the value of public housing by allowing public housing authorities (PHAs) to borrow funds to make needed capital improvements. This will unlock the value of public housing assets by allowing PHAs to convert public housing units to project-based vouchers. The PHAs can obtain loans by borrowing against individual properties—similar to private-sector real estate financing.

Innovative thinking like this represents a departure from the way things were done so often in the past—but being effective does not have to mean spending more money. Government works best when government serves as steward and facilitator, and measures success through results. By facilitating the involvement of new local partners, the Public Housing Reinvestment Initiative will breathe new life into public housing communities.

I am proud of the HUD budget and the way it reflects the Administration's commitment to efficiency, accountability, and the principles of excellence expressed through the President's management scorecard. When government spends efficiently, the funds go much further. We reach more citizens. We help to change more lives.

The people of HUD know that the American Dream is not some unattainable goal, because we see it achieved every day, so often by families who never imagined owning their own home or reaching economic self-sufficiency. Through our budget—and the continued commitment of President Bush—citizens will have tools and opportunities they can put to work improving both their lives and their communities . . . as they travel the road to achieving their own American Dream.

I would like to thank each of you for your support of my efforts. The Subcommittee's guidance throughout the appropriations process last year was invaluable. I look forward to working with you in moving the fiscal year 2003 HUD budget forward, and I welcome your continued counsel as we work together on behalf of the American people.

Thank you.

CORE HUD PROGRAMS

Senator MIKULSKI. I know my colleague, Senator Bond, will ask in great detail the Section 8 questions. It is an issue in which we share identical concerns. And I know both of us are concerned with what is happening to the renewals, the whole issue of a database, and, most of all, the issues around production.

Let me go to the core HUD programs. First of all, we know that there is a modest increase in CDBG, which we appreciate. But let me talk about the concerns I have in elderly, disabled, and Shelter-Plus. I note that in the administration's request, they did not fund Shelter-Plus Care. Estimates say that this is a need for about a $100 million program. This is viewed as one of the real effective programs to serve the homeless. Could you tell us the rationale behind it not being funded? And what then would be other alternatives to shelter-plus care?

We were blessed this year with a mild winter. But still, if you are outside, no winter is mild.

Secretary MARTINEZ. No, I understand.

Senator MIKULSKI. This was so much more comprehensive because it was service empowerment connected, as well as the temporary shelter one. Could you give us the thinking on that?

Secretary MARTINEZ. Well, Senator, first of all, let me say that I am, you know, very passionate about the homeless issue. And I have, since this summer, been saying that we should attempt to eradicate chronic homelessness in the next 10 years. And I think this is a dual goal, if we look at chronic homelessness as something that has much to do with problems that are ancillary to an issue of shelter, but more are really dealing with a person's mental state, or addiction issues, or other problems which is going to take this combined effort of the interagency council that we have put together to begin to bring to bear all of the resources of the Federal Government on this issue, so that we can make a difference and advance the issue forward.

On the funding issue that you mentioned, though, what we have is a proposal that consolidates funding for cities, county, and State governments and would be based on a streamlined approach. No unit of government would be automatically entitled to these funds. Instead, eligible recipients would have to prove that their performance in expending funds met strong performance standards before a grant recipient is allowed to continue to receive the funds.

But in terms of shelter care, the funding issue that you mentioned is that it was double-funded. And the Administration has had a policy of not forward funding. So the 2003 is funded through the appropriations in the year 2002. And we are now seeking to continue in that vein. But then, 2004 will present a new challenge, and we will deal with that at that time. So our goal is not to fund that, but simply to utilize the funding that was provided in prior appropriations and that should take care of 2003 expenditures.

HOMELESSNESS

Senator MIKULSKI. Well, Mr. Secretary, advocates for the homeless would dispute the OMB analysis. First of all, I think we are all agreed in a national goal. If we could work together to really have a foundation for eliminating chronic homeless in a decade, that would be a stunning achievement, because we have at so many of these programs for so many years, even going back to when——

Secretary MARTINEZ. Sure.

Senator MIKULSKI [continuing]. Mr. McKinney slept on a grate, Congressman McKinney. So, I think we want to do that.

The advocates for the homeless would dispute the whole issue of the double-funding, and then they would analyze it, et cetera. So why do we not just have our staffs get together——

Secretary MARTINEZ. Yes. We would do that.

Senator MIKULSKI [continuing]. And talk about this——

Secretary MARTINEZ. I think we can walk through——

Senator MIKULSKI [continuing]. So that we can assure that, number one, we work towards this national goal, that a core program in which there is experience and seasoning work. We know these are competitive grants. They are not micro-entitlements, which means it keeps everybody on their toes with fresh thinking and, yet, accountability.

Secretary MARTINEZ. If I might just assure you that the intent is the same. It is an issue of the mechanics of funding, but that there is no desire or intent to not continue to fund a Shelter Plus Care program.

ELDERLY HOUSING

Senator MIKULSKI. Well, let us then go to the housing for the elderly. As we understand it, the elderly housing request is $783 million, the same as last year. And I believe that was pretty much the same as the year before. I am concerned about the whole issue of renewals and the increase in renewals.

My staff says the renewals this year will cost $15 million, and that the renewal demand is growing. By their analysis of what the renewal cost will be the renewal costs are more than they were last year, which means——

Secretary MARTINEZ. Which program are we——

Senator MIKULSKI. We are talking about elderly.

Secretary MARTINEZ. A voucher—elderly—I am sorry, I am not with you on this.

Senator MIKULSKI. We are talking about the elderly vouchers; excuse me.

Secretary MARTINEZ. Okay. I am sorry. Okay. I wanted to make sure we are on the same page.

We are fully funding, although it is a flat funding level, but it is fully funded from what it was in the prior year.

Senator MIKULSKI. You think you are going to have enough money to meet the renewals and to also—they are nodding their heads. Why?

Secretary MARTINEZ. I believe—yes. We feel comfortable with what we are requesting, that we will be able to fund all renewals.

Senator MIKULSKI. Well, again, the sole renewal of contracts, that is another area of concern that, I think, requires further conversation.

Secretary MARTINEZ. We should obviously——

Senator MIKULSKI. And the way we say further conversation is that Senator Bond and I both have a very big amendment on the floor this year, this minute.

HOPE VI

Let me get off the renewals and go to HOPE VI. HOPE VI is scheduled to be re-authorized. Some people call it a big success. Some people call it too costly. Some people say that the poor have been displaced, not to be able to come back to the very community that was helped or rebuilt. And also, HOPE VI has now been here for a while. So the question is: Where are we on the future of the HOPE VI? My question will be: What is the Administration planning to do for analysis and recommendation for the re-authorization? Senator Sarbanes and I, Senator Bond, and I know Senator Graham want to work very closely on this.

And then, is it really time to think totally different than—have we been? HOPE VI was created to deal with severely distressed public housing. It came out of a housing report more than a decade ago. Could you give us a navigational chart for where you want to go with getting us ready for re-authorization?

Secretary MARTINEZ. Well, first of all, we think——

Senator MIKULSKI. And should we re-authorize it at all? Should it be sun seted?

Secretary MARTINEZ. No. First of all, we think it should be re-authorized. We think it is a very positive program and one that has done a lot of good across the country. We believe that there are some things that we should do, as we go forward with the program, and some improvements that we think would make it even better. I think that we need to be very cautious about the dislocation issue and the way in which we administer that, to ensure that people are treated with the best amount of not only good intentions, but also good outcomes in terms of their relocations.

We need to also be aware of the number of units that are devoted to the people who are living in public housing. And it can be done. We have a project here in the District where 100 percent of the residents of public housing are going to be coming back to the new project in a new, reconfigured development. And I think that is very positive.

We believe that we need to even out the playing field, because I think that in the past there has been a great accumulation of HOPE VI grants in certain communities who have not the capacity to put out the projects because so much money has come to them. And we need to make sure that we are allowing other communities to participate in the HOPE VI program. In other words, I think it was focused on some of the most egregious mistakes of public housing. I think now we need to make that more available to more places around the country.

Senator MIKULSKI. Well, are you doing an internal analysis?

Secretary MARTINEZ. Yes, we absolutely are. And we will be coming to you with recommendations. We believe a number of these

things can be done within the existing statutory framework. But we want to have that discussion and present to you what our recommendations will be.

Senator MIKULSKI. So you have an internal analysis going on? And then you are also, I presume, working with the Urban Institute, who has been conducting an almost ongoing longitudinal study of lessons learned from HOPE VI? Because what we wanted was not a real estate program. We did not want to do real estate development. We wanted to do community building——

Secretary MARTINEZ. Right.

Senator MIKULSKI [continuing]. Both in terms of a fiscal infrastructure, but also a social infrastructure that took the people not only away from distressed public housing, but through empowerment, job training, stakes in the community, et cetera.

Secretary MARTINEZ. There are some terrific examples out there. And we are going to be working with the Institute. In fact, I can recall being in Jacksonville, Florida, where they have done not only a redevelopment of HOPE VI, but they have also incorporated in it Habitat for Humanity housing within the property of what was previously a public housing community.

And so, the public housing residents can then progress into home ownership right there, in the same area as people who built the house and then move on to a nicer house. So they have a nice cycle of progression going on in the project in Jacksonville, which I think is noteworthy. But yes, we are definitely pursuing that and working with the Institute.

Senator MIKULSKI. Well, I am going to turn to my colleague, Senator Bond. When do you think your analysis will be completed?

Secretary MARTINEZ. Well, I am told the Urban Institute draft is now complete. So we should have a report—the Congress had asked by June 15.

Senator MIKULSKI. That is fine. Thank you.

Secretary MARTINEZ. I think that would be the target date that we should use.

Senator MIKULSKI. Thank you very much.

Senator Bond?

Senator BOND. Thank you very much, Madam Chair.

And thank you, Mr. Secretary, about your kind words about HOPE VI. As one of the fathers of the program——

Secretary MARTINEZ. Yes, sir.

Senator BOND [continuing]. I am glad you did not trash it totally out of the——

Secretary MARTINEZ. You should be——

Senator BOND. And we are very proud. Murphy Park in St. Louis, which really was the prototype, shows great promise. And we are working on Darts-Webby and some of the others. But having said that, we know that the costs are too great in many areas. And the Federal Government winds up with significant soft costs.

So we are, while we think the program is going in the right direction, we really would like to reform it and make sure we get our money's worth out of it. Because it has the potential, it meets a great need, we want to make sure it does it in a responsible manner.

CONFIRMATION OF INSPECTOR GENERAL

Turning now to your comment. I want to build on your comment about the need to get an inspector general confirmed. And I am very distressed with what is being held up. Because with the Department going through the kinds of changes that you are, you need a new broom to sweep clean. And I am very much concerned that a couple of my colleagues—and I say this for the record. And I will be more specific when I go to the floor—several of my colleagues are holding up the nomination of the HUD IG because HUD has refused to provide preferential treatment and funding for HUD projects in Pittsburgh and Indianapolis.

I have very strong concerns about the proposed resolution of the issue, because it would hold a community group harmless upon default of a HUD debt on a project it owns and for which it has promised to maintain as low-income housing for some 30 to 50 years. I understand these projects are in poor shape and may not be appropriate for where they are located. But I would really hate to see HUD end up rewarding the community group with future project funding arising from this very same transaction, despite the failure of the group to meet its legal obligations.

I do not believe it is appropriate that HUD provide incentives for any number of owners to walk away from HUD projects when it suits their convenience. And I intend to provide support for HUD so it is not pushed into that position.

Would you care to comment?

Secretary MARTINEZ. Well, Senator, I appreciate your comments. I believe that having a confirmed Inspector General is very, very important to HUD's work at a time when we are in the midst of serious investigations dealing with Anti-Deficiency Act violations by an agency under HUD tutelage, which has been of great concern. It is an issue where that Department, that agency, that entity needs the leadership of an Inspector General and has been languishing for months.

The fact is that we have tried to be as flexible as we could to provide assistance to communities by working with them. And we have bent as far as we can bend in good conscience. We will not go beyond good conscience. And at some point the Senate, in its wisdom, will have to determine what happens to the nominees of HUD.

The fact is that we are doing the best we can with the people we have there. It would be great to have the nominees, but at some point we have to do what we think is right for all the American people. And then others will have to search their conscience to do what they think is right.

Senator BOND. Stay with it, Mr. Secretary. I hope Senate wisdom is not an oxymoron.

STAFFING ISSUES

Turning to HUD staffing, over the last few years, the Department depended on community builders to administer most of the functions of the Department, without regard to program needs or staff expertise. You now issued a new realignment and redevelopment plan. I think it is extremely important. This is one of those

non-sexy issues that is critical for the successful management of your Department.

What is the status of it? Do you expect to have to hire additional staff? And what will the impact on HUD's Salaries and Expense account be?

Secretary MARTINEZ. Well, first of all, let me say that every function at HUD should be tied to a programmatic area. And so therefore, we took about 800-and-some-odd community builder positions and have redeployed them back within the HUD system. What we have done is we have done this with no layoffs and no firings. We have done it also with only a very minimal number of upper management changes in terms of locations. So it has been very, very little disruption to the work force, while at the same time bringing people into focus to a specific program area where they should be deployed. This is already well under way, pretty well taking place. And as a result of it, I think we will have some period of time to just see how it all shakes out in terms of the number of FTE's that we have.

We had—last year, at the beginning of our budget process, we had about—a number of vacancies.

How many vacancies? Several hundred?

So, we believe that we do not need new positions at this point, because we are going to try to fill in those extra several hundred vacancies that we had. And as we do that, obviously in natural attrition taking place, we could not really handle bringing in more people than that anyway, not doing it prudently and judiciously.

Something else we are doing, Senator, is we are retraining folks as we do this redeployment so that I do not hear the stories I heard when I first visited in some communities. And a HUD employee would tell me: I used to be in housing. Now I am in public housing. I do not know anything about public housing. So I do not know what to do on my job. Because there were no dollars for training. So we are making sure that work force is trained for the job to which they are assigned.

Senator BOND. Sounds reasonable.

If you would permit me, Madam Chair, I want to follow up——

Senator MIKULSKI. Senator, I know that you are the lead sponsor with Carl Levin on this amendment. And I will be joining you at that 11 o'clock meeting.

Senator BOND. Okay.

Senator MIKULSKI. But why do you not take your time, so you do not have to worry about a second round? And then I will do the wrap-up. Does that sound good?

Senator BOND. I tell you what, let me just ask the public housing questions. I need to see a constituent outside. And I will come back and take one more, maybe take one more round.

Senator MIKULSKI. Okay.

PUBLIC HOUSING CAPITAL FUNDS

Senator BOND. But let me focus, Mr. Secretary, on the Public Housing Capital funds. A proposed $400 million reduction in Public Housing Capital Funds, I think that is very excessive. I would ask you how OMB justifies the reduction from public housing.

Secretary MARTINEZ. Well, first of all, Senator, I think we made some very substantial changes in the way that Capital Fund is utilized last year. And I think that the Congress ought to be commended for that. I think it will be very, very positive in the way that it assists the utilization of the dollars. But—and better management of them as well.

I think the concept there was to try to initiate a new way in which we could allow project funding to obtain financing to redo these projects and allow them to be modernized by using private financing. To the extent that may be successful, and we think it can be successful, we believe it can advance the opportunity for projects within a public housing unit to be improved and modernized.

If that were not to work, I did not intend, in any of our discussions with OMB, that there should be a penalty associated with a capital fund for public housing. So I would be prepared to come back to you and request additional funds, if, in fact, the private financing options did not work and did not prove to be successful.

Senator BOND. Well, Mr. Secretary, I think you got my drift in my opening comments. What I see this as is a back door way—and there have been some in past administrations, apparently this administration, that want to voucher out public housing. So once you get private funding in, I see this as the camel's nose under the tent, that you take the best projects, you get private funding for them, then you just support them on vouchers. And you really change the nature. And you put the burden—you move the burden to the Section 8 program to keep these going, rather than funding them as public housing.

I think you either see your costs go up with Section 8 and pay a lot more in Section 8 or, if you do not keep it filled with Section 8 people, you are going to lose some of the best quality public housing to market rate or to others.

So, I see this as a proposal shifting the cost of public housing from the Public Housing Operating in Capital Funds to the Certificate Fund. And I see the best units in public housing converted to private housing with the inventory of affordable housing in many market places shrinking. Why am I wrong in that assumption?

Secretary MARTINEZ. I am sorry, Senator. I am——

Senator BOND. What is wrong with my assumption? Can you allay my fears and suspicions?

Secretary MARTINEZ. Secretary Liu and I were just discussing it, because I wanted to have a chance to have the benefit of his thinking in how I should respond to your question. I think that——

Senator MIKULSKI. His questions really express my sentiments completely. We are like twins on this.

Secretary MARTINEZ. I am going to ask Secretary Liu if he could touch on this a little bit.

Mr. LIU. Senators, the proposal was by no means from HUD's view, a back door way, nor intended to be a way to voucher out the program. We clearly see this as another tool, similar to what we have developed under moving to work, where housing authorities have been very aggressive in utilizing that mechanism to go into the bond markets to get very sizeable investments from the private sector, as well as doing debt financing.

But a key barrier that they have found is that our subsidy methodology, whereby we give capital funds in the aggregate, makes it much more difficult for them to target specific project sites in which they can then bring in at a much more reasonable time frame; i.e., in our lifetimes; the dollars to deal with the needed backlog, which was mentioned by the members in their opening comments.

We also see, in fact, that this is a methodology that could possibly deal with the need to develop more affordable housing. By project-basing a building, initially, say if you have 100 units, that does not mean that those 100 units need to be locked into that physical setting for all time. It allows—it gives the option. And again, this whole program is optional. This is not something that we would be mandating any housing authority to move into. It would allow a particular housing authority to move a segment of units, or the value of those units, to other properties that they might either acquire or want to develop to create even more affordable housing.

So, we view this as another tool among many; not a panacea, but another tool to give housing authorities greater flexibility in which to attract their needed financing to deal with their major rehab or potentially new development needs. We have tremendous interest by a number of housing authorities. I was out in Fairfax just 2 weeks ago. They would love to be able to use this tool.

We have had calls from "Moving-to-Work" cities that right now looked at the concept and felt that, boy, perhaps they could do it under "Moving-to-Work" right now. So, we have had very strong interest from housing authorities themselves, and from resident groups.

Senator BOND. Well, obviously your objectives are similar to our objectives. But, boy, we really have some questions about that road. We really look forward to having further discussions.

And, Madam Chair, I am going to turn the questions back to you. Thank you.

Senator MIKULSKI. Well, thank you.

MILLENNIUM COMMISSION

Of course, the whole issue of affordable housing and the best ways to do it, you know, are really also being addressed by the Millennium Commission.

Secretary MARTINEZ. Yes.

Senator MIKULSKI. And while we are pondering this year's appropriation, from what I have heard from participants I know on the commission, they are really working very hard, can meet their deadlines. And it is this committee's intention to hold some type of either hearing or round-table with them for these discussions, because we know they are intractable.

But let me come back to——

Secretary MARTINEZ. May I comment on that, Madam Chair——

Senator MIKULSKI. Yes. Please go ahead, sir.

Secretary MARTINEZ [continuing]. Just to be sure you know that we have been very closely monitoring their work.

Senator MIKULSKI. Yes.

Secretary MARTINEZ. Chairman Ravich and I have met on a number of occasions, and also Vice-Chair Molineri, or co-chair.

Senator MIKULSKI. Yes.

Secretary MARTINEZ. And so we have been very much keeping up with her work. And we would look forward to that kind of a dialogue when it comes.

Senator MIKULSKI. That is why I say we really look forward to that.

Secretary MARTINEZ. Fine.

MANAGEMENT INFRASTRUCTURE AT PUBLIC HOUSING

Senator MIKULSKI. One of the things we talk about, though, the issues of the Capital Fund, the shrinking Capital Fund is troubling to me, the same as Senator Bond. What also, though, is troubling to me is management infrastructure at public housing. So whatever programs we do—and they go to the mayors or the county executives, as our able secretary once was and still thinks like one.

Secretary MARTINEZ. Right.

Senator MIKULSKI. You know, from reports that I have gotten, there are 237 out of close to 2,000 public housing authorities that have been scored as "troubled." I do not know what "troubled" means. But I am troubled, because so many of the public housing authorities do not seem to be able to keep track of their Section 8s. They do not seem to know what to recommend in terms of their backlogs. And I could go on.

Could you tell us what, number one, HUD means when they say a public housing authority is "troubled"; what is its criteria? And what is its plans to turn them around? Because so much money ultimately comes to them. And if they do not know what to do with the money, it certainly is not going to help the poor, the communities, et cetera.

Secretary MARTINEZ. Let me answer your question first in a large, global sense. And then I am going to ask Secretary Liu to answer in the more specific sense.

One of the things that I find most distressing in my job is to get my morning clips and have my daily review of who has been indicted and who went to jail and who was fired because they were using HUD funds in the public housing arena.

Unfortunately, that happens all too often. And I find it to be a number of issues with it that, I think, I should comment on. First of all, I believe that there has been sort of a "boys will be boys"—or "girls will be girls," but a sort of an understanding that—that is just part of what happens in public housing, that it just often times ends up that way, and so be it.

This Administration has taken an attitude that this is not acceptable and that we have got to do better than that. Because, you know, at any time, as you very well mentioned, that a dollar is misused by a public housing agency and it is going to some person whom it does not belong to, that is being taken away from a single mother like we met that day at that new house that she was so proud to be the owner of, trying to raise a couple of young children. And it is about the way that people live in America in ways that they should not live.

We recently have taken administrative action to completely manage—or completely take over the management of the New Orleans Housing Authority, a troubled housing authority for many, many years. I believe that, along with whatever we can tell you specifically as to what it means to be "troubled" and how we bring a housing agency back into better management, that there is a tremendous amount of responsibility that rests with the Nation's mayors and city councils and governing boards of communities that ultimately have the responsibility for their public housing.

And I want to make sure that we, as we go forward and do whatever we can from the Federal level, that we do not forget to put the responsibility where it certainly lies, which is with the Nation's mayors, who appoint the people to the boards of public housing, who in turn appoint their executive directors.

So I think it has to be a shared responsibility, part of it Federal, but a huge part of it has to be an understanding that we will not put up with it and that the locals have got to do better.

Now let me have Secretary Liu on the specifics.

PUBLIC HOUSING AUTHORITIES

Mr. LIU. Madam Chair, there are two evaluations that we use, one specifically focused in on the management of the Section 8 program and another which looks at larger issues regarding performance for the public housing authorities. If they score below certain levels, they then are considered "troubled."

Now even——

Senator MIKULSKI. What are the top three criteria, Mr. Liu?

Mr. LIU. Under Section 8, we have utilization rates, we have reporting requirements to report in a timely fashion. Are the vouchers that are issued actually issued in a timely fashioned? Are people actually placed?

So, the main thrust of the measurement is the Administration getting the vouchers out. And then second, are they actually used? Those are the major items which we are focusing on. And to put into context, 237 is not insignificant, but there are close to 3,500 public housing authorities.

We have allocated approximately $10 million for the provision of technical assistance to address those agencies which are troubled, technical assistance in most cases in the form of providing contractor help to the housing authority for the specific problems that they might have.

Then within the categories of troubled agencies, there are, of course, varying levels. There are some which are border line, which might need just a little assistance. Perhaps they are just not good in reporting back to us in a timely fashion of what is going on. And then, of course, there are the more egregious situations, where they need a tremendous amount of assistance in providing counseling and providing education to home owners, et cetera, apartment owners, et cetera, who are involved in the program.

So that, in a nutshell, is our approach to dealing with that and our plan to deal with that.

Senator MIKULSKI. Well, first of all, I appreciate that. And I want to acknowledge what the Secretary said. Where there is fraud, that is totally unacceptable. And I believe that HUD, its In-

spector General—and I believe we need one approved expeditiously. We have to really prosecute. And I mean it in the metaphorical sense, through the proper authorities.

In addition to the overt fraud, there are the concerns that I have over incompetency. And then just complacency and being a laggard. First, I am going to salute any public housing authority that is doing a good job. It is really hard to work with the poor, in poor neighborhoods, with crack cocaine continuing to be an insidious virus in our communities.

So for those who are doing a good job, God bless you. But for these others, there is this culture that you are talking about that is corrosive. And it goes at every staff level. So I believe that yes, the mayors or county execs, the local governing body, have to take initiatives. But I would hope that really what HUD does—and we need to look at this—is set national standards and then training of these housing authorities where they can also learn from their peers.

Secretary MARTINEZ. Absolutely.

UTILIZATION OF VOUCHERS

Senator MIKULSKI. Because "been there, kind of done that," knowing what the struggles and challenges are. And that is the training aspect.

I am going to go to the criteria, though. It deals with the utilization of vouchers. That is one of the core aspects on which they should be judged. But our concern is, are they just dumping the vouchers? In other words, if they are measured by just getting them out, are they just dumping the vouchers?

Number two, what are they dumping the vouchers on? A lot of the places that I have seen that get Section 8 are really dysfunctional housing units. Then we saw what the housing Section 8 does by taking over an apartment building and, where the poor have a voucher, and they think it means something, but it means nothing else than what they had lived in.

And therefore, what is the criteria for the housing? I know landlords do not always want to take the poor. There have to be incentives. This is a really big issue about how public housing authorities, what is our criteria? What should our criteria be? And then also, it comes back to production.

Now, Senator Bond and I have a big amendment on the floor. And we are going to be wrapping up in about 10 minutes. You see how all this is linked? I am troubled about us not being able to seem to get anywhere with this——

Secretary MARTINEZ. Well, Senator——

Senator MIKULSKI [continuing]. Acknowledging your goodwill and your administrative talents. So——

Secretary MARTINEZ. Well, and let me say that we are focused on the issues. And you raise some very good points. I think, number one, we should give kudos to those good housing authorities. And I know that sometimes the people in the industry feel that I am always beating up on them because I talk about these problems. We have to talk about the—you know, unfortunately, it is the troubled ones that usually get our attention. There are many, many hundreds and thousands of them that are doing a great job.

But as to those that are troubled, we have got to pay attention to them. You are absolutely right. We have dollars that go to training. We have dollars that go to training of the executives and the commissioners, as well. And we understand the need for us not only to deal with what might be fraud, what might be illegality, but also what might be just plain management problems. And I think those are important issues to focus on.

In terms of the Section 8 dumping, can you address that?

Mr. LIU. Madam Chair, as I mentioned, that is a concern, if that is going on. But we link not only the issuing of the vouchers, we also link the actual placement of people to get the right picture, hopefully, across the board.

Senator MIKULSKI. I do not know what placement of people means, Mr. Liu.

Mr. LIU. I mean, that once they get the voucher, they can actually get into an apartment, that they are actually——

Senator MIKULSKI. A safe, sound apartment?

Mr. LIU. Yes. But then, of course, they have to also follow inspection protocols. And they have to report to us on those inspection protocols.

Senator MIKULSKI. I do not believe a lot of them do it.

Mr. LIU. Well, we——

Senator MIKULSKI. I do not believe they do it.

Mr. LIU. We hope that we catch them within the numbers that you mentioned. And we will be taking the actions necessary, remedial in those cases where they are open to that and where that can happen, and, of course, prosecutorial, if in fact it is required. You are absolutely right.

Senator MIKULSKI. Senator Bond. We could talk all day about this.

Senator BOND. Thank you, Madam Chair.

Let me just add—I'll try to make these questions quick. And I hope that the extensions can be for the record.

MARKET-TO-MARKET

Market-to-Market is obviously something we have worked on for a long time, providing a mechanism to reduce the cost of over-subsidized, expiring Section 8 contracts while preserving the housing. I would like for you to supply for the record how much Section 8 funding has actually been saved by the program, how many projects have been preserved with Section 8, how many projects have been removed from Section 8 inventories, who opted out of their Section 8 project-based contracts.

And I would just ask if you can comment generally on the program?

Secretary MARTINEZ. Sir, we will provide you with the information that you seek.

Senator BOND. Thank you.

Secretary MARTINEZ. I think that we have—after a slow start, that program, I think, has been hitting its mark, if you will. And I think it is doing a good job of preserving the Section 8 contracts. So, we feel good about where it is today. We think it took a long time ramping up, but we do feel like it is beginning to bear some fruit. And we will get you some details.

OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

Senator BOND. Okay. Something this Committee has been working on for years is OFHEO. It took almost 10 years for the Office of Federal Housing Enterprise Oversight to issue risk-based capital standards for Fannie Mae and Freddie Mac, despite a requirement that they be issued within 18 months of the appointment of the director. I am very much concerned about a proposal that would remove funding for this office from the jurisdiction of the Appropriations Committee.

We see no good reason provided for the recommendation. Frankly, it is because we have been on their case because they have failed to do their job. We ought to kick them and stomp them and make them do their job. And now somebody thinks that they would be better if they did not have our kind in general oversight.

A number of groups that do business with the GSE's and who will be impacted by the regulation express concern that there will be little accountability of OFHEO for possible decisions that could damage financial markets. Do you have any views on where OFHEO ought to be and what is the best way to ensure its accountability?

Secretary MARTINEZ. I believe that it should be under your continued, gentle guidance. And I think that anything we can do to strengthen OFHEO, to improve its ability to do its regulatory work by having an OFHEO that is enhanced in its ability to do what it does, staffing and otherwise, I think it is to the good. I think that GSE oversight is a very, very important thing to our markets and to our economy. And I believe that the best place to do this is within the current OFHEO frame work but with a strong, viable OFHEO.

INTERAGENCY COUNCIL ON THE HOMELESS

Senator BOND. And finally, a couple years ago, the Subcommittee reactivated the Interagency Council on the Homeless, because we were very much concerned that we needed much better coordination in the programs and activities to prevent and end the tragedy of homelessness. We made a number of important changes in the operation to ensure that it was not a HUD-driven process and that the council receives the support it needs from The White House.

We are thrilled that Philip Mangano has been selected to head the Council. But I want to make sure the Administration is complying with the letter and intent of the legislation to ensure that we have full participation from the various agencies, and it is not solely a HUD-driven exercise.

Would you care to comment on that?

Secretary MARTINEZ. Yes, sir. And let me assure you that is the case. It is intended to be a White House-driven initiative. Mr. Mangano was hired through The White House. He is going to be housed at HUD physically, but it is going—that inter-agency council, which had not convened since 1997, we are now bringing it into full activity. We are doubling the budget for it. And, in fact, the other departments that are asked to be participants in that are going to be asked to participate.

Secretary Thompson and I have met on the issue of homelessness before. We both sent together our people to work together to try to come up with the kinds of interaction and conversation that would lead to better outcomes and not just bureaucratic turf protection. But I assure you that my intent is not to dominate this debate but to share that opportunity with my colleagues in the Cabinet.

Senator BOND. Thank you very much, Mr. Secretary. I will have questions for the record on Section 8 fraud and abuse by non-profits in D.C. and some more on the homeless issues. There are so many things. Unfortunately, I have to leave. But I appreciate it, Madam Chair.

Secretary MARTINEZ. Thank you, Senator.

Senator BOND. Thank you very much.

Senator MIKULSKI. Senator Bond and I, along with Senators Allen, Stabenow, and others, have an amendment on the CAFE standards. And for us, it is a big job issue. And it is a pretty intense day.

PREDATORY LENDING

Mr. Secretary, as we wrap up, I want to thank you for the ongoing engagement of HUD and your able staff on the predatory lending issues, both using Baltimore as the laboratory, and also—continuing to address these on a national level. I also note in the audience is Laurie Maggiano from HUD, and we want to thank her for her ongoing involvement. We really appreciate her professionalism and pragmatism in dealing with these issues. So, we want to thank you for that, as well as we get ready issues to work on the Prince George's issue.

NATURALLY OCCURRING RETIREMENT COMMUNITIES

I was so pleased to hear you say that you are having ongoing conversations with Secretary Thompson, because another issue I know the Committee shares is what they call the NORC's, the Naturally Occurring Retirement Communities, that cannot be solved with housing and cannot be solved with social services by themselves.

And I know HHS is embarking on some demonstration projects to look at how to deal with this. And I would ask your staff to liaison very assertively with those. Because I think this is a significant issue that is emerging. And with common sense and creativity, I think we can really be doing some very good things.

COMMUNITY DEVELOPMENT CORPORATIONS

And the last issue is, and it comes back to what we discussed with public housing authorities, capacity building. We need to be looking at building housing and promoting home ownership. But the people issues, I think, are—not only the poor people, but those who administer programs. I would really encourage you to look at this for our public housing authorities but, also, how HUD can work with Neighborhood Reinvestment or some of the other groups can work to think about how we can think about capacity building for our CDC's.

One of the things that is emerging in my own home town are even certificates and programs now for non-profit management. The non-profit sector is such a robust sector, as you know. And we are public/private partnership——

Secretary MARTINEZ. Sure.

Senator MIKULSKI [continuing]. We are a public/private partnership group here. But CDC's are so uneven in terms of the executives' abilities, background, and training. Again, this is no fault.

Secretary MARTINEZ. Right.

Senator MIKULSKI. And also, even their boards. You know, if you are in a private sector, you have board scrutiny and transparency and all those things; we are held accountable. But non-profit boards, very often it is volunteer work.

Secretary MARTINEZ. Right.

Senator MIKULSKI. And some of the board members, a lot of the board membership are community-based people who have not had experiences with accountability. They want to do these things.

And I think that this whole issue of capacity building is something that we need to think about. I am not looking to put a line-item in the bill; I am not looking to do this. But Neighborhood Reinvestment has done a lot of this thinking. And I would like HUD to think about it, too.

I think we need to go over after the CDC types that really skim the system or game the system. I think they are few. So, should we have a CDC certification program, if you will? But I am interested in those CDC's where the executive director is either a bachelor of arts, maybe like in my own field of social work, that did not have business training, or it could be a community leader, who is charismatic, who is compelling, who knows how to save a neighborhood, but wants to operate it like out of a cigar box herself or himself and has not had that background.

And things do not work out. And we want to be sure that they do work out. And I know this has to be solved at the local level. But I am looking, then, for creative ideas, because I truly believe the Community Development Corporation could have the same impact on communities as our small to mid-sized business. It is where the new ideas are. It is closest to the people. It should be governed in a way that reflects those local needs and so on.

But I am really looking at ideas on how we can facilitate empowerment and training initiatives at the local level. And it might——

Secretary MARTINEZ. I was just going to say, Senator, I share your passion for that, because I think that is an engine of ingenuity and——

Senator MIKULSKI. That is a great phrase.

Secretary MARTINEZ. But I think in addition to that, that HUD does a disservice to these organizations when we waive rules and facilitate them getting in over their heads. And clearly, that is what happened in the District of Columbia example that we have been talking about today. I think when HUD works best is when HUD forces the system to operate within the guidelines that have been well laid out by the Congress and by regulations, to ensure that the organizations receiving the funding or receiving the hous-

ing opportunities are organizations that have the capacity. And if they do not, we can work with them to build them to that level.

But when we weigh the rules and pretend that is all going to work out okay for some more immediate purpose, frankly, that sometimes just does not work. And there was a tragic example here in the D.C.; example, where a number of rules were waived and they should not have been.

Senator MIKULSKI. Well, I think that is a very good point. But again, along with that, because I think there is the criteria of getting rid of the fraud and focusing on those issues. But I really would hope you would also look within HUD, the non-profit sector that I know you have an excellent relationship with, and perhaps even—like Neighborhood Reinvestment. That is only a suggestion.

ADDITIONAL COMMITTEE QUESTIONS

And it is this committee's intention to have a longer conversation with you on some of these priorities. And I really want to thank the President and your leadership. Because the stresses of homeland security are indeed there, both from a physical as well as a psychological standpoint in our communities. And the fact that we could stay the course is very good. And so we are going to look at how we can make even wiser use of the money, empower the poor, build neighborhoods, and build capacity.

[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 BARBARA A. MIKULSKI

INCREMENTAL VOUCHERS

Question. The fiscal year 2003 budget request includes 34,000 new incremental vouchers. All of the vouchers requested are targeted to specific populations. What is the justification for targeting versus providing some of the vouchers on a fair share basis?

The Administration's budget proposes to make $40 million for people with disabilities available from the request of $204 million for incremental vouchers. This would allow for funding of approximately 7,900 vouchers for non-elderly people with disabilities that have lost (or are expected to lose) access to public and assisted housing as a result of projects being designated as "elderly only." If Congress accepts this recommendation, it would bring the 7-year total for this effort to address the impact of "elderly only" designation to nearly $300 million. Can you update the Committee on HUD's efforts to implement and monitor this program?

Answer. The proposed budget legislation indicates that of the $204 million proposed for these vouchers, up to $40 million would be used for non-elderly disabled; up to $6 million would be used for initiatives related to the Olmstead decision, that allows the use of vouchers for persons currently living in institutions to live independently; and up to 500 units will be dedicated to homeless veterans pursuant to the Homeless Veterans Comprehensive Assistance Act of 2001. The rest would be split among the other uses including fair share with particular emphasis on down-payment assistance.

Out of the $204 million designated for incremental vouchers, the Department proposes to make $40 million available for non-elderly persons with disabilities living in public housing units or other subsidized housing units that are now being designated for occupancy by "elderly only". This $40 million will support approximately 6,700 vouchers.

From fiscal years 1997 through 2001, approximately $210 million has been appropriated for non-elderly disabled vouchers under the Housing Certificate Fund. Of the total $210 million, approximately $150 million was used in connection with "elderly only conversions" based on the applications received by HUD for such funding. The remaining $60 million was transferred to the mainstream program because HUD did not receive sufficient applications from Public Housing Agencies (PHA) for

elderly only conversions to make full use of these funds. In fiscal year 2002, another $40 million was enacted that are expected to support additional 7,900 vouchers.

Question. Specifically, can you provide additional information regarding: a) whether housing authorities receiving these vouchers are making them available exclusively to people with disabilities after their initial 1-year term,

Answer. PHAs are advised in the Notice of Funding Availability (NOFA) that PHAs are required to initially make these vouchers available only to non-elderly disabled households even if it takes more than 1 year to initially issue these vouchers for this purpose. Furthermore, the NOFA also directs PHAs that if any of these vouchers are returned within the first year term of the annual contributions contract, the turnover voucher must be made available to another non-elderly disabled household. In the case of vouchers funded from Section 811 appropriations these vouchers may only be used for elderly households with a disabled person, including the use of any turnover or renewals.

HUD is in the process of developing the ability to track the actual number of vouchers used by households having a person with disabilities for which funding was specifically provided from the funds available for "elderly only conversions." This is in the initial phases of development, and will be implemented within 1 year.

The most recent data shows that 39 percent of the households that receive voucher assistance have at least one person with disabilities; more than half (22 percent of the total households receiving voucher assistance) are non-elderly households with a person with a disability.

Question. Are housing authorities using turnover generated from these vouchers to serve non-disabled families?

Answer. After the first year is up, these vouchers are renewed and the non-elderly disabled households under a lease continue to receive the benefit of the voucher assistance. However, after the first year, it is up to the PHA to continue the use of any turnover of these vouchers for non-elderly disabled households based on local housing needs. It is worth noting that once a disabled family uses its voucher to lease a unit, the turnover of such units is very low.

Question. Is HUD providing protection from recapture of these disabilities vouchers similar to the protection provided to "welfare-to-work" vouchers?

Answer. In appropriating funds for families affected by "elderly only conversions", the objective was to protect persons living in the projects, or on the owner's or PHA's waiting list, from any injury that would result in their loss of housing assistance as a result of the "elderly only conversions." Once this initial protection was provided, any other household with a disabled person may apply and be placed on the waiting list for vouchers or public housing. Many PHAs give preference for admission to households having a person with disabilities.

Question. Are housing authorities that have had "Allocation Plans" approved contingent on seeking vouchers under this program have actually followed up and applied for them?

Answer. Welfare-to-Work (WtW) vouchers are afforded a longer "protection" in order for HUD to comply with the law. Specifically, the law authorizing the WtW program requires that HUD conduct research and evaluation concerning the effectiveness of this demonstration. In order to have sufficient vouchers on which to base its evaluation, HUD had to extend the protection given to households participating in the WtW program,

HUD does not have this information at this time. We will conduct an analysis of plans approved to date to identify those with approvals contingent upon the receipt of designated housing vouchers. We will also determine whether these agencies have applied for and received designated housing vouchers through NOFAs.

COMMUNITY DEVELOPMENT BLOCK GRANTS

Question. The fiscal year 2003 budget makes a change in the CDBG formula in order to fund the $16 million Colonias Gateway initiative. How did the Department come up with the new CDBG formula? Was this a thorough review of the formula? Please detail the staff and outside groups consulted as well as the process the department undertook in recalculating the formula.

Answer. The Department's proposed budget for fiscal year 2003 requests $4.436 billion in budget authority for the formula CDBG program to address locally identified community and economic development needs. Although the CDBG program allocates funds by formula in a way that targets most funds to our neediest communities, the current formula distribution of these funds also provides grants to higher-income communities. Because of the great disparity in per capita income among our grantees, the budget proposal seeks to re-evaluate the method of allocating the limited resources of the CDBG program.

A legislative change has been proposed for fiscal year 2003 to reduce, by 50 percent, the amount of the grant to communities with per capita income equal to, or greater than, two times the national average. It must be noted that this proposed legislative change is intended to further target limited CDBG funds to the neediest communities. If this proposal is enacted, the Department will use data on per capita income from the 2000 Census to identify the communities whose funding would be reduced.

The funds captured by the 50 percent reduction would become available to other entitlement communities with lower per capita incomes and would not directly fund the Colonias Gateway Initiative. However, the savings achieved by this movement of funds to more needy communities would create room in the budget to provide resources for the Colonias Gateway Initiative, which is designed to serve some of the poorest communities in the Nation.

The Department does not consider this a new formula for CDBG. The data from the 2000 census needed to do a professional and comprehensive analysis of the CDBG formula should be available this fall. We expect to do a study and present it to Congress for their consideration next spring so that consideration could be made for the 2004 allocation of funds. Rather than wait for the process and a full examination of the formula, we chose to propose this adjustment to move a limited amount of funds from very wealthy communities. The Administration did not do a formal consultation on this issue.

SHELTER PLUS CARE

Question. The fiscal year 2003 HUD budget does not request funding for Shelter Plus Care renewals, but the Department has given assurances that these grants will be funded. Is the Department providing a guarantee to SPC providers that their grants will be renewed?

Answer. Funding of renewals will be of the highest priority but remain dependant on adequate Appropriation. Grantees must meet certain capacity and threshold requirements in order to be eligible to have these grants renewed. Funds were provided for contracts that expire in fiscal year 2003 in the fiscal year 2002 Appropriations Act and were given a top priority. Therefore, the fiscal year 2003 Budget request did not include funds for contracts that will expire in fiscal year 2003. The Department intends to fund contracts that expire in fiscal year 2004 from fiscal year 2004 Appropriations, reflecting both the expected streamlining of the Homeless Assistance Grants program and to be consistent with how renewals are handled in other HUD programs.

Question. Will the Shelter Plus Care grantees still be required to compete and participate in the Continuum of Care?

Answer. SPC grantees have always been required to participate in the Continuum of Care and must be included on the Continuum's project priority list. We anticipate that they will be listed at the bottom of the list, as they have in the past several competitions, and would be funded non-competitively.

Question. If so, please provide an explanation of how the SNAPs office will award and administer the renewals in advance of knowing whether they've been funded.

Answer. The Special Needs Assistance Programs office could not award renewals in advance of knowing whether they are funded. If funds are appropriated in fiscal year 2004, they should be available for award by the time the fiscal year 2003 competition is completed, which we anticipate will be in the first quarter of fiscal year 2004.

Question. Why does HUD consider the SPC renewals to be "forward funded" by the fiscal year 2002 VA–HUD appropriations act, but does not consider the other expiring grants in the SHP program to be forward funded?

Answer. Shelter Plus Care renewal grants have been funded over the last several years on a non-competitive basis for 1 year only. Supportive Housing Program (SHP) grants, on the other hand, are funded competitively, are awarded conditionally, require additional information before the grants may be executed, and may be multi-year awards. Due to the competitive nature of the process and the length of time it takes for a grant to be executed from the time the awards are announced, it is necessary to award the SHP grants with funds from the fiscal year prior to grant expiration.

Question. Does the fiscal year 2002 bill also fund SHP grants that expire in fiscal year 2003?

Answer. Yes, the fiscal year 2002 bill funds Supportive Housing Program grants that expire in fiscal year 2003.

EMPOWERMENT ZONES/ENTERPRISE COMMUNITIES

Question. The fiscal year 2003 budget eliminates funding for Round II empowerment zones, and justifies this cut by saying that "current available balances as well as CDBG and HOME formula funds are sufficient to cover needs." What are the unexpended balances in the EZ accounts?

Answer. Fiscal year 2002 awards of $3 million per EZ were just recently made. Based on funds awarded between fiscal years 1999 and 2001, unexpended balances are:

State	Grantee Name	Total Dollars Awarded—Fiscal years 1999–2001	Total Disbursed (Drawn Down)	Unexpended Balance	Percent Drawn Down
MA	Boston	$18,972,866	$1,550,249.00	$17,422,617.00	8.17
OH	Cincinnati	18,972,866	2,707,801.90	16,265,064.10	14.27
SC	Columbia	18,972,866	3,863,989.72	15,108,876.28	20.37
OH	Columbus	18,972,867	4,238,148.01	14,734,718.99	22.34
NJ	Cumberland	18,972,867	6,444,368.78	12,528,498.22	33.97
TX	El Paso	18,972,867	3,871,913.23	15,100,953.77	20.41
IN	Gary/Hammond/E. Chicago	18,972,867	3,213,353.91	15,759,513.09	16.94
WV/OH	Huntington/Ironton	18,972,867	9,073,969.86	9,898,897.14	47.83
TN	Knoxville	18,972,867	3,413,759.00	15,559,108.00	17.99
FL	Miami/Dade	18,972,867	2,431,148.00	16,541,719.00	12.81
MN	Minneapolis	18,972,866	3,975,735.53	14,997,130.47	20.95
CT	New Haven	18,972,867	2,982,801.67	15,990,065.33	15.72
VA	Norfolk/Portsmouth	18,972,866	9,088,428.00	9,884,438.00	47.90
CA	Santa Ana	18,972,867	6,283,208.00	12,689,659.00	33.12
MO/IL	St. Louis/East St. Louis	18,972,866	2,755,961.00	16,216,905.00	14.53
	Total	284,592,999	65,894,835.61	218,698,163.39	23.15

Question. Have any of the EZ's failed to spend funds in the allowable time frames?

Answer. There is no statutory or regulatory timeframe for spend out. Thus, none of the grantees have strictly failed to spend money in the allowable time frame but both Congress and the Department have expressed concern with the pace of expenditures in the program. While it is only one of many factors, the efficient use of resources is an important one in evaluating a community's revitalization efforts. As part of its efforts to improve oversight, HUD is considering a timeliness policy for the Round II EZ grant modeled after other HUD programs. HUD has learned from over 25 years administering CDBG that timeliness of spend out is a risk factor in community and economic development programs and has proactively shared this experience with EZ/ECs in lieu of issuing a punitive policy. HUD is currently modifying its performance measurement system to track grant obligations and timely spend out so that the progress of the grantees can be better monitored.

ASSET CONTROL AREAS

Question. The fiscal year 2001 VA–HUD Conference Report expressed the Committee's concerns over HUD's implementation of the ACA program. The report asked HUD to report on the disposition program by May 15, 2001. Where is this report?

Answer. This report was submitted to the Committees on May 31, 2001. A copy of the report is attached for you convenience.

LETTER FROM SEAN G. CASSIDY

May 31, 2001.

Hon. ALAN B. MOLLOBAN,
Ranking Minority Member, Subcommittee on Veterans, HUD, and Independent Agencies, Committee on Appropriations, U.S. House of Representatives, Washington, DC 20515–6022.

DEAR REPRESENTATIVE MOLLOHAN: I am pleased to enclose a report on the implementation of the Single Family property disposition reforms enacted in Title VI of the Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Act, 1999. The report is submitted in accordance with the requirements of Conference Report 106–988 accompanying the Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Act, 2001. The report describes actions taken by

the Department to develop new Single Family claims payment and asset disposition procedures and to develop a reformed process for the disposition of Single Family HUD-owned properties in revitalization areas.

If you need additional information, please let me know.

Sincerely,

SEAN G. CASSIDY,
General Deputy Assistant Secretary for Housing, Deputy Federal Housing Commissioner.

REPORT ON IMPLEMENTATION OF FHA SINGLE FAMILY PROPERTY DISPOSITION PROGRAM

Background

Title VI of the Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Act, 1999 (the Act) made significant changes to the Federal Housing Administration (FHA). single family insurance program.

Section 601 of the Act contained amendments to reform and make more effective the methods for paying insurance claims and, disposing of single family acquired notes, and properties: The section:

—reorganized and updated existing statutory authority to eliminate obsolete or redundant provisions;
—authorized a new claims payment procedure under which HUD would be authorized to pay a claim upon assignment of the mortgage rather than upon conveyance of the property;
—authorized HUD to take assignment of notes and transfer them to private parties for servicing, foreclosure avoidance, foreclosure, property management and asset disposition; and
—authorized HUD to be an equity participant with private entities in asset disposition.

The changes to the claims and asset management and disposition procedures were intended to occur in the overall context of HUD's existing procedures for encouraging lenders to perform loss mitigation and for contracting to private entities the maintenance and management of the HUD owned single family property inventory. Section 601 also established certain enforcement mechanisms to ensure loss mitigation would continue to be performed so that as many families as possible would keep their homes.

Section 602 of the Act established special procedures for FHA single family property disposition. These procedures were designed to ensure that the FHA single family property disposition program, in addition to providing returns to the insurance funds on an efficient basis, could assist the Department in identifying and improving local revitalization areas and in providing homeownership opportunities in these areas. To do this, section 602:

—required the establishment of revitalization areas based on low income, a high number of troubled assets, and a relatively low rate of homeownership compared to the surrounding jurisdiction;
—distinguished between preferred purchasers (local governments and non-profit organizations) and regular purchasers of assets within revitalization areas and established a preference for sale of properties to preferred purchasers;
—established discounts for preferred purchasers designed, among other things, to facilitate upgrading or rehabilitating the housing; and
—authorized the establishment of asset control areas (ACAs) within which preferred purchasers, with a plan for revitalizing and increasing homeownership in the area, would become responsible for purchasing all eligible assets.

REPORT REQUIREMENT

The Conference Report (Report 106–988) accompanying the Departments of Veterans Affairs and Housing and Urban Development; and Independent Agencies Appropriation Bill, 2001, directs HUD to report to the Committee on the implementation of the single family property disposition program, enacted as part of the VA/HUD fiscal year 1999 appropriations bill, including the status of the program and an analysis of all savings achieved to date and anticipated to be achieved over the first 5 years.

STATUS OF IMPLEMENTATION OF SECTION 601

Implementation of claims reform and asset disposition alternatives is overseen by HUD's FHA Comptroller with assistance from the Office of Single Family Asset

Management. HUD secured expert help in structuring this alternative disposition program, which is being called the Accelerated Claims Disposition (ACD) Program.

Delivery and Presentation on ACD Program Design—Completed

In January 2000, HUD's program advisor, Federal Asset Advisory Corporation (FAAC) delivered the final Program Design which was subsequently reviewed and accepted by senior management. In May 2000, FAAC finalized the Internal Control and Accounting Report portion of the Program Design, which was subsequently reviewed and accepted.

Development of Proposed Regulations—Ongoing

In October 2000, HUD began developing regulations based on the ACD Program design. HUD anticipates that proposed regulations will be published by the end of September, 2001. The regulations will describe and seek comments on the procedures for determining the disposition alternative for individual high risk defaulted loans, and the eligibility requirements and other matters relating to the program framework. The disposition of individual loans will be determined in large part by the probability or improbability that loss mitigation will succeed. The disposition alternatives will include: (a) transfer to a joint venture, which may proceed to foreclosure but will have additional loss mitigation options to explore—such as partial write-off, recasting and securitization, (b) transfer to a servicer specializing in loss mitigation servicing, or (c) assignment of the note to HUD in order to use the Department's non judicial foreclosure authority.

Engagement of Transaction Advisor—Ongoing

In January 2001, HUD began the procurement process to hire a Transaction Advisor to assist in implementing the ACD Program. HUD anticipates having a Contractor engaged by June 30, 2001.

ACD Program Demonstration Project—Imminent

Before implementing the ACD Program, HUD will conduct a Demonstration Project. The Demonstration Project will be limited to the mortgage loans within the jurisdiction of the Philadelphia Homeownership Center and will initially target 5,000 assets to be transferred to a joint venture "JV" partnership. HUD's Transaction Advisor will assist in assessing the defaulted loan portfolio; developing procedures, guidance and quality assurance plans for the program; marketing to potential JV partners; evaluating JV bids; and assessing project results. HUD anticipates partnering in a joint venture by March 31, 2002.

STATUS OF IMPLEMENTATION OF SECTION 602

Revitalization Areas

Under section 602 of the Act, revitalization areas are low and moderate income communities that are targeted by HUD, local governments, and non profits for special assistance through the property disposition program to effect stability in the community and provide homeownership opportunities for the residents. The law expanded the criteria for designation of a revitalization area, which required a reassessment of the current guidelines and a consultation process with stakeholders.

Undertake Consultation Process—Completed

The Office of Housing consulted with program participants, Homeownership Center Directors, HUD REO Specialists, and others to determine the guidelines which should be used in implementing the new criteria to make the ACA desigations. Stakeholders, including non-profits and local governments, worked, with HUD with the objective of developing clear guidelines that provide uniformity without being overly rigid.

Develop Field Guidance on Revitalization Areas—Completed

HUD developed and, on August 18, 2000, issued to the Field Housing Notice H–00–16 with criteria for reviewing, selecting, and designating revitalization areas. As of May 1, 2001, over 800 zip codes have been designated as revitalization areas. Within these areas, HUD will work with local governments and non-profit community partners to designate asset control areas, as described below.

ASSET CONTROL AREA (ACA) PARTNERSHIP PROGRAM

Overview

The ACA Partnership Program assists in the revitalization of designated neighborhoods by creating homeownership opportunities for the residents through the sale of HUD-owned single family homes. In an ACA Partnership, HUD sells 100

percent of its single family homes located in designated revitalization zones directly to either local governments or HUD-approved nonprofit organizations at discounts of as much as 50 percent of appraised value.

The Local ACA partner selects an ACA territory and presents a revitalization plan to HUD for the proposed territory. The ACA Plan must demonstrate the local partner's ability to purchase, rehabilitate and resell all of the vacant HUD homes in the designated area. The Plan also must contain performance goals, rehabilitation standards, and supporting services such as homeownership counseling and mortgage loan financing. Once the ACA plan is approved, HUD and the local partner enter into a formal contract that outlines the terms and conditions for partnership.

Through discounted direct sales, the Partner receives instant equity which is used to assist in the capitalization of the ACA. This equity can be used to rehabilitate homes and implement homeownership counseling programs that prepare potential purchasers for homeownership. Additionally, HUD offers 90-day interest free financing to the Partner on all of the homes purchased through an ACA Program. Once rehabilitated, the Partner resells the home to a qualified purchaser. All proceeds from the sale must be reinvested into the ACA program. The ACA program empowers the Partners as a driving force in the rehabilitation of their neighborhoods.

SPECIFIC IMPLEMENTATION STEPS

HUD developed a comprehensive five-step process designed to implement pilot ACA Partnerships. The pilot partnerships create a fertile environment where procedures are developed and tested, operational processes are refined, lessons are learned, and best practices are implemented consistently throughout the country. The five steps are summarized below:

Hire & Deploy REO Specialists—Completed

HUD, identified REO Specialists to serve as the key coordinators for the program. The REO Specialists are deployed in strategic cities throughout the country and are assigned various territories. In this capacity, these specialists identify areas that qualify for the program and market the program to the potential partners. They assist the partners in developing their proposals and working through the issues of the contract. The specialists also present and gain approval of the ACA Partnership proposals and coordinate all aspects of implementing the partnerships with HUD's Homeownership Centers.

Create Model ACA Contracts—Completed

HUD created a model ACA contract for use in the program.

Market the Program—Ongoing

The REO Specialists performed a detailed analysis of HUD-owned single family properties and compared this with the revitalization criteria contained in the legislation. From this analysis, they identified and assigned priorities to targeted areas for pilot programs. The specialists built demand for the program by describing the economic benefits to potential partners at various forums such as neighborhood workshops and town meetings. Finally, potential partners are added after they contact HUD directly and express the desire to participate in the program.

Negotiate & Execute ACA Contracts—Ongoing

The REO Specialists serve as HUD's agents and negotiate all aspects of the agreements. They coordinate closely with the appropriate executive, legal and operational officials in Headquarters as well as the Directors and REO Division Directors of the Homeownership Centers.

Monitor Implementation of ACA Partnership—Ongoing

Working together, HUD Headquarters, the REO Specialists and the Homeownership Centers monitor the implementation of the ACA contracts. The ongoing challenges and issues are shared and resolved through appropriate workshops and forums.

Based upon the results of the steps outlined above, HUD implemented the ACA Partnership Program, through Administrative means, in October, 1999. This is to be followed by rule making; which is in process and is expected to be completed by November, 2001.

RESULTS

The three schedules below illustrate the Department's implementation of the ACA Partnership program. To date, HUD has implemented fourteen partnership agreements in major revitalization zones, vs. five a year ago (Schedule 1). We also have

nine partnership agreements scheduled to begin within the next 150 days (Schedule 2). Finally, seventeen other potential partners have expressed interest in participating in this program (Schedule 3).

SCHEDULE 1.—CURRENT ACA AGREEMENTS IN PLACE

Place (ACA Partner)	Date of Agreement	NBR of Prop. Exected Per Year	NBR of Awaiting Closing	Number of Properties Sold
San Bernardino, CA (County)	October 1999	450	130	352
Miami-Dade, FL (County Housing Agency)	December 1999	60	6	53
Rochester, NY (City)	April 2000	300	256	154
Chicago, IL, (Hispanic Housing Develop./Neighborhood Housing).	May 2000	200	35	78
Fort Lauderdale, FL (City Housing Authority)	May 2000	30	2	14
Cleveland, OH (Cleveland Housing Network	July 2000	75	35	82
Reading, PA (City)	September 2000	75	24	20
Washington, DC (Church Association of Community Services).	October 2000	200	75	0
Burlington, VT (non-profit)	October 2000	5	1	1
Denver, CO (City)	October 2000	100	9	1
Los Angeles, CA (County)	December 2000	500	6	0
Rhode Island (State Housing Authority)	April 2001	12	0	0
Hartford & Manchester, CT (Corp. for Independent Living).	April 2001	50	0	0
Bridgeport, CT (City)	April 2001	75	0	0
Total		2,132	579	755

SCHEDULE 2.—ACA AGREEMENTS UNDER NEGOTIATION

City	Date of Proposed Agreement	Expected Number of Properties Per Year
Prince Georges County, MD	May 2001	60
Lancaster, PA	June 2001	20
St Paul, MN	June 2001	30
Montgomery County, MD	July 2001	30
Norfolk, VA	July 2001	30
Allentown, PA	July 2001	40
Bakersfield, CA	August 2001	35
Ontario, CA	August 2001	30
Springfield, MA	August, 2001	50

SCHEDULE 3.—*Expressions of Interest*

Phoenix, AZ
Compton, CA
Fontana, CA
Rialto, CA
Riverside, CA
Sacramento, CA
Orlando, FL
Palm Beach, FL
Dekalb, County A
Harvey, IL
Yale/New Haven, MA
Baltimore, MD
Baltimore County, MD
Hartford County, MD
Detroit, MI
Coatesville, PA
York, PA

Status of Savings

HUD's Budget Request for fiscal year 1999 contained legislation for claims and asset disposition reform. The budget justification indicated that the proposal would allow FHA to maximize returns to the insurance funds as well as have benefits to homeowners. The Department also indicated that although the legislation was proposed for enactment in 1999, the program would not take full effect until fiscal year 2002 and then phase in through fiscal year 2003. The time lag was to allow for full development of complicated financial and other procedures, changes in systems, and training both lenders and HUD staff. Savings were not anticipated to be available under the program until fiscal year 2002. At the time legislation was enacted, the present value of discretionary savings attributable to the reforms was scored at $400 million: This is included in HUD's baseline budget.

Question. When will HUD issue the pending rule on the pricing structure of the ACA program?

Answer. On April 5, 2002, the Department announced that it would be conducting a full review of the program, and that during the review period, existing Asset Control Areas (ACA) agreements would be allowed to expire. An important part of this review will be to accelerate program rulemaking during the next 4 to 6 months.

Question. What are the Department's plans for this program?

Answer. As described above, on April 5, 2002, the Department announced that it would be conducting a full review of the program, and that during the review period, existing ACA agreements would be allowed to expire.

ACCELERATED CLAIMS PROCESS

Question. The Department's fiscal year 2003 Budget Summary notes state that: "In 2003 FHA will begin to move out of the single family property management business and accelerate the claims process by taking mortgage notes rather than requiring lenders to foreclose and transfer single-family properties to FHA. FHA will sell defaulted notes to the private sector for servicing and or disposition, thereby eliminating most of the real property that HUD currently acquires" (p. 3). Already HUD has proposed a new "Accelerated Claim Disposition Demonstration" program (Federal Register, Tuesday, February 5, 2002) to implement this policy. How will HUD ensure that these distressed communities do not again become land banks for speculators who prey on low-income families?

Answer. The "Accelerated Claim Disposition Demonstration" program implements Section 601 of the fiscal year 1999 Appropriations Act as authorized by Congress. The best way to ensure that these distressed communities do not become land banks for speculators who prey on low-income families is to maintain/retain the existing tenure of the homeowner and financial investment/asset of the existing families. To address its objective of increasing recoveries on the sale of assets, the Accelerated Claims Disposition Demonstration will move more quickly to address the homeowner issues of default and exhaust all opportunities to reinstate the financial viability of the mortgage instrument and the homeownership tenure. The simple fact that a period of vacancy will be avoided in more cases than under the current process and that occupancy will be sustained in more cases will work to help fortify already distressed communities.

Maintaining the initial homeownership tenure and the mortgage instrument most effectively thwarts any opportunity for speculators who prey on low-income families and preserves the financial investment of the asset of that community.

If foreclosure is unavoidable, the Department plans to include in its Joint Venture Partnership Agreement a requirement to use servicing and lending best practices that mitigate the risks of predatory lending or unscrupulous speculation at the expense of low-income families.

Even in the few worst cases when foreclosure does occur by the Joint Venture partner, it is anticipated that the results of Joint Venture decision making will be to invest prior to resale in the property making it more likely and suitable to be acquired directly by a homeowner rather than an investor.

Question. What will happen to the ACA program if the Department implements the proposed Accelerated Claims Disposition Demo?

Answer. The areas involved in the existing Asset Control Areas will be excluded from the Accelerated Claims Disposition Demonstration in 2002.

HOPE VI

Question. How does HUD define "severely distressed public housing?"

Answer. HUD uses the definition set forth at section 24 (j)(2) of the U.S. Housing Act of 1937 (42 U.S.C. 1437v(j)(2)) to define "severely distressed public housing." The Department has operationalized this definition by requiring PHA's who apply for HOPE VI to certify through a independent third party architect that the criteria identified in the statue have been met and that the subject development is indeed severely distressed.

Question. How many units of severely distressed housing currently exist?

Answer. The Department has over the past decade identified public housing units that meet various standards of severe distress and obsolescence through the implementation of Section 18, Section 202 Mandatory Conversion and the HOPE VI program. As a result of this combined effort, public housing authorities and HUD have identified as of May 1, 2002, 142,392 units that meet the basic criteria for demolition. As of May 1, PHAs have demolished or disposed of 80,945 units. Thus, 61,447 units have been approved for demolition and disposition that remain in inventory. In addition, the Department received 66 HOPE VI Revitalization applications in fis-

cal year 2001. Together, these applications certified the severe physical distress of approximately 18,000 public housing units. (Note that some of these 18,000 units already received demolition approval and thus are included in the 61,447-unit figure.)

ELDERLY AND DISABLED HOUSING

Question. The Administration is requesting $251 million for the Section 811 program for people with disabilities for fiscal year 2003. This represents a $10 million increase over the fiscal year 2002 funding. However, according to estimates included in the budget request, renewal of all expiring 811 "mainstream" tenant-based rent subsidies will cost $32 million in fiscal year 2003—consuming more than the entire proposed increase for the program—both tenant-based and capital advance/project-based. Similarly, the budget requests $783 million for the elderly housing program, the same amount funded in fiscal year 2002, but a greater percentage is designated for renewal contracts. What are the estimated costs of renewing contracts in the elderly and disabled programs for the next 5 fiscal years?

Answer. See tables below:

OUTYEAR PRAC/PAC RENEWAL ESTIMATES

Fiscal year	Unit Expirations	Unit Renewals	Avg Per Unit Cost	1-yr Renewal BA Costs
2003	4,037	6,360	$3,403	$21,641,140
2004	3,570	9,930	3,455	34,307,905
2005	4,429	14,359	3,512	50,435,756
2006	2,977	17,336	3,569	61,873,929
2007	2,236	19,572	3,704	71,122,000

RENEWALS OF MAINSTREAM VOUCHERS (SECTION 811)

Fiscal year	First Time Expirations	Unit Renewals	Total Units to Renew	Avg Cost per Unit	1-yr BA Renewal Cost
2003	1,845	3,510	5,355	$6,005	$32,156,775
2004	1,455	5,355	6,810	6,131	41,752,110
2005	2,383	6,810	9,193	6,260	57,548,180
2006	2,383	9,193	11,576	6,391	73,982,216
2007	1,993	11,576	13,569	6,525	88,537,725

Question. How is the Department planning for growing renewal needs?

Answer. The full cost of renewing current rental assistance contracts are included in the Department's out-year budget estimates that are projected for 5 years beyond the budget year and are a part of our budget baseline.

HOUSING COUNSELING

Question. I am pleased that the fiscal 2003 HUD budget includes increased funding for housing counseling assistance. The budget justification includes an estimate that 150,000 additional clients will be served by the increased funds. How many people will receive pre-homeownership counseling? How many will receive post-homeownership counseling? How many of the people assisted receive other?

Answer. Although we cannot say definitively how many clients will request any specific type of counseling, recent past experience has shown us that a little over a third of counseling clients seek out pre-purchase counseling and a little under a third seek post-purchase counseling (the other third seek rental, homeless, HECM, and "other" counseling assistance). However, we based our 2003 estimate on the assumption that counseling agencies will see an increased volume of customers seeking default/post-purchase counseling. The significant number of layoffs that resulted from the events of September 11 and some slowing of the economy over the past year suggest that more families will be seeking assistance with managing their household finances to prevent foreclosure. Even in the last few months, anecdotal evidence suggests this shift in counseling needs is already occurring. Therefore, we expect that the numbers of clients seeking pre-purchase counseling will be approximately 50,000 to 55,000 and the number seeking post-purchase counseling will be approximately 65,000 to 75,000. The remaining 20,000 to 35,000 clients would be seeking "other" types of counseling.

HOME DOWNPAYMENT ASSISTANCE INITIATIVE

Question. If the HOME down payment assistance initiative is funded, will prospective homeowners assisted by this program be required to undergo homeownership counseling?

Answer. Consistent with the block grant nature of the HOME Program, the decision as to whether prospective homeowners will be required to undergo homeownership counseling resides with the local agencies administering the program, and many communities do in fact require pre- and post-purchase counseling. Consequently, while counseling will not be required, homebuyers receiving assistance through the American Dream Downpayment Initiative will have the same opportunities to receive housing counseling as provided for those who currently receive downpayment assistance through the use of regular HOME funds. Should the local HOME program managers decide that a family being assisted to purchase a home requires or would benefit from pre- or post-purchase counseling, they may use some of their regular HOME allocation to pay for it or fund this counseling from other resources, including the separate assistance provided by HUD specifically for this purpose.

DEPARTMENTAL GRANTS MANAGEMENT SYSTEM

Question. As you know, Congress has long had concerns over HUD's management information systems, specifically, its inability to assess program expenditures, outputs and outcomes. The Department recently cancelled its plans to implement the Departmental Grants Management System. What are your plans for implementing a department-wide grants management system? When can we expect to see such a system, and what do you estimate the cost of development will be?

Answer. The Department of Health and Human Services has the lead for developing a common system to be used by all Federal agencies under the President's e-grants initiative. Under the e-grants effort, HUD has been working closely with the 26 other Federal grant making agencies to develop a system that would allow the public to find, apply for funding opportunities and then report progress in the implementation of its programs. The timetable for deployment of this system as agreed to by all the Federal agencies is October 2003.

HUD has proposed that many of the elements developed for the Department's Grants Management System can be implemented as part of this larger government-wide system and has been actively discussing this with HHS and other agencies. Under the e-grants, initiative every Federal agency would contribute to the effort. The full cost estimates for the e-grants system have not been determined at this time.

QUESTIONS SUBMITTED BY SENATOR HERB KOHL

DOWNPAYMENT ASSISTANCE PROGRAM

Question. I am concerned that the set-aside for down payment assistance within the HOME program is not the best use of HOME funds. HOME currently gives States the flexibility to address the housing needs that are most pressing in their communities. I am always reluctant to endorse a one-size fits all approach because I usually find that Wisconsin loses out. Now, the goal of helping families own their own homes is laudable and the State of Wisconsin is already using about one-third of the funds it receives through the HOME program for homebuyers assistance, leveraging the Federal funds with State, local and private funds to get families into homes.

While I realize this program has yet to be authorized, does the Administration propose that the set-aside for downpayment assistance be limited to communities with 20 percent poverty levels? I ask because I am concerned that this program could direct HOME funding away from those who may need it but are not clustered in poor communities. While Wisconsin has some significant numbers at the poverty level, our low income families are spread out across the State and are not in identifiable clusters or pockets in most cases.

Answer. The concept of "20 percent poverty communities" is not one that is used in the HOME Program even though, as one might expect, a significant number of HOME Participating Jurisdictions (PJs) would meet this standard. Consequently, American Dream Downpayment (ADD) Initiative funds will not be limited to such communities.

American Dream Downpayment Initiative funds would be allocated by a formula that considers both community need (i.e., the current HOME formula) and the past

efforts of PJs in providing downpayment assistance through their regular HOME program funds. In addition, in order to maximize the number of PJs participating in the American Dream Initiative, no PJ would receive more than 2 percent of the ADD appropriation. Funds made available through use of this 2 percent cap would be reallocated to all uncapped PJs. In addition, since PJs that have not done homebuyer projects in the past 10 years would be unlikely to start now if their share of ADD funds is any less than $25,000, the final step of the allocation determination process is to zero out allocations for PJs where: (1) the adjusted formula allocation amount is less than $25,000; and (2) they have not undertaken any homebuyer activities using regular HOME funds during the life of their program.

Implementing this allocation process for the $50 million fiscal year 2002 ADD appropriation will result in Wisconsin PJs receiving approximately 2.18 percent of the ADD funds available, while they receive about 1.88 percent of the regular 2002 HOME appropriation. The allocation process used under ADD actually works to Wisconsin's benefit.

Question. How will the downpayment assistance program address the needs of these families?

Answer. Obtaining the resources to meet upfront downpayment and closing costs is the most significant obstacle to homeownership among lower income groups. By providing a dedicated stream of funding for homebuyer assistance, the American Dream Downpayment Initiative would eliminate this obstacle for tens of thousands of additional families each year while enabling jurisdictions to increase homeownership rates, broaden their tax base, and stabilize neighborhoods.

In a 2000 research report by the Local Initiatives Support Corporation (LISC) entitled Mind the Gap: Issues in Overcoming the Information, Income, Wealth, and Supply Gaps facing Potential Buyers of Affordable Homes, it was determined that 30 percent of low-income buyers cannot afford to buy a modestly priced home because they lack sufficient funds for the downpayment while under 3 percent could not do so because they could not afford the monthly payment. Since the average amount of cash needed for downpayment on a modestly priced home in 1999 was approximately $3,500 according to the report, the American Dream Fund would be providing just the amount necessary at just the right point in the homebuying process to accomplish its goals. Like the successful Self-Help Homeownership Opportunities Program (SHOP) that targets assistance at the main obstacle to "Habitat for Humanity" type development—land acquisition—by targeting assistance specifically at overcoming the downpayment hurdle, the American Dream Fund would complement the use of regular HOME funds and would result in a significant increase in the number of low-income homeowners.

In regard to those who do need assistance with their monthly payment, ADD funds can be used as well to buy down the current interest rate available to the homebuyer or the principal loan balance, thus saving a considerable amount in interest costs over the life of the loan.

Question. The downpayment assistance program you are proposing would direct $200 million from the HOME program to 40,000 families. That works out to $5,000 per family. While this is not an insignificant amount, given the cost of home ownership these days can this make a difference for most families? Even assuming that these families could get a 7 percent/30-year mortgage, $5,000 will only lower monthly payments $33/month. How is this an improvement as compared to what we are doing already under the HOME program?

Answer. Again, citing the 2000 research report by the Local Initiatives Support Corporation (LISC) entitled Mind the Gap: Issues in Overcoming the Information, Income, Wealth, and Supply Gaps facing Potential Buyers of Affordable Homes, it was determined that 30 percent of low-income buyers cannot afford to buy a modestly priced home because they lack sufficient funds for the downpayment while under 3 percent could not do so because they could not afford the monthly payment. Since the average amount of cash needed for downpayment on a modestly priced home in 1999 was approximately $3,500 according to the report, the American Dream Fund would be providing just the amount necessary at just the right point in the homebuying process to accomplish its goals.

ELIMINATION OF CHRONIC HOMELESSNESS

Question. According to a study released in December by the U.S. Conference of Mayors, 37 percent of requests from homeless people for emergency shelter went unmet in 2001. On average, people remained homeless for 6 months in the cities surveyed, an increase for 54 percent of the cities surveyed. These numbers are disturbing. I understand that the Administration has made a commitment to end chronic homelessness in the next decade. This is an admirable goal, but there are

some who work closely with the homeless who have questioned whether the modest increases in homeless programs are sufficient to meet this goal.

If chronic homelessness is to be eliminated in the next 10 years, do you intend to devote significantly more funding for homeless programs in future years budgets?

Answer. The Department is working with a variety of other Federal agencies to end chronic homelessness in the United States. In particular, we have undertaken several major initiatives with the Department of Health and Human Services (HHS) to not only coordinate activities but, most importantly, to open up the enormous resources tied to the HHS mainstream supportive service programs for use in meeting the critical supportive service needs of homeless persons. We are similarly working with the Department of Veterans Affairs (VA), which has joined the HUD/HHS Interagency Task Force, to better utilize the resources of that agency in eliminating chronic homelessness. Similar inter-Departmental coordination has been achieved in the development of Policy Academies jointly being sponsored by HHS, HUD and VA in which State governments are actively engaged in identifying and eliminating barriers that currently prevent homeless persons from accessing supportive service funding.

In addition, HUD's efforts to coordinate access to Federal funds to end chronic homelessness are now being assisted by the Interagency Council for the Homeless (ICH). The Agency, with the new leadership of Executive Director Philip Mangano, is responsible for planning and coordinating the Federal Government's actions and programs to assist homeless people, and making or recommending policy changes to improve such assistance. ICH has committed to actively working with all its member agencies to aggressively promote the goal of ending chronic homelessness across the Nation.

HUD believes that, with effective coordination of all relevant Federal and State Government agencies, improved targeting of all resources available for addressing homelessness, and the expanded active involvement of non-profit provider agencies so critical to this effort, the Nation can achieve the goal set out by Secretary Martinez last July.

In addition, the HUD program that most directly works toward ending chronic homelessness is the Shelter Plus Care Program. This program provides rental assistance for permanent supportive housing for disabled homeless persons. HUD has committed to request additional funding above the current funding level to ensure that all otherwise eligible Shelter Plus Care renewal projects can be renewed. Although it is difficult to project exact renewal needs due to the flexible nature of the 5-year grants, based upon already approved 1-year renewals and projected renewals of 5-year grants, it is estimated that the renewal demand for Shelter Plus Care will be approximately $200 million in fiscal year 2004. The Department will carefully scrutinize the total amount of homeless substitute funds needed in our initial request to OMB and this request will certainly take into full consideration both renewals and regular program costs.

HUD has moved aggressively to encourage our applicants to seek needed funding for supportive services from the mainstream supportive service programs of HHS, VA, the Social Security Administration, the Department of Agriculture and other agencies. As the transition to other sources continues, a growing percentage of HUD's funding is being freed up for use in developing housing. As a result, large additional increases in HUD's homeless appropriations, beyond the Shelter Plus Care renewal costs noted above, are not anticipated.

Question. Also, are you leaving out those who might not be deemed chronically homeless but whose needs are also going unmet?

Answer. HUD's initiative to end chronic homelessness will in no way ignore the needs of persons who are homeless but not chronically so. A large majority of the McKinney-Vento Act resources administered by HUD have traditionally addressed persons who are not chronically homeless. Under HUD's Continuum of Care process, these decisions are made by the community itself, not HUD. However, HUD's initiative to end chronic homelessness encourages communities to consider making additional efforts to especially address the needs of those homeless persons that are disabled and have been homeless for long periods of time. As a result, it is anticipated that a greater percentage of available resources will be used to fight chronic homelessness but the bulk of those resources will continue to be used to address the approximately 80 per cent of homeless persons who are not considered chronic homeless.

QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER S. BOND

PUBLIC HOUSING REINVESTMENT AND FINANCIAL REFORM

Question. HUD is proposing over $400 million less in Public Housing Capital funding for fiscal year 2003 than fiscal year 2002. In addition, the fiscal year 2002 funding is some $150 million less than the fiscal year 2001 level. These reductions seem excessive especially since public housing throughout the country has a capitalization backlog of some $22 billion. How does HUD justify this reduction from public housing?

Answer. The proposed amount in the President's Budget is sufficient to cover the accrual of new Capital needs for fiscal year 2003. In addition, as of December 31, 2001, there were approximately $5.5 billion in unexpended Capital grant funds that were provided to PHAs. Included within this amount there were approximately $3.2 billion in Capital grant funds that remained unobligated by the PHAs. These balances are significant. The Department will closely monitor obligations and expenditures and make appropriate budget proposals.

Question. In addition, the VA/HUD fiscal year 2002 Appropriations Act included requirements to ensure the timely use of these funds last year, including a reallocation of the capital funds where a PHA does not obligate its capital funds within a reasonable period of time. This change in the law was the result of HUD representing that a number of PHAs were not obligating their capital funds quickly enough and that these funds were sitting unused. I have no problem in requiring PHAs to address their capital needs to ensure that residents live in the best housing possible. However, in retrospect, how big a problem are unobligated Public Housing capital funds? Can you put a dollar number on this problem?

Answer. HUD Initially identified 163 grants with approximately $212,608,002 in fiscal year 1998 and 1999 Capital Fund grants in PHAs that failed to obligate 90 percent (the Quality Housing and Work Responsibility Act of 1998 (QHWRA) standard) or more of their grant award by the 24-month obligation deadline in the QHWRA. We later subtracted 49 grants from the 163 grants that were found to be legitimate obligations, as described in the footnote [1] As a result of this analysis, the Office of Public Housing identified a total of 117 grants with $126,821,817 of unobligated Capital Funds for the 2 years in question.

For the 117 grants, the HUD Field Offices were asked to provide a justification and supporting documentation for each PHA that failed to obligate in a timely manner. The Department carefully reviewed each case and the justification proposed for compliance with the section 9(j)(2)(A) of the 1937 Act, including cases where the Field Offices had given the PHA an original obligation deadline beyond September 30, 2001, or the PHA had an extension granted by the field office or a self-granted extension.

HUD identified a group of 24 grants that had unobligated balances as of September 30, 2001, that did not have either: (a) a PHA self-extension, or (b) a HUD Field Office approved time-extension in accordance with the Comprehensive Grant Guidebook, 7485.3 G, issued October 1996. PIH determined that these grants should be recaptured. PIH has recently directed the HUD Field Offices to recapture these funds.

HUD identified a second group composed of two parts: (a) 53 grants that were 100 percent obligated as of March 22, 2002, and (b) 19 grants that had time extensions or an original obligation deadline dates after September 30, 2001, but were not known- to be 100 percent obligated by March 22, 2002. On March 22, 2002, the Department sent a letter to PHAs [2] that managed 72 grants and requested that, within 5 days, they certify the amount of grant funds unobligated as of the date of the letter. Responses to HUD's March 22, 2002 letters, from the PHAs (Table 2) were received and then tallied. As of April 3, 2002, the total funds unobligated from the

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[1] Forty-four of those 49 grants, were obligated by September 30, 2001, but for a variety of reasons the PHA did not put the correct numbers in Line of Credit Control System (LOCCS). Four of the 49 grants were Moving to Work grantees (MTW) that totaled approximately $46 million. One of the 49 grants originally identified was a $6 million grant for the Virgin Islands Housing Authority (VIHA). It was later determined that the $6 million was composed of an emergency loan/grant. Consequently, this grant was excluded from the analysis of recaptures because the 24-month obligation deadline in the statute applies to regular formula grants and not grants for disasters and emergencies. The total for the 49 grants that were excluded is $82,387,814. Finally, four PHAs misreported the amount of unobligated funds. This required a $3 million adjustment in the amount of unobligated funds. The department intends to carefully review the four misreported situations and will take corrective actions/sanctions against those PHAs if appropriate.

[2] There were a total of 67 PHAs that managed the 72 grants. Five of the PHAs had a grant from fiscal year 1998 as well as fiscal year 1999.

72 grants in Table 2 is $647,499 from 6 PHAs. (A copy of the table is attached.) The remainder of the PHAs obligated 90 percent of their grant funds by March 22, 2002.

The combined total of funds unobligated as of March 22, 2002, is approximately $6.2 million, which the Department plans to recapture.

The Department recognized that there have been differing interpretations as to the effect of QHWRA as they relate to previous HUD guidance given to PHAs regarding the obligation of fiscal years 1998 and 1999 funds. However, the Department must still implement the law. In fairness to PHAs that have previously requested and received extensions that are not now valid under QHWRA, HUD decided to only recapture those funds that remain unobligated as of March 22, 2002, when the PHAs were directed to immediately cease obligating fiscal years 1998 and 1999 funds. On April 5, 2002, the Department sent letters to the 6 PHAs in the second group that had unobligated funds as of March 22, 2002, informing them that the funds will be recaptured. On April 11, 2002, HUD Field Offices were directed to take the appropriate steps to initiate the recapture of funds by amending the Annual Contributions Contract.

Twenty-one of the 117 grants were found to have justifications for extensions that met the requirements of Section 9(j)(2)(A) of the Act, and have been recommended to the Deputy Secretary for time extensions. We anticipate publishing a Notice in the Federal Register shortly, which will identify grants by PHA where unobligated funds will be recaptured, as well as the 21 grants that have been recommended to the Deputy Secretary for time extensions. This action by the Deputy Secretary is pending. (The exact date of publication of the Federal Register Notice is not known at this time.)

PIH plans to take strong measures to implement additional procedures to closely monitor obligations and expenditures. Specifically, PIH plans to require a new monthly obligation and expenditure report, which will replace the current quarterly reporting system. Implementing a monthly reporting system will enable the Department to implement section 9(j)(3) of the Act, Penalty for Slow Expenditure of Capital Funds, a 1/12-month penalty for failure to obligate Capital Funds within 24 months. We anticipate that the monthly reporting system will be implemented in LOCCS October 1, 2002 in time to address the fiscal year 2003 Capital Fund Formula Grant distribution.

It is important to note that the question only related to the deadline for unobligated Capital Funds. The law provides for two deadlines, obligations and expenditures. Consequently, when looking at a PHA's capacity to obligate funds, the Department must take into account a PHA's unexpended funds that have already been obligated. The Department must closely monitor compliance with both deadlines. For example, as of December 30, 2001, there were approximately $5.5 billion in unexpended Capital Funds. Large unexpended balances may directly impact a PHA's ability to obligate current year funds.

GRANTS 90 PERCENT-100 PERCENT OBLIGATED AS OF MARCH 22, 2002 AND GRANTS WITH TIME EXTENSIONS BUT NOT OBLIGATED BY MARCH 22, 2002

Field office name	Housing authority name	Fiscal year	Grant unobligated	Authorized amount
ALBUQUERQUE PROGRAM CENTER	CHAMA HOUSING AUTHORITY, NM	1999	$75,217.00	$75,217.00
ALBUQUERQUE PROGRAM CENTER	SUNLAND PARK HA, NM	1999	90,964.00	67,264.00
ATLANTA HUB OFFICE	BRUNSWICK HA, GA	1999	924,936.00	576,780.00
ATLANTA HUB OFFICE	GRIFFIN, GA	1998	430,342.00	251,899.00
ATLANTA HUB OFFICE	CORDELE HA, GA	1999	702,335.00	347,913.00
ATLANTA HUB OFFICE	QUITMAN, GA	1998	1,781,022.00	1,272,957.00
ATLANTA HUB OFFICE	TIFTON HOUSING AUTHORITY, GA	1999	525,836.00	172,726.00
ATLANTA HUB OFFICE	LAFAYETTE HA, GA	1999	305,392.00	248,664.00
BALTIMORE HUB OFFICE	ANNAPOLIS HOUSING AUTHORITY, MD	1999	1,838,764.00	581,973.00
BIRMINGHAM HUB OFFICE	BIRMINGHAM, AL	1998	10,932,880.00	1,270,836.00
BIRMINGHAM HUB OFFICE	TALLASSEE, AL	1998	150,000.00	45,649.00
BIRMINGHAM HUB OFFICE	TALLASSEE HA, AL	1999	190,772.00	190,772.00
BOSTON HUB OFFICE	PLYMOUTH HA, MA	1999	149,480.00	125,210.00
BOSTON HUB OFFICE	WEBSTER HA, MA	1998	492,500.00	286,330.00
BOSTON HUB OFFICE	WEBSTER HA, MA	1999	81,413.00	71,413.00
BUFFALO HUB OFFICE	WATERTOWN HA, NY	1999	977,389.00	173,848.00
BUFFALO HUB OFFICE	TROY HA, NY	1998	2,143,930.00	395,981.00
BUFFALO HUB OFFICE	TROY HA, NY	1999	2,499,166.00	1,192,993.00
BUFFALO HUB OFFICE	WATERVLIET HA, NY	1999	471,295.00	70,222.00
BUFFALO HUB OFFICE	RENSSELAER HA, NY	1999	292,562.00	149,049.00
CHICAGO HUB OFFICE	DECATUR HOUSING AUTHORITY, IL	1999	1,865,509.00	520,193.00
CHICAGO HUB OFFICE	MENARD COUNTY HOUSING AUTHORITY, IL	1999	410,257.00	71,830.00
CHICAGO HUB OFFICE	KANKAKEE COUNTY HOUSING AUTHORITY, IL	1999	552,216.00	140,616.00
CHICAGO HUB OFFICE	ADAMS COUNTY HOUSING AUTHORITY, IL	1999	182,727.00	69,200.00
CHICAGO HUB OFFICE	LAKE COUNTY HOUSING AUTHORITY, IL	1999	1,415,393.00	310,677.00
CHICAGO HUB OFFICE	WHITE COUNTY HOUSING AUTHORITY, IL	1999	194,818.00	55,676.00
CHICAGO HUB OFFICE	OAK PARK HOUSING AUTHORITY, IL	1999	264,259.00	247,079.00
CINCINNATI COMMUNITY SERVICE CENTER	CLINTON MHA, OH	1998	202,280.00	117,453.00
CINCINNATI COMMUNITY SERVICE CENTER	CLINTON MHA, OH	1999	61,177.00	24,611.00
COLUMBIA PROGRAM CENTER	GREENVILLE HA, SC	1999	1,302,973.00	167,258.00
COLUMBIA PROGRAM CENTER	MYRTLE BEACH, SC	1999	41,404.00	4,767.00
COLUMBIA PROGRAM CENTER	YORK, SC	1999	227,128.00	41,606.00
COLUMBIA PROGRAM CENTER	CHARLESTON C0, SC	1999	329,004.00	90,544.00
DETROIT HUB OFFICE	DETROIT HC, MI	1999	20,258,934.00	8,567,878.00
DETROIT HUB OFFICE	PONTIAC HC, MI	1999	1,178,664.00	247,375.00
FORT WORTH HUB OFFICE	PARIS, TX	1999	378,192.00	95,000.00

GRANTS 90 PERCENT-100 PERCENT OBLIGATED AS OF MARCH 22, 2002 AND GRANTS WITH TIME EXTENSIONS BUT NOT OBLIGATED BY MARCH 22, 2002—Continued

Field office name	Housing authority name	Fiscal year	Grant unobligated	Authorized amount
FORT WORTH HUB OFFICE	GRAND SALINE HA, TX	1999	162,364.00	107,667.00
GRAND RAPIDS COMMUNITY SERVICE CENTER	MUSKEGON HEIGHTS, MI	1999	891,694.00	751,030.00
GRAND RAPIDS COMMUNITY SERVICE CENTER	MUSKEGON, MI	1999	261,843.00	238,337.00
GREENSBORO HUB OFFICE	HA LUMBERTON, NC	1999	1,196,802.00	705,931.00
GREENSBORO HUB OFFICE	BENSON, NC	1999	776,516.00	611,024.00
GREENSBORO HUB OFFICE	HA WADESBORO, NC	1999	329,388.00	55,193.00
GREENSBORO HUB OFFICE	HA MIDEAST REGIONAL, NC	1999	410,806.00	251,698.00
HARTFORD PROGRAM CENTER	MERIDEN HOUSING AUTHORITY, CT	1999	858,546.00	333,399.00
HARTFORD PROGRAM CENTER	GLASTONBURY HOUSING AUTHORITY, CT	1999	383,497.00	203,737.00
INDIANAPOLIS PROGRAM CENTER	INDIANAPOLIS HA, IN	1998	3,440,145.00	780,340.00
INDIANAPOLIS PROGRAM CENTER	INDIANAPOLIS HOUSING AGENCY, IN	1999	3,846,488.00	2,067,108.00
JACKSON PROGRAM CENTER	MCCOMB, MS	1999	615,301.00	268,532.30
JACKSONVILLE HUB OFFICE	ORLANDO, FL	1999	3,900,597.00	792,119.00
JACKSONVILLE HUB OFFICE	UNION COUNTY, FL	1999	214,967.00	214,967.00
LOUISVILLE HUB OFFICE	HA LEXINGTON, KY	1999	2,728,620.00	1,822,626.00
MILWAUKEE PROGRAM CENTER	CITY OF BELOIT, WI	1999	263,692.00	171,043.00
NASHVILLE PROGRAM CENTER	MEMPHIS, TN	1998	12,314,347.00	3,066,870.00
NASHVILLE PROGRAM CENTER	PULASKI, TN	1999	439,626.00	108,127.00
NEW ORLEANS HUB OFFICE	CROWLEY HOUSING AUTHORITY, LA	1999	708,324.00	687,074.00
NEW YORK CITY HUB OFFICE	WHITE PLAINS HA, NY	1999	1,748,410.00	568,792.00
NEW YORK CITY HUB OFFICE	NORTH HEMPSTEAD HA, NY	1999	252,717.00	103,052.00
NEWARK HUB OFFICE	TRENTON HOUSING AUTHORITY, NJ	1999	4,717,627.00	1,624,992.00
NEWARK HUB OFFICE	BEVERLY HOUSING AUTHORITY, NJ	1998	939,257.00	385,249.00
NEWARK HUB OFFICE	BEVERLY HOUSING AUTHORITY, NJ	1999	128,111.00	24,934.00
PHILADELPHIA HUB OFFICE	MONROE COUNTY HOUSING AUTHORITY, PA	1999	574,924.00	215,238.00
PHILADELPHIA HUB OFFICE	LACKAWANNA COUNTY HA, PA	1999	1,825,518.00	571,812.00
PHILADELPHIA HUB OFFICE	WILLIAMSPORT HOUSING AUTHORITY, PA	1999	372,544.00	45,755.00
PITTSBURGH HUB OFFICE	JEFFERSON COUNTY HOUSING AUTHORITY, PA	1999	448,655.00	210,008.00
SAN ANTONIO HUB OFFICE	DEL RIO HOUSING AUTHORITY, TX	1998	411,901.00	96,138.19
SAN ANTONIO HUB OFFICE	DEL RIO HOUSING AUTHORITY, TX	1999	483,059.00	77,860.16
SAN ANTONIO HUB OFFICE	EDCOUCH HOUSING AUTHORITY, TX	1998	350,000.00	110,129.00
SAN ANTONIO HUB OFFICE	INGLESIDE HOUSING AUTHORITY, TX	1999	179,647.00	60,078.00
SAN ANTONIO HUB OFFICE	STARR COUNTY HOUSING AUTHORITY, TX	1999	163,288.00	157,063.00
SEATTLE HUB OFFICE	TACOMA HOUSING AUTHORITY, WA	1999	4,571,296.00	1,366,829.00
SEATTLE HUB OFFICE	SEDRO WOOLLEY HOUSING AUTHORITY, WA	1999	127,909.00	32,918.00

ST. LOUIS PROGRAM CENTER	WEST PLAINS HOUSING AUTHORITY, MO	1999	313,340.00	92,709.00
TOTAL		72	105,272,796.00	37,319,837.65

Question. In addition, the HUD fiscal year 2003 Budget requests authority for HUD to permit PHAs to borrow private capital as a way to fund needed capital improvements. These private funds would be repaid through the provision of Section 8 project-based assistance for these units. In turn, there is proposed authority to convert this Section 8 project-based assistance to vouchers and allow this housing to be rented on the private market. This essentially means that the best units in public housing would be converted to private housing and the inventory of affordable housing in many marketplaces would shrink. How does the Administration justify the risk of losing this affordable housing, especially in tight marketplaces?

Answer. HUD believes that the result of this proposal will be a substantial improvement in the current public housing stock that would not have been possible otherwise. The proposal is not designed to convert public housing to private housing, does not cover the best units in particular and would not result in shrinkage in the inventory of affordable housing.

The assistance proposed is Section 8 project-based vouchers. The ability to convert public housing subsidy to project-based vouchers will enable PHAs to borrow funds for capital improvements on a development-by-development basis, just like other multifamily real estate. This will enable PHAs to leverage private dollars to help address the $22 billion backlog in capital needs.

The proposal is not limited to the best public housing. All public housing is eligible. HUD only would approve transactions where significant enough capital work is needed to justify use of this financing tool. Where a development has higher capital needs than the amount that could be financed within program limits, PHAs would have the choice of supplementing the funding with Capital Fund or other money.

The proposal does not assume private for-profit ownership in any fashion. It is a voluntary program in which PHAs may participate. PHAs may retain control of a participating development's ownership, through a PHA-controlled subsidiary where this will facilitate financing. If a PHA desires to dispose of the property to any owner that is not PHA-controlled, the public housing disposition rules would apply (as they would with any other public housing property).

A participating development would have a continuing contract for project-based vouchers for all the units. The Administration proposal does allow renting of some units to unassisted tenants, up to one third of non-elderly or disabled units. To the extent this occurs, the PHA can use additional vouchers elsewhere, so that affordable housing opportunities are not lost. Even in that case, the project-based voucher contract would remain for all of the units in the development, so that the PHA later could again rent all the units at the development to assisted tenants (and reduce the number of extra vouchers used in the community accordingly). This proposal is designed to provide additional flexibility for producing mixed-income developments, and should not be confused with an effort to "voucher out."

Question. If Congress does not provide this new authority to support the private financing of rehabilitation through Section 8 funding, does Public Housing need the additional $400 million that the Administration is recommending be cut from the Public Housing Capital Fund?

Answer. If that proposal is not enacted, the HUD-proposed amount is sufficient to cover the accrual of new capital needs during fiscal year 2003. As of December 31, 2001, there were approximately $5.5 billion in unexpended Capital grant funds that were provided to PHAs. Included within this amount there were approximately $3.2 billion Capital grant funds that remained unobligated by the PHAs. These balances are significant. The Department will closely monitor obligations and expenditures and make appropriate budget proposals.

Question. Doesn't this proposal just shift the cost of public housing from the Public Housing Operating and Capital Funds to the Certificate Fund?

Answer. No, the proposal does not simply shift costs to the Certificate Fund. A different product is being funded—deteriorated public housing with significant capital needs is being replaced with renovated or new assisted housing. As a result, tenants will be able to live in decent conditions in the near future.

This renovation or replacement otherwise could not be afforded for years with the resources available under historic patterns for Public Housing Capital Fund appropriations. At the same time, the developments will be managed and financed on a property-by-property basis, which should lead to more sound management practices.

PROJECT-BASED OPT-OUTS

Question. I remain concerned about the Administration's continuing emphasis on section 8 vouchers to the detriment of preserving section 8 project-based housing especially in tight rental markets. Over the last 3 years, how many projects and units

have opted out of the section 8 project-based program with the tenants converting to section 8 tenant-based assistance?

Answer. The Department is in the process of updating and revising its systems for tracking opt-outs in its Real Estate Management System (REMS), including a specific effort to confirm actual opt-outs from the project-based inventory and reconciling this data with public housing records for issuances of tenant protection vouchers for projects that have filed an intent to opt-out. Difficulty has been experienced in tracking these actions because project owners sometimes give formal notice of an intent to opt-out, but are later persuaded to continue with project-based assistance. Another issue is that opt-out data has been combined with counts of Section 8 contracts that have been terminated by HUD because the property fails to meet program standards. Preliminary results, however, indicate that approximately 10,000 units in about 230 projects were removed from the project-based inventory in fiscal year 2001 by a decision by a property owner to opt-out of the Section 8 project-based program.

OPT-OUTS

Question. How many of these projects have been elderly projects or designated for persons with disabilities?

Answer. The Department does not have data that identifies whether projects with an elderly designation or primarily serving the disabled are among those to have opted-out from project-based assistance, however, it is unlikely that there are a significant number of projects in this category. Anecdotal evidence indicates that where there are opt-outs involving projects serving the elderly or disabled, the availability of tenant protection vouchers generally permits residents to remain in the project.

HOMELESS ASSISTANCE

Question. HUD continues to fund over $1 billion per year in McKinney-Vento homeless assistance through State and local continuums of care. These funds generally are funded through the CDBG formula which includes no consideration of homelessness. What steps is HUD taking to ensure accountability that these funds are being used to assist the homeless.

Answer. The CDBG formula is only applied to $150 million of the McKinney-Vento appropriation for allocating the Emergency Shelter Grant program. Funds for the remaining Homeless Assistance Grants are distributed based on competitions. HUD uses a variety of methods to ensure that funds awarded are being used to assist homeless people. On-site monitoring of HUD grant programs is a key responsibility of HUD's field staff. Monitoring is conducted using established standards and procedures, and includes interviews, examination of files, and visits to grantee and sub-grantee sites. Written monitoring findings and concerns are provided to the grantee, and resolution is required within a specific time frame. Grantees are also required to submit an Annual Progress Report for each year that funding is provided. The report includes financial and progress information.

In the annual homeless assistance competition, all grantees, including those applying for renewal grants, must meet application threshold review standards that include applicant capacity, eligibility of the homeless participants, and cost-effectiveness. Many grant awards are conditioned, requiring the conditionally selected grantee to clarify or provide additional information before a final award is made. In some cases, the original award offer is reduced or withdrawn, if program requirements are not met, or funding amounts not justified.

Question. How are these accountability requirements different from a year ago?

Answer. Since last year, HUD has increased its efforts to further ensure accountability. The Annual Performance Report has been automated, and the database is currently being populated. The data will not only enable better tracking of individual projects, but will also generate a variety of reports which will assist HUD in developing policies and procedures to address any specific accountability issues demonstrated in APRs.

The application for the 2002 competition includes stronger performance requirements for previous recipients applying for renewal grants. In addition, all applicants must demonstrate specific actions they have taken with regard to ensuring clients will be assisted to obtain benefits of mainstream programs for which they are eligible. The application also requires more budget detail to help applicants better plan projects and request appropriate funding amounts. To address HUD's goal of ending chronic homelessness in 10 years, applicants in the 2002 competition are asked for information that will enable us to establish a baseline against which progress toward the goal can be measured.

EMERGENCY FOOD AND SHELTER PROGRAM

Question. The President's Budget recommends that the Emergency Food and Shelter program be transferred from FEMA to HUD. This has been a very successful program at FEMA and there are significant concerns that any transfer could reduce the effectiveness of this program. What are the advantages to this transfer?

Answer. We agree that the Emergency Food and Shelter Program (EFSP) has been efficiently and effectively administered and we propose to operate it in the same fashion. Significant amounts of EFSP funds are provided for shelter resources, often to the same entities receiving HUD's Emergency Shelter Grants (ESG) funds and Continuum of Care competitive funds. Many of the same activities are eligible under EFSP and ESG. Given HUD's successful role in implementing the Continuum of Care, it is anticipated that EFSP can be administered in a manner that more effectively coordinates EFSP with the Continuum of Care planning concept. However, HUD has no plan to alter the basic method of EFSP formula allocation. Any efforts to better coordinate the programs will be done only after careful consultation with key stakeholders in the EFSP allocation process, local providers and program clients.

MARK-TO-MARKET SAVINGS

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

Answer. Since inception of the Mark-to-Market (M2M) program through February 28, 2002, 1,354 properties, with a total of 105,834 units, of affordable housing have been preserved. The M2M reviews resulted in:

—407 full debt restructurings, 32,870 units;

—270 Actions Other Than Closing (AOTC), 17,686 units. AOTC transactions are comprised of those deals that are financially infeasible, or where the owner refuses to complete the closing, or where a bad owner/bad property is involved;

—572 lites (reductions in contract rents that do not require debt restructuring), 47,932 units; and

—105 comparability reviews, 7,346 units.

Of the 1,354 properties completed as of February 28, 2002, 968 properties with 80,584 units received reduced rents. The remainder were either still in process, have ultimately been determined to have rents at or below market, or are not eligible for the M2M program.

In the fiscal year 2003 Budget request, approximately $135 million in savings has been assumed in Housing Certificate Fund for fiscal year 2002.

MARKET-TO-MARKET OPT-OUTS

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

Answer. Since inception of the Mark-to-Market program, through February 28, 47 owners with 2,498 total units gave notice to the Office of Multifamily Housing Assistance Restructuring that they would opt-out of their project-based Section 8 contracts; 34 owners, accounting for 1,382 total units, have actually done so.

PRESERVATION OF ASSISTED UNITS

Question. For fiscal year 2001 and 2002, the VA/HUD appropriations acts have required HUD to preserve section 8 project-based assistance for the elderly and disabled upon foreclosure by HUD, except under certain circumstances. How many projects have been preserved under this requirement? How many of these projects have been disposed by HUD without maintaining the section 8 project-based assistance?

Answer. See table below.

Property Name	Number of Units	Location	Preserved w/project-based Section 8?	Date Closed	Comments
Bethesda Manor II	12	Plainview, TX	No Property was vacant.	10/20/2000	Vacant property sold to Wayland Manor University.
Kenilworth Park Plaza	77	Portland, OR	Yes	11/01/2000	Sold to City of Portland.
Project Independence	49	Arkansas City, KS	No Other preservation tools used.	11/01/2000	Sold to Arkansas City. The conditions of the sale were agreed to by HUD before the field was aware of the new statute regarding retention of project based Section 8. However, other preservation tools were used. All tenants were provided rental housing vouchers, and rents were required to be maintained as affordable for 20 years. Nearly all of the tenants remained in residence using their vouchers.
NMARC	6	Santa Fe, NM	No Property was vacant.	01/26/2001	Vacant property. Sold to the Santa Fe Civic Housing Authority without restrictions.
Monastery	24	Way Sitka, AK	No Other preservation tools used.	03/30/2001	The conditions of the sale were agreed to by HUD before the field was aware of the new statute regarding retention of project based Section 8. However, other preservation tools were used. All tenants were provided rental housing vouchers. Nearly all of the tenants remained in residence using their vouchers. Property sold to Baranof Island Housing Authority for elderly housing.
Morningside Village	31	Alcester, SD	No Other preservation tools used.	04/30/2001	The conditions of the sale were agreed to by HUD and the City of Alcester before the field was aware of the new statute regarding retention of project based Section 8. However, other preservation tools were used. All tenants were provided rental housing vouchers, and HUD created ''voucher ready units'' by requiring that rents cannot exceed the voucher payment standard. Nearly all of the tenants remained in residence using their vouchers.
Elmwood Group Home	15	Ottumwa, IO	No Property was vacant.	06/08/2001	Vacant property sold to the Area XV Multi-County Housing Agency.
Edgewood/Eldercrest	147	Youngstown, OH	No Other preservation tools used.	07/30/2001	The conditions of the sale were agreed to by HUD and the City of Youngstown before the field was aware of the new statute regarding retention of project based Section 8. However, other preservation tools were used. All tenants were provided rental housing vouchers. Nearly all of the tenants remained in residence using their vouchers.

Property Name	Number of Units	Location	Preserved w/project-based Section 8?	Date Closed	Comments
J.C. Progress	204	Chattanooga, TN	No Other preservation tools used.	08/24/2001	Property was only about 50 percent occupied by elderly. The conditions of the sale were agreed to by HUD and the City of Chattanooga before the field was aware of the new statute regarding retention of project based Section 8. However, other preservation tools were used. HUD required that the property be repaired and provided an Up Front Grant to pay for part of the rehabilitation and conversion of the efficiencies to one bedroom units to better meet market demand for affordable elderly and near-elderly housing. Occupancy is limited to the elderly and near-elderly. All tenants were provided rental housing vouchers, and HUD created "voucher ready units" by requiring that rents cannot exceed the voucher payment standard. Nearly all of the tenants remained in residence using their vouchers.
Tiffin VOA	20	Tiffin, OH	No Property was vacant.	09/06/2001	Vacant property sold to Seneca County Commissioners to be used for public purpose.
Pickwick/Royal Tower	233	Kansas City, MO	No Other preservation tools used.	09/23/2001	Majority of residents were chronically mentally ill. Other preservation tools were used. All tenants were provided rental housing vouchers, and HUD created "voucher ready units" by requiring that rents cannot exceed the voucher payment standard. Nearly all of the tenants remained in residence using their vouchers.
Gardner House	8	Gardner, MA	Yes	09/27/2001	Sold to North Central Human Services, Inc.
Monadnock Workshop	8	Peterborough, NH	No Property was vacant.	09/27/2001	This was a vacant 8-unit property in an old historic property not suited for the elderly as configured. HUD sold the property to the Contooncook Housing Trust who plans to convert it to 3 units of affordable housing.
Sana	271	Hartford, CT	Yes	02/01/2002	Sold to City of Hartford.

HUD ASSISTED HOUSING IN FORECLOSURE AND IN INVENTORY

Question. For the record, I would like a list of projects by State, including location and number of units.

Answer. See lists below.

MULTIFAMILY PROPERTIES IN FORECLOSURE AS OF 4/4/02

(Please note that most of the unsubsidized notes will be offered the next note sale)

FHA#	Section of the Act	Property Name	No. of Units
023–35269	221D4	EAST CANTON STREET APARTMENTS, 79 E CANTON STREET, BOSTON, MA 02118–2328	80
017–44076	236	ST. CHRISTOPHER APTS., 360 MAIN STREET, HARTFORD, CT 06106	100
024–22007	232	SEACOAST HEALTH CENTER, 777 LAFAYETTE RD., HAMPTON, NH 03842	169
024–22019	232	FAMILY LIVING ADULT CARE, 24 HALL ST., SACO, ME 04072	48
024–EH078	202	OSSIPEE HOUSE, 70 MOULTONVILLE RD., CENTER OSSIPEE, NH 03814	8
016–22006	232	DESILETS NURSING HOME, 642 METACOM AVE., WARREN, RI 02885	80
016–43017	232	ROSE COTTAGE NURSING FACILITY, 151 HUNT STREET, CENTRAL FALLS, RI 02863	100
016–43062	232	EDMUND PLACE, 350 TAUNTON AVE., EAST PROVIDENCE, RI 02914	79
016–43071	232	COVENTRY HEALTH CENTER, BROAD STREET, COVENTRY, RI	344
012–43180	232	TAPPAN ZEE MANOR, MOUNTAINVIEW RD, NYACK, NY 10960	100
012–44159	236	PLEASANT EAST APARTMENTS, 446 E 117TH ST, NEW YORK, NY 10035–5038	111
012–57114	221D4	HAROLD APTS, 437 MANHATTAN AVE., NEW YORK, NY 10026	53
012–57115	221D4	DESCHLER APARTMENTS, 1871 7TH AVE., NEW YORK, NY 10026–2800	60
012–57170	221D4	PUEBLO DE MAYAGUEZ, 950 AVENUE SAINT JOHN, BRONX, NY 10455–3400	76
013–35073	221D4	WASHINGTON PARK APARTMENT, 212 THIRD STREET, TROY, NY 12180	34
014–00002	207	TROUT BROOK MOBILE HOME, 8 GARDNERVILLE RD., LE RAY, NY 13637	100
014–43009	232	BEECHWOOD RESTORATIVE, 900 CULVER RD., ROCHESTER, NY 14609	82
014–43066	232	LORETTO-UTICA HEALTH CARE, 1445 KEMBLE STREET, UTICA, NY 13501	156
014–EH182	202	ALFRED SENIOR HOUSING, 34 GLEN ST, ALFRED, NY 14802	40
035–43049	232	GREENBRIAR NURSING HOME, 191 N. EVERGREEN, WOODBURY, NJ 08096	220
052–43051	232	ANNAPOLITAN SENIOR CARE, 84 NORTH OLD MILL BOTTOM RD., ANNAPOLIS, MD 21401–9003	84
052–43064	232	NOBLE HOUSE NURSING HOME, 2327 NORTH CHARLES STREET, BALTIMORE, MD 21218	109
052–44133	236	UPLANDS A, 4625 EDMONDSON AVE, BALTIMORE, MD 21229–2554	495
052–44143	236	UPLANDS B, 4625 EDMONDSON AVE, BALTIMORE, MD 21229–2554	478
052–44157	236	FREEDOM APARTMENTS, 4665 FREEDOMWAY W, BALTIMORE, MD 21213–2609	308
052–EH011	202	APOSTOLIC TOWERS, 201 N. WASHINGTON ST, BALTIMORE, MD 21231	215
052–EH081	202	BEREA APOSTOLIC TOWERS, 1401 N. LAKEWOOD AVE, BALTIMORE, MD 21213	102
034–35193	221D4	NORTH QUEEN STREET APARTMENTS, 424 N QUEEN ST, LANCASTER, PA 17603–3055	8
034–SH016	202	MOUNT OLIVET VILLAGE, 642 N 41ST STREET, PHILADELPHIA, PA 19104	220
033–22003	232	INDEPENDENCE COURT-OAKL, 4700 FIFTH AVENUE, PITTSBURGH, PA 15213	128
033–33501	221D4	CORA STREET APTS, 525 CORA ST., PITTSBURGH, PA 15208	22
033–35159	221D4	RENAISSANCE APARTMENTS, 308 N TAYLOR AVE, PITTSBURGH, PA 15212–4551	57
033–44015	236	BRADDEHANNA APARTMENTS, 7515 SUSQUEHANNA ST., PITTSBURGH, PA 15208	45
033–44028	236	STERRETT-COLLIER APARTMENTS, 7335 HAMILTON AVE, PITTSBURGH, PA 15208–1937	145

033–55008	221D3	LIBERTY PARK APARTMENTS, 6209 BROAD STREET, PITTSBURGH, PA 15206	332
033–55018	221D3	WESTGATE I, 287 VILLAGE RD, PITTSBURG, PA 15206–3702	206
033–55032	221D3	WESTGATE II, 287 VILLAGE RD., PITTSBURGH, PA 15205–1938	230
051–22001	232	LAUREL MEADOWS NURSING HOME, RT. 1, BOX 181B, LAUREL FORK, VA 24352–9707	60
051–43087	232	HERITAGE HALL XIII, 400 W. STARSBURG RD., FRONT ROYAL, VA 22630	60
051–43088	232	HERITAGE HALL XV, 500 W. RIO RD., CHARLOTTESVILLE, VA 22901	120
051–43109	232	HERITAGE HALL XX, 633 COOK AVE., BROOKNEAL, VA 24528–3111	60
051–43110	232	HERITAGE HALL XXII, 203 HOUSTON ST., LEXINGTON, VA 24450–2415	60
051–43113	232	HERITAGE HALL XXIX, 5580 DANIEL SMITH RD., VIRGINIA BEACH, VA 23462–1104	90
051–43116	232	HERITAGE HALL XIV, ROUTE 5, BOX 104, GRUNDY, VA 24614–9504	120
051–43135	232	VANGILDERS CARE CENTER, 1011 PENNSYLVANIA AVENUE, WINCHESTER, VA 22601	78
051–43154	232	DOGWOOD NORTH, 30 KINGS CREST DRIVE, STAFFORD, VA 22554	48
051–44071	236	CARRINGTON GARDENS APARTMENTS, 1125 DOVE ST, RICHMOND, VA 23222–4524	95
000–44015	236	SAYLES PLACE HOMES, INC, 2700–07 DOUGLAS PL SE, WASHINGTON, DC 20020	63
000–94014	207	GOOD HOPE APARTMENTS, 1667 GOOD HOPE RD SE, WASHINGTON, DC 20020	41
061–43113	232	CAMPBELL-STONE ASSISTED L, 2911 SOUTH PHARR ROAD, NW, ATLANTA, GA 30305	48
062–11028	223F	PINERY TOWNHOUSE APTS, 4930 PARKTOWNE WAY, MONTGOMERY, AL 36116	202
062–35087	221D3	PARKSIDE APARTMENTS, 415 CUBA ST., MOBILE, AL 36603–5220	48
062–44065	236	SARALAND APTS., 527 US HIGHWAY, 43 SOUTH, SARALAND, AL 36571	60
062–92002	207	STONEGATE VILLAGE APTS., 1238 2ND ST., SW, DECATUR, AL 35601	136
056–35137	221D4	THE PENTAGON APARTMENTS, 1919 PONCE DE LEON AVE., SANTURCE, PR 00916	50
054–11038	207	GREENWOOD PARK APARTMENTS, GREENWOOD PK, RT 3, TUBELLO CT, MARION, SC 29571–8040	32
054–35593	221D4	MAGNOLIA LANE APARTMENTS, DESTINY LANE, CONWAY, SC 29526	48
054–43070	232	RIVERSIDE AT BELFAIR, 56 OAK FOREST ROAD, BLUFFTON, SC 29910	101
054–43073	232	COLONY HOUSE, 1036 MAXWELL MILL, FORT MILL, SC 29715–7852	92
054–43077	232	SEVEN OAKS ASSISTED LIVING, 119 CHESTERFIELD HWY, CHERAW, SC 29520	114
053–35005	221D3	THOMASVILLE CHURCH HOMES, 904 DOAK CT., THOMASVILLE, NC 27360	100
053–94014	207	FOUR SEASONS APTS, 3129 SPRING VALLEY DR., GASTONIA, NC 28052	81
063–22004	232	SOUTHLAND SUITES, RR 2 BOX 1785, MAYO, FL 32066–9201	22
063–35196	221D4	WARRINGTON VILLAGE APARTMENTS, 34 PATTON DR., PENSACOLA, FL 32507–3805	200
066–43078	232	MUNNE CENTER AKA THE OAKS, 17250 SW 137TH AVE., MIAMI, FL 33177	94
067–35331	221D4	ASHLEY CROSSINGS, 401 ROSERY ROAD EAST, LARGO, FL 33770	278
067–43089	232	PALM TERRACE RESIDENT CARE, 5121 E. SERENA DRIVE, TAMPA, FL 33617	73
083–35211	221D4	BEECHER HOUSE, 203 S MAIN ST., SOMERSET, KY 42501	62
083–35272	221D4	CYPRESS POINT, 1101 BURLEW BLVD., OWENSBORO, KY 42303	120
083–35345	221D4	TOWN BRANCH APARTMENTS, 221–A S HORD STREET, GRAYSON, KY 41143	24
083–35367	221D4	DIXIE PARK HOMES, 219 HORD STREET, GRAYSON, KY 41143	8
083–35472	221D3	KENTUCKY TOWERS, 514 S. FIFTH ST., LOUISVILLE, KY 40202	275
083–35544	221D4	HAVERFORD PLACE, COLONY BLVD. & STURBRIDGE DR., GEORGETOWN, KY	160
083–43087	232	SHELBY MANOR HEALTH CARE, 100 CHURCH VIEW ST., SHELBYVILLE, KY 40065	153

MULTIFAMILY PROPERTIES IN FORECLOSURE AS OF 4/4/02—Continued

(Please note that most of the unsubsidized notes will be offered the next note sale)

FHA#	Section of the Act	Property Name	No. of Units
087–43046	232	VERANDA AT HAMILTON PLACE, 7429 SHALLOWFORD RD., CHATTANOOGA, TN 37421	60
081–15001	232	FOX ACRES, 2180 MAGNUM RD., MEMPHIS, TN 38134	10
081–22003	232	MAPLE RIDGE MANOR, 705 LAKE ROAD, DYERSBURG, TN 38024	43
081–43021	232	FOX ACRES, 2180 MAGNUM RD., MEMPHIS, TN 38134	10
081–55002	221D3	WATKINS MANOR APTS, 2623 N WATKINS ST, MEMPHIS, TN 38127–8500	214
071–94029	223F	CRESTVIEW VILLAGE APARTMENTS, 208 NORTH CRESTLANE DRIVE, KANKAKEE, IL 60901	132
072–35078		SAINT NICHOLAS APARTMENTS, 400 E JEFFERSON STREET, SPRINGFIELD, IL 66666	94
046–35605	221D4	KINGS CROSSING, 4106 KINGS HIGHWAY, DAYTON, OH 45406	298
046–44089	236	MORIANE APTS, 27 S LUDLOW ST, DAYTON, OH 45402–1832	110
046–44170	236	GLENCOE-AUBURN APARTMENTS, 10 VIEW CT, COLUMBUS, OH 45219–1724	90
042–35195	221D3	CARTER MANOR APTS., 1012 PROSPECT, CLEVELAND, OH 44115	280
042–35287	221D4	PARK LANE VILLA, 10510 PARK LANE AVE, CLEVELAND, OH 44106–0000	185
042–35326	221D4	BUCYRUS ESTATES APTS., 1730 MARION RD., BUCYRUS, OH 44820	50
042–35444	221D3	THE NORTHWESTERLY, 1341 MARLOWE AVE., LAKEWOOD, OH 44107–0000	92
044–SH004	202	ROCHDALE COURT APTS, 1584 E LAFAYETTE ST, DETROIT, MI 48207–2959	70
044–SH012	202	FOUR FREEDOMS HOUSE, 1600 ANTIETAM ST, DETROIT, MI 48207	320
044–SH021	202	INDEPENDENCE HALL, 1935 CHENE CT., DETROIT, MI 48207	216
073–11144	223F	VILLAGE PARK APTS., 2754 EAST PAULDING RD., FORT WAYNE, IN 46816	484
073–44360	236	PARKSIDE TERRACE I, 2340 SUNBURST BLVD, EVANSVILLE, IN 47714–4610	202
073–44457	236	PARKSIDE TERRACE II, 2340 SUNBURST BLVD, EVANSVILLE, IN 47714–4610	120
075–EH251	202	MONROE MANOR, 2403 MONROE STREET, NEW HOLSTEIN, WI 53061–0000	12
092–35133	221D3	SOUTHGATE APTS. I, 3200 MAPLE AVE., SLAYTON, MN 56172–0000	31
112–35015	221D3	SUNNYDALE APT., 125 SUNNYDALE ST., JACKSONVILLE, TX 75766–3388	64
112–35327	221D4	PARK MANOR APTS., 2934 WEST PIONEER DRIVE, IRVING, TX 75061	210
112–35380	221D4	HIGHLAND COURT APARTMENTS, 3618 WHEELER, DALLAS, TX 75209	85
112–43065	232	COUNTRY CLUB VILLAGE, 3400 NORTH COUNTRY CLUB RD., IRVING, TX 75062	38
113–44065	236	SABINE TERRACE, 600 WEST SADOSA STREET, EASTLAND, TX 76448–3343	70
116–35121	221D4	CUESTAS APTS., 2800 NORTH ROADRUNNER PKWY, LAS CRUCES, NM 88011	104
114–35280	221D4	SATSUMA GARDENS APTS., 2008 JENKINS RD, PASADENA, TX 77506	232
114–43032	232	PARK CENTRAL NURSING HOME, 425 LAKE ARTHUR DRIVE, PORT ARTHUR, TX 77642–0000	120
059–35229	221D4	SNAP II APTS., PO BOX 84, SHREVEPORT, LA 71161–0000	59
059–35236	221D4	GRAMBLING DEVELOPMENT, 200 EDITH ROSE LANE, GRAMBLING, LA 71254–0000	72
117–35127	221D3	WESTERN VILLAGE APTS., 120 N. EDWARDS STREET, HOLLIS, OK 73550	48
117–35185	221D4	APACHE TRACE APARTMENTS, 1301 E HIGHWAY 3, GUYMON, OK 73942–5431	144

117–43028	232	CARRIAGE INN APTS., 1300 EAST AYERS, EDMOND, OK 73034–0000	94
117–EH087	202	REDBUD HOUSING, PO BOX 10, OAKS, OK 74359	24
115–35205	221D4	LASBY PARK TERRACE APTS., 120 TERRACE DR., SAN BENITO, TX 78586–5906	65
115–43033	232	VILLA SERENA ALZHEIMER'S, 4455 HORIZON HILL BLVD., SAN ANTONIO, TX 78229	36
115–94015	221D4	CAMELOT RETIREMENT COMMUN, 2015 S. CYNTHIA AVE., MCALLEN, TX 78503–2846	120
074–35162	221D4	DAVENPORT MANOR APARTMENT, 7118 HILLANDALE RD, DAVENPORT, IA 52806–1049	100
074–44026	236	COUNTRY MANOR APTS., 1010 N. 16TH ST., CLARINDA, IA 51632–0000	48
084–35252	221D4	LOVETT PLACE, 2701–03 BENTON BLVD, KANSAS CITY, KS 64128	48
102–35139	221D4	MULBERRY COURT APTS., 1500 N. CEDAR ST., ABILENE, KS 67410	37
102–35172	221D4	FOX RUN APTS., 206 E. MIAMI, HIAWATHA, KS 66434–0000	44
102–35177	221D4	FLEMING PLACE APARTMENTS, 2914 FLEMING ST, GARDEN CITY, KS 67846–7409	96
102–43036	232	MEADOWBROOK MANOR OF TOPE, 711 SW GARFIELD AVE., TOPEKA, KS 66606	168
103–94006	221D4	STREHLOW TERRACE APTS., 2007 N. 18TH ST., OHAHA, NE 68110	70
085–SH006	202	COUNCIL HOUSE APTS., 300 S. GRAND BLVD., ST. LOUIS, MO 63103–2400	287
091–35093	221D3	FRIENDSHIP VILLAGE, 211 S. WILSON AVE., FLANDREAU, SD 57028	18
101–35167	221D3	LAMAR APARTMENTS, 708 SOUTH MULLEN, LAMAR, CO 81502	48
101–35296	221D4	ROTELLA PARK APARTMENTS, 1620 CORONADA PKWY, THORNTON, CO 80229	82
105–43038	232	SERENITY RANCH ASSISTED L, 360 WEST 4200 NORTH, OAKLEY, UT 84055	42
123–43042	232	PALM VALLEY REHAB. AND CA, 13575 WEST MCDOWELL RD., GOODYEAR, AZ 85338	155
121–44082	236	UNIVISTA APTS., 1340 TURK STREET, SAN FRANCISO, CA 94115	24
121–EH065	202	HOMES NOW IN THE COMMUNITY, 1800 LINDEN STREET, OAKLAND, CA 94607	10
127–35257	221D4	RIVERSIDE APTS., 1109 ARTHUR ST., ABERDEEN, WA 98520	20
171–43034	232	LOGANHURST HEALTH CARE, EAST 1515 ILLINOIS AVE, SPOKANE, WA 99207	45
TOTAL PROJECTS			131
TOTAL UNITS			14,750

Hud-Owned Multifamily Properties, As of 4/4/02

023–35213	221D3	FRANKLIN PARK I, 278 HUMBOLDT AVE, DORCHESTER, MA 02121–2234	181
023–35214	221D3	THEROCH I, 107 ELM HILL AVE, DORCHESTER, MA 02121–2941	106
023–35216	221D4	FRANKLIN PARK II, 278 HUMBOLDT AVE, DORCHESTER, MA 02121–2234	97
023–35218	221D4	THEROCH II, 129 COLUMBIA RD, DORCHESTER, MA 02121–3106	109
023–35229	221D4	FIELDSTONE APTS, 887 BLUE HILL AVE, DORCHESTER, MA 02124–2902	84
023–35292	221D4	ACADEMY HOMES II, 2978 WASHINGTON ST, ROXBURY, MA 02119–1299	316
023–55027	221D3	GENEVA APARTMENTS, 229 GENEVA AVE APT B, BOSTON, MA 02121–3848	48
023–55110	221D3	CAMFIELD GARDENS, 115 LENOX ST, BOSTON, MA 02118–1051	102
023–55147	221D3	ROXSE HOMES, 1070 TREMONT ST, ROXBURY, MA 02120–2119	389
023–99905	221D3	BLUE HILL, BLUE HILL AVE, BOSTON, MA 02121	16
023–99906	221D3	CASTLEGATE, CASTLEGATE, BOSTON, MA 02121	54
023–99907	221D4	BLUE CASTLE GATE (DEMO), BLUE CASTLEGATE STREETS, BOSTON, MA 02121	40

MULTIFAMILY PROPERTIES IN FORECLOSURE AS OF 4/4/02—Continued

(Please note that most of the unsubsidized notes will be offered the next note sale)

FHA#	Section of the Act	Property Name	No. of Units
023–99909	221D3	SONOMA, SONOMA STREET, BOSTON, MA 02121	22
023–99910	221D4	MAPLE, MAPLE STREET, BOSTON, MA 02121	66
023–99911	221D3	SCHUYLER, SCHUYLER STREET, BOSTON, MA 02121	12
023–99913	221D4	WAUMBECK, WAUMBECK ST, BOSTON, MA 02116	32
023–99914	221D3	HUMBOLT, HUMBOLT STREET, BOSTON, MA 02121	52
023–99915	221D3	CRAWFORD, CRAWFORD STREET, BOSTON, MA 02121	89
023–99916	221D4	REGENT, REGENT STREET, BOSTON, MA 02121	15
017–11019	223F	WILLOW STREET APTS, 26–84 WILLOW ST, 111 PUTNAM ST., NEW BRITAIN, CT 06051	50
016–35056	221D4	MELROSE APARTMENTS, 50 PRAIRIE AVE, PROVIDENCE, RI 02905–2437, HUD New York	42
012–44033	236	MEDGAR EVERS HOMES, 84 LIVINGSTON ST., BROOKLYN, NY 11201	318
012–44043	236	JOSE DE DIEGO BEEKMAN I, 324 POWERS AVE, BRONX, NY 10454–1633	103
012–44051	236	JOSE DE DIEGO BEEKMAN II, 328 BEEKMAN AVE, BRONX, NY 10454–1404	142
012–44052	236	JOSE DE DIEGO BEEKMAN III, 694 E 141 ST, BRONX, NY 10454–2431	176
012–44053	236	JOSE DE DIEGO BEEKMAN IV, 597 E 138TH ST, BRONX, NY 10454–2727	138
012–44054	236	JOSE DE DIEGO BEEKMAN V, 578 E 141ST ST, BRONX, NY 10454–2350	150
012–44134	236	JOSE DE DIEGO BEEKMAN VI, 570 SAINT MARYS ST, BRONX, NY 10454–1428	185
012–44140	236	JOSE DE DIEGO BEEKMAN VII, 615 E 141ST ST, BRONX, NY 10454–2317	165
012–44160	236	JOSE DE DIEGO BEEKMAN V III, 590 OAK TER, BRONX, NY 10454–1408	172
012–55183	221D3	GATES AVENUE HOUSING, 650–700 GATES AVE, BROOKLYN, NY 11221–1701	163
012–57150	221D4	EVENING STAR, 277 GATES AVENUE, BROOKLYN, NY 11238	35
012–HH002	202	BRONX INDEPENDENT LIVING, 1310 MORRIS AVE, BRONX, NY 10451	21
031–94002	223F	BRICK TOWERS, 685 MARTIN LUTHER KING JR BLVD, NEWARK, NJ 07102–1006	320
HUD Baltimore			
052–35332	221D4	KENSETT HOUSE, 1700 EUTAW PL., BALTIMORE, MD 21217	24
052–35471	221D3	SCHOOL 181, 1645 N CALHOUN ST, BALTIMORE, MD 21217–2800	100
HUD Philadelphia			
034–35175	221D4	MACLAY STREET I APARTMENT, 501 MACLAY STREET, HARRISBURG, PA 17110	129
034–35211	223F	MACLAY STREET II APARTMENT, 428 PEFFER STREET, HARRISBURG, PA 17102	172
HUD Washington DC			
000–44123	236	CAPITOL VIEW PLAZA, 5929 E CAPITOL ST SE STE 104, WASHINGTON, DC 20019–7237	309

HUD Jacksonville			
066–R4071	236	HOLIDAY LAKES APARTMENTS, 973 N POWERLINE RD, POMPANO BEACH, FL 33069–2305	208
HUD Indianapolis			
073–35475	221D4	ORCHARD PARK APTS, 3102 BALTIMORE AVE, INDIANAPOLIS, IN 46218–2059	94
HUD New Orleans			
064–35040	221D4	PECAN VILLA, 220 MARGARET ST, BREAUX BRIDGE, LA 70517–5942	103
HUD St. Louis			
085–58505	236	JVL HOUSING CORP PACKAGE, 2754 BACON ST, SAINT LOUIS, MO 63106–1099	56
085–58508	236	JVL#14, 2754 BACON ST, SAINT LOUIS, MO 63106–1099	65
TOTAL PROJECTS			44
TOTAL UNITS			5,270

NATIVE AMERICAN HOUSING BLOCK GRANTS FUND

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

Answer. On average, during the 5 years that funding has been appropriated for the Native American Housing Block Grant (NAHBG) program authorized by the Native American Housing Assistance and Self-Determination Act of 1996, as amended (NAHASDA), Indian tribes or their tribally designated housing entities (TDHE) have provided assistance designed to preserve the viability of 77,838 units each fiscal year. The unit count includes moderate or substantial rehabilitation, and modernization and operating assistance related to units currently in management. It does not include other eligible affordable housing activities under the NAHBG, such as down payment and buy down assistance, minor rehabilitation 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 NAHBG formula.

Question. How many new units are created each year with these funds?

Answer. Using 4 years of Native American Indian Housing Block Grant (NAHBG) funding (fiscal year 1998 through fiscal year 2001), on average, 2,149 units have been created each year. Fiscal year 2002 figures are incomplete as of this date. Data are derived from Annual Performance Reports and Indian Housing Plans, and in one instance, an Area Office of Native American Housing Programs (ONAP) in-house data report. In most instances, figures reflect dwelling units started and completed. Figures are reliable to the extent those reports contain accurate information.

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 NAHBG 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.

HOPE VI

Question. The Public Housing HOPE VI program is scheduled to sunset at the end of fiscal year 2002. This program has been tremendously valuable in revitalizing both distressed public housing and distressed communities. Is the Administration going to seek an extension of this program?

Answer. Yes, the Department submitted a reauthorization proposal.

Question. What is the cost of this program per unit?

Answer. The cost per unit of this program is $161,755. This amount represents the amount budgeted from all sources, such as HOPE VI funds, leveraged funds, and funding from other sources, as well as the hard and soft construction costs and supportive services. The sum is based on the number of units planned for participating in the HOPE VI program. This information is based on the HOPE VI Quarterly Report for the quarter ending December 31, 2001.

Question. Please provide a breakdown of costs for all projects by unit with the soft costs identified as a separate breakout?

Answer. Below is the breakdown of costs for all HOPE VI projects. Which is based on data from the HOPE VI Quarterly Report for the quarter ending December 31, 2001. Total costs represents the amount budgeted from all sources. Number of units represents all units planned (ACC and non-ACC as well as rental and homeownership).

All HOPE VI UNITS

	Housing-Related Costs	Soft Costs	Total
Total Costs	$8,501,556,044	$3,159,331,262	$11,660,887,306
Number of Units		72,090	

All HOPE VI UNITS—Continued

	Housing-Related Costs	Soft Costs	Total
Cost per Unit	$117,930	$43,825	$161,755

Question. Please identify the reforms that should be considered before additional funds are appropriated?

Answer. The Department has requested the reauthorization of HOPE VI. HUD is currently finalizing proposals for program reforms and believes that they are best discussed in the context of reauthorization legislation. At the request of the Appropriations Committees, the Department submitted a report on the HOPE VI programs on June 14, 2002. The report describes the lessons that have been learned during the first 10 years of the program's operation.

LACK OF AFFORDABLE HOUSING

Question. There is a lack of affordable housing in many communities throughout the country, especially for extremely low-income families (those at or below 30 percent of median income). Vouchers do not work well in these communities and housing is too expensive to build to assist many of these low-income families. How do address this production problem, especially since tax credit production does not reach extremely low-income families?

Answer. It is true that many Americans cannot afford the costs of rental housing and that affordability problems are most prevalent among extremely low-income families. The Department does not agree, however, that "vouchers do not work well in these communities." A recent HUD study found that in 2000, roughly 7 out of 10 families who received vouchers in metropolitan areas nationwide succeeded in using them. Vouchers that are not used by the initial recipients are re-issued to other families, and most of these families are successful.

With respect to the production of new rental housing, despite overall Federal budget limitations due to the war against terror and the weakened economy, HUD's fiscal year 2003 budget seeks to expand the number of households that can afford the costs of rental housing.

—HUD is requesting 34,000 additional housing vouchers—most of which will be used to assist extremely low-income families.
—HUD is proposing a $74 million increase in HOME, in addition to the $200 million proposed for the American Dream Downpayment Fund.
—HUD continues its strong commitment to Section 202 for the elderly and Section 811 for the disabled.
—HUD is adding $15 million to the Housing Opportunities for Persons with AIDS program—raising it from $277 million to $292 million.

Last year, HUD raised the loan limits for FHA multifamily insurance, a step that has led to a substantial increase in volume in that program. HUD is also reducing the mortgage insurance premium from 80 basis points to 57 basis points, effective in October. Finally, it is important to note that in recent years, Congress has increased the Low-Income Housing Tax Credit by 40 percent and raised the caps on tax-exempt bond authority.

Taken together, these changes will have a significant impact in expanding the availability of affordable rental housing.

With respect to serving extremely low-income families, it is important to consider that housing vouchers can be combined with existing production programs to make units affordable to extremely low-income families. The Department would be happy to discuss how to improve the linkages of these various programs.

D.C. SFPD FRAUD AND ABUSE

Question. There have been a number of recent news stories about a church-sponsored group in the D.C area called the Church Association for Community Service which was identified as defrauding a HUD program whereby nonprofits rehabilitate and resell HUD housing. In this case, the nonprofit used a private entity to rehabilitate the housing and made some $100 thousand on average per house in violation of the rules. The news stories also indicated that this group did not qualify to participate in the program absent broad waivers by HUD under the last Administration. How big a problem is this type of fraud and what steps has HUD taken to ensure accountability of HUD's nonprofit partners in these types of programs?

Answer. On April 5, 2002, the Department announced that it would be conducting a full review of the Asset Control Area (ACA) program, and that during the review

period, existing ACA agreements would be allowed to expire. In part, this step was taken in response to the concerns raised above and raised by HUD's Inspector General in a report issued in February 2002. Two key components of this program review will be to determine if any additional fraud has taken place within the program, and what controls the Department must implement to prevent fraudulent activity.

HUD INTEGRATED INFORMATION PROCESSING SERVICE (HIIPS)

Question. HUD recently announced a re-competition of its HUD Integrated Information Processing Service (HIIPS) contract. This contract is key to HUD implementing a comprehensive IT system to track HUD programs and funding. When will this contract be awarded and when will HUD have a comprehensive IT system in place to track all HUD funding and programs?

Answer. The service that will be the follow-on contract to HIIPS has been named the HUD Information Technology Service (HITS). HITS will be a 10-year IT infrastructure contract. The HITS contract is not a systems development contract and is not pivotal in the development of a system to track HUD programs and funding.

The HITS contract is scheduled for award in November 2002. Implementation of the HITS contract is not directly related to a system to track HUD programs and funding.

Question. What are the overall expected costs for full implementation?

Answer. The existing HIIPS contract will transition to the next contract, HITS. There is a transition cost associated with the migration from HIIPS to HITS. The transition cost is considered source selection information and since this is an active procurement, Pursuant to the Official Federal Procurement Policies Act, 41 U.S.C. Section 423, HUD employees may not disclose contractor proposal or source selection information.

Question. Please describe what the IT system will do when complete?

Answer. HITS includes all of the supplies and services required to support HUD's Information Technology (IT) infrastructure. It includes:

Hardware Maintenance, Repair, Upgrade and Support
Data Storage and Retrieval
Database Management
Facilities Management
Telecommunications of Data and Video
Software Support (For Systems Software), Help Desk Operations for all Commercial off the Shelf (COTS) and HUD Unique Software
Electronic Data Interchange (EDI)
Configuration Management
Technology Assessment
Integration & Test Integration
Test Center Resources
IT Accessibility Support
Training
Enterprise Engineering Document Library Services
Nationwide IT including Telecommunications Disaster Recovery

FHA MULTIFAMILY PREMIUM REDUCTION

Question. HUD has proposed to reduce the mortgage insurance premiums for most of its FHA Multifamily Mortgage Insurance programs. When would these reductions go into effect and how many additional units does HUD anticipate will be funded under this change?

Answer. The Department will soon publish a Notice in the Federal Register implementing the decreases in mortgage insurance premiums that will go into effect for FHA Firm Commitments issued on or after October 1, 2002. The Department has not estimated any potential unit increases in FHA commitments attributable to the MIP decrease.

MULTIFAMILY ACCELERATED PROCESSING

Question. In addition, I have concerns that FHA's Multifamily Accelerated Processing (MAP) does not have adequate protections against default since the owner/lender essentially self-certifies the underwriting. How does HUD protect against unreasonable risk of default?

Answer. MAP does provide adequate protections against unreasonable risk of default through the HUD staff (architecture and cost, appraisal, mortgage credit) precommitment review of the lender's underwriting package. The appraisal is the key element of multifamily transactions and HUD appraisal staff are required to con-

duct a field review of the property and the comparable rental properties which support the proposed rental estimates. The HUD technical staff can recommend modifications or rejection of the application if the underwriting conclusions are not supportable. The HUD staff recommendation must specifically address major issues like the adequacy of the initial rent-up (operating deficit), escrow for new construction/substantial rehabilitation transactions, the adequacy of the reserve for replacement for existing transactions and any environmental concerns. The FHA supervisor in the field office who makes the decision on issuing a commitment has clear authority in the MAP Guide to modify or reject the lender's underwriting package. MAP has freed HUD staff from preparing much of the multifamily paperwork and allowed staff to concentrate their review on the essential parts and risk of the proposed transaction.

FHA DEFAULT RATE

Question. I am concerned that FHA single family mortgage insurance tends to take the highest risk of default despite currently exceeding actuarial requirements. What is the current rate of default on FHA single family mortgage insurance?

Answer. As of the quarter ending December 31, 2001, the 90-day default rate, including loans in foreclosure, was 4.60 percent of all FHA loans in force.

DEFAULT RATE FOR CONVENTIONAL HOME MORTGAGES

Question. How does this compare to the private market?

Answer. Using comparable data compiled by the Mortgage Bankers Association of America, the 90-day default rate for conventional mortgages, including loans in foreclosure, was 1.11 percent as of the quarter ending December 31, 2001.

MMI RESERVES

Question. At what point does a downturn in the economy put the Mutual Mortgage Insurance Fund at risk of failing to meet its actuarial floor?

Answer. As of the end of fiscal year 2001, the Actuarial Review of Mutual Mortgage Insurance (MMI) Fund estimated the financial reserves of the Fund at approximately $18.5 billion, yielding a capital ratio of 3.75 percent. Based on estimates of MMI activity for fiscal year 2002, the estimate of reserves was projected to increase to $22.5 billion by the end of the fiscal year, with a capital ratio of 4.24 percent. Actual program volume through the first half of this fiscal year indicates substantially increased performance over that projected in the Actuarial Review. Alternative economic scenarios analyzed in both the Actuarial Review and by the General Accounting Office indicate that it is very unlikely that this substantial reserve would be depleted to the extent of dropping below the currently mandated 2 percent capital ratio established in the Cranston-Gonzalez National Affordable Housing Act of 1990, however the prolonged and adverse economic circumstances that would yield such a result cannot be eliminated as a possibility.

601 PROGRAM

Question. What is the status of HUD's implementation of the single family property disposition program—more specifically, the asset control areas or ACAs? The 1998 property disposition legislation directed HUD to sell these properties to local governments and qualified nonprofits at a price that allows their adequate rehabilitation and resale to low-income homebuyers, without the need for additional Federal subsidies.

Answer. During the Accelerated Claims Disposition (Section 601) program demonstration phase, the initiative will have a limited scope and operate only in certain regions of the country. Further, in those 16 communities that have signed Asset Control Area (ACA) agreements, properties in those revitalization areas will be excluded from the Section 601 Demonstration, even during the ACA program review period. In the initial demonstration phase of the Accelerated Claims Disposition program, the Department wants to learn if the profit-motivated Joint Venture Partner will team with high capacity nonprofit organizations in carrying out loss mitigation and asset disposition on notes in impacted revitalization areas to meet its recovery objectives. The Department wants to be able to evaluate and report conclusively at the end of the demonstration if the objectives of operationalizing the claim processing, increasing recoveries to the FHA fund and achieving budget savings have been addressed. The Department, upon publishing Regulations, will consider allowing nonprofits to purchase mortgages in the future.

SINGLE FAMILY PROPERTY DISPOSITION HOLDING COSTS

Question. Also, HUD is proposing to block sell many of the foreclosed FHA single family properties and get HUD primarily out of the business of selling individual houses. What are the current costs for HUD to hold foreclosed FHA houses, including the per unit cost of management and rehabilitation. This cost breakout should include the costs associated with HUD staff and overhead as well as the per unit cost for the use of management companies, including all associated costs.

Answer. Daily per unit holding costs equal $36.75. This includes $4.00 for taxes, $30.84 for property management and marketing, $.63 for lost interest, and $1.28 for HUD staff costs. (This assumes 30,000 on-hand properties and 125 HUD staff. Management & marketing costs include actual management fees, maintenance expenses, and the costs for limited repairs completed to address health and safety concerns.)

PUERTO RICO HOUSING AUTHORITY

Question. What is the status of funding for PRPHA?

Answer. Under the operating fund the Puerto Rico Housing Authority has received $73,822,415 and is scheduled to receive an additional $18,948,123 for a total of $92,770,538 for its fiscal year ending June 30, 2002.

PER UNIT AMOUNT OF OPERATING SUBSIDY FOR PUERTO RICO PUBLIC HOUSING AUTHORITY

Question. How much funding does PRPHA receive per unit?

Answer. Under the Operating Fund, the Puerto Rico Housing Authority will receive a subsidy of $1,652 per unit for its fiscal year ending June 30, 2002.

COMPARISON OF PER UNIT AMOUNT OF OPERATING SUBSIDY

Question. How does this compare to the funding received 3 years ago per unit and how does it compare to the funding received per unit by other PHAs such as Atlanta, New York City, Chicago and Los Angeles?

Answer. The data below shows a comparison of annual per unit amounts for the Public Housing Authorities (PHAs) in question for operating subsidies received over a 3-year period based on the PHAs' fiscal years:

Fiscal Year	*Per Unit Cost*
PRPHA:	
6/30/2002	$1,652
6/30/2001	1,433
6/30/2000	1,987
New York:	
12/31/2001	4,687
12/31/2000	4,265
12/31/1999	3,724
Chicago:	
12/31/2001	5,863
12/31/2000	5,898
12/31/1999	5,277
Los Angeles:	
12/31/2001	3,507
12/31/2000	3,529
12/31/1999	3,244
Atlanta:	
6/30/2002	4,031
6/30/2001	2,813
6/30/2000	3,191

As reflected by the above data, the per unit amount of subsidy received by an individual PHA can vary from year-to-year and there can be a significant variation in funding levels between PHAs. For its December 31, 2001 fiscal year, the Chicago Housing Authority received about 3.5 times the average funding per unit than the Puerto Rico Public Housing Authorities (PRPHA's) received for its June 30, 2002 fiscal year and 1.7 times the December 31, 2001 fiscal year average funding per unit than the Los Angeles PHA. Using this gross type of average, however, masks the impact of several important factors that determine operating subsidy eligibility and would help explain why Chicago receives more funding than the Los Angeles PHA or the PRPHA.

The amount of operating subsidy received by any particular PHA is determined by a formula that takes into account factors such as routine operating expenses,

utility costs, add-ons permitted by HUD, audit expenses, and rents charged to residents. For example, heating costs are a major expense to Chicago, but less of an expense for the PRPHA. Another example where costs vary by PHAs is that of routine operating costs, which is represented by the Allowable Expense Level (AEL). The AEL is a formula factor intended to represent the costs of operating a well-managed PHA. For the PRPHA, routine operating costs are low, but these costs are relatively higher for Chicago. Finally, in terms of comparing per unit amounts of operating subsidies, Chicago has a significant number of units approved for demolition by HUD and, as a result, receives operating subsidy for phase down or transition funding as well as funds to preserve and protect the units until they are demolished. On the other hand, the Puerto Rico PHA is not undertaking major demolition actions.

QUESTIONS SUBMITTED BY SENATOR LARRY E. CRAIG

RURAL HOUSING

Question. I remain concerned over HUD's decision to not request funds for the rural Housing and Development Program. I am well aware other mechanisms exist within HUD to fund development block grants and sweat-equity programs; however, while that is encouraging, I find that HUD's rationale in shifting responsibility for the Rural Housing and Development Program onto the USDA, is questionable. What assurances are there that this is not a cut or elimination of services?

Answer. The Rural Housing and Economic Development Program has a current portfolio of grantees that include rural nonprofit organizations, community development corporations, Indian tribes, State Housing Finance agencies, and State economic development and/or community development agencies. HUD has grant agreements for up to 36 months with these entities to carryout the projects until they are completed, based on the organization's project timelines. The current projects will be administered by HUD through fiscal year 2003. The Administration's proposal to eliminate HUD's program reflects the much greater assistance provided by the U.S. Department of Agriculture and other agencies and presumes that there will not be a meaningful change in the overall Federal assistance to rural America.

Question. What assurances can you give to me that at least the same level of services will be delivered, and that our government's helping hand in rural America would be made more effective by this change?

Answer. The U.S. Department of Agriculture (USDA) continues to manage a substantial portfolio of rural housing grant programs and economic development grant programs, the service delivery will allow for a continuation of services provided to rural constituents. USDA's current rural development portfolio greatly exceeds HUD's Rural Housing and Economic Development Program in terms of programs and services from budgets to staffing.

HOUSING COUNSELING PROGRAM

Question. I've noted the Administration's proposal to restore funding for the Housing Counseling Program, which helps teach first-time home buyers with modest incomes about often-complicated things like mortgages, inspections, and predatory lending practices. The previous Administration cut this funding, and also succeeded in almost eliminating participation by State housing finance agencies (HFAs). This made no sense, because State HFAs have the expertise and resources to offer new home buyers the broadest possible range of services.

In Idaho, for example, our Idaho HFA is launching a program to help overcome language barriers and reach out to the Hispanic population through its homebuyer education program.

Am I correct in assuming the Administration proposal for increased funding reflects your plans to fully re-engage State HFAs in the Counseling program?

Answer. Most Housing Finance Agencies (HFAs) that operate good programs, such as the Idaho HFA, should receive substantial awards with the funding proposed for fiscal year 2003. The overall funding for the Housing Counseling program was increased and then cut significantly between fiscal years 1998 and 2000. An increase from $15 million in fiscal year 1997 to $20 million in fiscal year 1998 permitted HUD to seek out and fund additional organizations providing counseling services. However, a cut back to $15 million in fiscal year 2000 forced HUD to make a decision regarding how to spread substantially less money among the same types of groups.

Experience clearly demonstrated to HUD that many State HFAs were not able to provide counseling services directly nor suballocate the funds to other local groups.

In fact, over the last few years, HUD has recaptured hundreds of thousands of unspent funds from State HFAs. This funding was reserved in the names of several HFAs for an entire year-long grant period, before HUD could recover it; clearly, it could have been well-used by other counseling agencies to serve many hundreds of clients in need. For this reason, HUD plans only a minimal increase in the amount of funding available for State HFAs for fiscal year 2003. However, HUD's decision to increase funding for this category only minimally should not affect high-performing HFAs such as Idaho's.

EQUAL OPPORTUNITY AND ACCESS TO HOUSING

Question. In the President's basic budget document, one of HUD's main strategic objectives was to Ensure equal opportunity and access to housing, in other words, promote fair housing. HUD's own Budget Summary, spent just over a page describing HUD's programs to enforce fair housing laws.

I commend the Administration's emphasis in this year's budget of assessing performance and effectiveness. However, I didn't see assessments in the area of fair housing.

Using the Administration's red-light, green-light approach, how would you assess HUD's effectiveness in its strategic objective to ensure equal opportunity and access to housing?

I realize, of course that you have inherited programs that previously were not subject to performance measurement and that this Administration is still implementing its policy of conducting such reviews. HUD's programs include both education and enforcement components. I think we all agree that an effective fair housing agenda includes both, adequate education and fair enforcement. How would you assess HUD's effectiveness in each of these areas?

Answer. HUD has made significant progress in accomplishing the Department's strategic objective to ensure equal opportunity and access to housing, but at the moment we would still have to give ourselves a red light in this area. While our enforcement efforts have contributed to the reduction of discrimination in America, significant problems persist. The effectiveness of HUD's enforcement efforts has been historically impaired by the excessive length of time it has taken to resolve discrimination complaints. Also, while knowledge of what constitutes illegal discrimination under the fair housing laws is generally high, research indicates that the public requires more education about some prohibited practices.

HUD is completing several studies that provide quantitative measures of the level of discrimination against different groups in our society. The preliminary findings of the Department's nationwide Housing Discrimination Study (HDS), to be released shortly, show that the Nation has made progress on some measures of discrimination against African Americans and Hispanics over the last 10 years but some serious problems remain. Moreover, an examination of the actual instances of discrimination reveals that many real estate professionals blatantly disregard the law. For example, in many cases agents openly confess their racial prejudices while steering prospective renters and homebuyers to certain neighborhoods.

In the area of mortgage lending, HUD will release a study this month that shows that generally Blacks and Hispanics in Chicago and Los Angeles are treated no worse than whites when they inquire about financing options. However, the data also indicates that Blacks and Hispanics are more likely to be quoted worse terms and conditions on loans than equally-qualified or less-qualified whites. For example, in Chicago, Whites were offered higher loan amounts than similarly-qualified Hispanics 51 percent of the time, while Hispanics were offered higher loans 19 percent of the time. In Los Angeles, the study showed that Blacks who were clearly qualified for conventional loans were steered to FHA loan products 31 percent of the time while Whites with comparable profiles were steered to FHA 8 percent of the time.

The Department's research and other activities also reveal widespread non-compliance with the fair housing laws that require that new multifamily buildings be accessible to persons with disabilities. The Department will soon release a study that provides quantitative measures of the extent of such non-compliance. In many cases, the violations involve the failure to provide a basic level of accessibility (no ramped access, front doorways are too narrow, lack of access to common areas). HUD has made substantial progress in ameliorating these problems through its enforcement efforts and 14 years of education, but substantial non-compliance remains.

HUD has taken several steps to improve the effectiveness of its fair housing enforcement. The Bush Administration has made it a priority that fair housing complaints be processed in a timely manner. The Fair Housing Act requires that complaints be resolved in 100 days. Since President Bush took office, HUD has reduced

by 29 percent the number of complaints remaining unresolved past 100 days. HUD accomplished this reduction through the commitment of additional staff and resources.

Second, HUD is focusing more attention on particular communities and enforcement needs that weren't adequately addressed in the past. HUD has identified recent immigrants and persons living in Southwest Border "colonias" as populations who face significant barriers in the housing market, and have been traditionally underserved by HUD-funded fair housing programs. HUD's fiscal year 2002 Notice of Funding Availability (NOFA) and its fiscal year 2003 Budget emphasize fair housing projects that provide greater assistance to these communities. The NOFA also recognizes the need to be responsive to circumstances when they first arise, emphasizing projects that address national origin and religion discrimination that is on the rise since the September 11 terrorist attacks. HUD has also entered into an Interagency Agreement with the Department of State in furtherance of Executive Order 13166, "Improving Access to Services for Persons with Limited English Proficiency," to translate FHEO publications into Arabic, Cambodian, Chinese, Korean and Vietnamese.

As the Administration has become aware of enforcement needs requiring greater attention, HUD has committed additional resources to address them. For example, HUD has proposed reprogramming $1.95 million of fiscal year 2001 FHIP funds, originally planned for the third phase of HDS, to respond to immediate enforcement needs, including addressing the kind of discrimination HDS is uncovering. The reprogrammed funds will also support projects to combat lending discrimination, including predatory lending; post-terrorism discrimination; and fair housing issues in the colonias.

HUD continues to aggressively enforce the fair housing laws on behalf of people with disabilities, seeking voluntary compliance where possible. As people with disabilities are disproportionately represented among low-income persons, HUD is responding to the lack of accessible housing units in public and assisted housing. HUD has recently signed Voluntary Compliance Agreements with the District of Columbia and the Boston Housing Authorities, which collectively will create more than a thousand new units of accessible housing. HUD has also developed a Web-based system that will assist its field offices in their review of non-compliant FHA-insured properties and in targeting their enforcement efforts. In addition, as the IRS-administered low-income housing tax credit program currently produces more units of affordable housing than any other Federal program, HUD has joined forces with the Department of Justice and the IRS to notify tax-credit beneficiaries that failure to comply with the law places their tax credits in jeopardy.

Finally, HUD is moving toward more effective enforcement by making sure more States, localities, and private organizations have the tools and the resources they need to tackle the specific fair housing problems in their communities. HUD now reimburses 95 States and localities for their enforcement of substantially equivalent laws under the Fair Housing Assistance Program (FHAP). This includes 33 States plus the District of Columbia. Under FHIP this past year, HUD awarded a record-number, 90 grants to a diverse range of fair housing groups throughout the country. The Department is also providing a more continuous funding stream for FHIP enforcement projects by eliminating a policy that made successful applicants ineligible for new enforcement grants the following year.

In the area of education, HUD's soon-to-be-released Fair Housing Act Awareness study indicates that while most people understand the most commonly discussed provisions of the Fair Housing Act, a majority are not aware of the full scope of the Act's prohibitions. Moreover, a significant minority of people remain ignorant even of the law's most basic provisions.

The Department carries out much of its education activities through FHIP, for which the 2002 NOFA provides $6 million in grants (grantees may also use a portion of enforcement and new-organization grants for education purposes). A few representative successes include: the education project of the Colorado Coalition for the Homeless (CCH), who formed a statewide Fair Housing Task Force, which consists of rank-and-file citizens and State, local, and Federal Government representatives, delivering fair housing services to many communities throughout the State; Citizen Action of New Jersey's "train-the-trainers" sessions, whereby grassroots and faith-based organizations replicate trainings on predatory lending and other emerging fair housing issues to fulfill the needs of their individual communities; and the work of the State of Kentucky Fair Housing Commission, who have provided statewide translators and disseminated Spanish-language materials to educate Kentucky's growing Hispanic population of their fair housing rights.

This year's FHIP NOFA provides funding for a national Predatory Lending Awareness campaign and greater outreach to underserved populations, including

those persons living in the colonias. The NOFA also recognizes the historic role faith-based organizations have played in educating people on their civil rights by providing extra points for applicants who are either faith-based or grassroots organizations, or partnered with such organizations. Over the years, the Department has undertaken several education and outreach initiatives to ensure greater access to housing for people with disabilities. This has involved outreach to housing industry groups and to advocates. The Department continues to build on these efforts. Not only has HUD reprogramming proposed $1.7 million in Fair Housing Initiatives Program funds to continue a project that provides training and technical assistance in a manner that the housing industry advises works best for them, but HUD also has provided nearly $1 million to the International Codes Council, who are actively working with the National Association of Homebuilders and others to encourage States and localities to incorporate accessibility features into their building codes. This latter effort will help address these matters upfront, when builders seek permits.

The Department believes that its retooled, more responsive enforcement program, combined with enhanced education and outreach projects, will bring the fair housing program closer to green-light status in the future.

FAIR HOUSING INITIATIVES PROGRAM

Question. In your proposed budget, how much is provided for each fair housing component education and enforcement?

Answer. HUD's fiscal year 2002 budget includes $6,000,000 to fund the Fair Housing Initiatives (FHIP) Program education and outreach activities; $12,150,000 for private enforcement activities; and $2,100,000 to support the fair housing organizations initiative. To make additional funds available for education and outreach, HUD allows grantees to allocate a percentage of fair housing organization grants and private enforcement grants for these activities.

QUESTIONS SUBMITTED BY SENATOR PETE V. DOMENICI

COMMUNITY DEVELOPMENT BLOCK GRANTS

Question. Secretary Martinez, according to the latest CBO estimate of the President's budget the funding level for the CDBG program drops about $300 million from its 2002 level after you take out the $2.0 billion the program received in the Emergency Response Fund.

Mr. Secretary could you please justify this cut to what many consider to be an immensely important program?

Answer. The CDBG budget for fiscal year 2003 is a reduction from its 2002 level because it does not request funding for several set-aside programs. The request for the CDBG formula grants represents a 2 percent increase of $95 million over 2002.

Question. Mr. Secretary, the President's budget briefly discusses a legislative proposal that would reduce the number of grants made to the wealthiest 1 percent of eligible communities. The hope here, obviously, is to allocate more funds to those who need it the most.

Could you please give this committee a bit more detail on this legislative proposal and the Department's rationale behind this proposal?

Answer. The Department's proposed budget for fiscal year 2003 requests $4.436 billion in budget authority for the formula CDBG program to address locally identified community and economic development needs. Although the CDBG program allocates funds by formula in a way that targets most funds to our neediest communities, the current formula distribution of these funds also provides grants to higher-income communities. Because of the great disparity in per capita income among our grantees, the budget proposal seeks to re-evaluate the method of allocating the limited resources of the CDBG program.

A legislative change has been proposed for fiscal year 2003 to reduce, by 50 percent, the amount of the grant to the wealthiest one percent of eligible grantee communities. The wealthiest communities would be defined as those with per capita income equal to, or greater than, two times the national average. However, it must be noted that this proposed legislative change is intended to further target limited CDBG funds to the neediest communities. If this proposal is enacted, the Department will use data on per capita income from the 2000 Census to identify the communities whose funding would be reduced.

The funds captured by the 50 percent reduction would become available to all the other entitlement communities with lower per capita incomes and would not directly fund the Colonias Gateway Initiative. However, the savings achieved by this move-

ment of funds to more needy communities would create room in HUD's overall budget to provide resources for the Colonias Gateway Initiative, which is designed to serve some of the poorest communities in the Nation.

The Department does not consider this a new formula for CDBG. The data from the 2000 census needed to do a comprehensive analysis of the CDBG formula should be available this fall. We expect to do a study and present it to Congress for their consideration next spring so that consideration could be made for the 2004 allocation of funds. Rather than wait for the process and a full examination of the formula, we choose to propose this adjustment to move a limited amount of funds from very wealthy communities.

Question. Also can you give us a rough estimate of the percentage, or even better, a dollar value of the funding that went to these wealthier communities as you define them?

Answer. Provided is a list of those high-income entitlement communities that exceed 200 percent of the Per Capita Income (PCI) national average based on 1990 census data and their 2002 CDBG allocations. This list, however, is only illustrative because the proposal would be based on 2000 census data, which will not be available until the spring. The list of the communities that would be affected based on 1990 census data is:

Community	Per capita Income as a multiple of National Average	Fiscal year 2002 CDBG funds
Greenwich, CT	3.2	$1,157,000
Newport Beach, CA	3.2	490,000
Lower Marion, PA	2.9	1,407,000
Naples, FL	2.9	149,000
Palo Alto, CA	2.3	808,000
Westchester County, NY	2.1	7,004,000
Santa Monica, CA	2.0	1,787,000
Brookline, MA	2.0	1,872,000
Newton, MA	2.0	2,663,000

EMPOWERMENT ZONES AND ENTERPRISE COMMUNITIES

Question. Mr. Secretary, for fiscal year 2003 the President's budget does not include any funding for Round 2 Urban Empowerment Zones and Enterprise Communities. In addition, a similar program but one that is funded through the Agriculture Subcommittee, the Rural Empowerment Zone, has also received no funding in the President's budget. I hasten to add that the word "termination" is never used in the President's budget in relation to these programs but in budget materials received from OMB no new budget authority is given to these programs over the next 10 years. I might also add that on page 176 of the President's budget it is explained how HUD has just designated communities for a Round 3 initiative.

Can you explain the discrepancy I have just described and could you please explain what the future holds for these programs, or at the very least, the future of the Urban side of the EZ and EC initiative?

Answer. The EZ initiative is not being terminated even if no grant funds are included for fiscal year 2003. HUD's efforts will henceforth concentrate on enabling the Empowerment Zones to develop the capacity to use the funds they've received over the remaining few years of the authorization. If successful, the Administration would consider additional grants, if appropriate. HUD will also be emphasizing tax incentives and leveraging funds in the Empowerment Zone program through greater attention to Tax Incentive Utilization Plans.

Each of the Round III Empowerment Zone applications selected came with over 100 commitment letters from the private sector, non-profits and other public entities. One community remarked that it was refreshing to have partners come to the table with commitments to offer instead of an open hand asking for grant money. Rather than seeing the President's fiscal year 2003 budget as a threat to the Round II, we encourage them to see it as an opportunity to share the enthusiasm of the Round IIIs. For example, they can take advantage of the two point scoring bonus for HUD programs in our March 2002 SuperNOFA and bundle other Federal, State and local grant and incentive programs for a prosperous tomorrow. All Empowerment Zones will qualify for Federal tax incentives until December 31, 2009.

Question. Is it your position that these programs have enough carryover from the previous fiscal year and this is why they have received no funding for this year?

Answer. Yes. Funds were not requested for fiscal year 2003 because over $225 million in carryover remained. Collectively, the Empowerment Zones have only used 20 percent of the funds already appropriated. It would be more appropriate at this time for HUD to concentrate on enabling the Empowerment Zones to develop the capacity to use the funds they've received. HUD will also be emphasizing tax incentives and leveraging funds in the Empowerment Zone program through greater attention to Tax Incentive Utilization Plans.

SUBCOMMITTEE RECESS

Senator MIKULSKI. This Subcommittee stands in recess. Next week we will take the testimony on the Environmental Protection Agency. We look forward to working with you.

Secretary MARTINEZ. Thank you.

[Whereupon, at 10:55 a.m., Wednesday, March 13, the hearing was 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 2003

WEDNESDAY, MARCH 20, 2002

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

The subcommittee met at 9:36 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Barbara A. Mikulski (chairman) presiding.

Present: Senators Mikulski, Leahy, Kohl, Bond, Craig, and Domenici.

ENVIRONMENTAL PROTECTION AGENCY

STATEMENT OF CHRISTINE TODD WHITMAN, ADMINISTRATOR

ACCOMPANIED BY:

LINDA FISHER, DEPUTY ADMINISTRATOR
ROBERT BOSTOCK, CHIEF SENIOR ADVISOR TO THE ADMINISTRATOR
MORRIS X. WINN, ASSISTANT ADMINISTRATOR, OFFICE OF ADMINISTRATION AND RESOURCES MANAGEMENT
JEFFREY HOLMSTEAD, ASSISTANT ADMINISTRATOR, OFFICE OF AIR AND RADIATION
SYLVIA K. LOWRANCE, ACTING ASSISTANT ADMINISTRATOR, OFFICE OF ENFORCEMENT AND COMPLIANCE ASSURANCE
KIMBERLY T. NELSON, ASSISTANT ADMINISTRATOR, OFFICE OF ENVIRONMENTAL INFORMATION
LINDA M. COMBS, CHIEF FINANCIAL OFFICER
MICHAEL W.S. RYAN, DEPUTY CHIEF FINANCIAL OFFICER
ROBERT FABRICANT, GENERAL COUNSEL, OFFICE OF GENERAL COUNSEL
NIKKI TINSLEY, INSPECTOR GENERAL
JUDITH AYRES, ASSISTANT ADMINISTRATOR, OFFICE OF INTERNATIONAL ACTIVITIES
SUSIE HAZEN, DEPUTY ASSISTANT ADMINISTRATOR, OFFICE OF PREVENTION, PESTICIDES AND TOXIC SUBSTANCES
HENRY L. LONGEST, II, ACTING ASSISTANT ADMINISTRATOR, OFFICE OF RESEARCH AND DEVELOPMENT
MARIANNE HORINKO, ASSISTANT ADMINISTRATOR, OFFICE OF SOLID WASTE AND EMERGENCY RESPONSE
DIANE REGAS, ACTING ASSISTANT ADMINISTRATOR, OFFICE OF WATER
BENJAMIN GRUMBLES, DEPUTY ASSISTANT ADMINISTRATOR, OFFICE OF WATER

THOMAS GIBSON, ASSOCIATE ADMINISTRATOR, OFFICE OF POLICY, ECONOMICS AND INNOVATION

EDWARD D. KRENIK, ASSOCIATE ADMINISTRATOR, OFFICE OF CONGRESSIONAL AND INTERGOVERNMENTAL RELATIONS

JOSEPH MARTYAK, ACTING ASSOCIATE ADMINISTRATOR, OFFICE OF COMMUNICATIONS, EDUCATION AND MEDIA RELATIONS

JOSEPH L. DILLON, COMPTROLLER, OFFICE OF THE CHIEF FINANCIAL OFFICER

NANCI E. GELB, DIRECTOR, ANNUAL PLANNING AND BUDGET DIVISION

OPENING STATEMENT OF SENATOR CHRISTOPHER S. BOND

Senator BOND. Good morning and welcome. The Subcommittee on VA, HUD, and Independent Agencies will come to order for the fiscal year 2003 appropriations for EPA.

The Chair is tied up in traffic, as I gather several people were. I just went to the wrong room. So, I did not have an excuse.

But, Madam Administrator, we are always delighted to welcome you to testify on the budget request.

As we discussed last year, EPA, has one of the most difficult challenges of any Federal agencies, with the responsibilities for the clean-up of Superfund and brownfield sites and the funding of clean water and drinking water infrastructure to the enforcement of environmental laws to representing our Nation with regard to issues of climate change.

On top of these important responsibilities, EPA, since September 11, has embraced the unfortunate new challenges posed by the threat of terrorism to our Nation's water supply, and has provided leadership within the Federal Government with regard to toxic biochemical agents and other hazards, such as Anthrax.

This year, the Administration has requested some $7.7 billion in budget authority; a reduction of about $283 million from the fiscal year 2002 funding level. However, assuming a number of adjustments, including the Administration's fantasy reduction of $488 million in Congressionally designated EPA water and sewer grants, the EPA funding level is approximately equivalent to the fiscal year 2002 level.

Within these funding levels, the Administration is requesting $200 million for the brownfields grant program, an increase of $100 million from fiscal year 2002, $21 million for a new targeted watershed program, a repeat request for a new State Enforcements Grant Program at $15 million, and $124 million for Homeland Security.

I continue to have one primary area of concern, both in my role here on this committee and as a member of the committee on Environment and Public Works. The Administration is again recommending a reduction of the Clean Water State Revolving Fund, from $1.35 billion, for the current year, to $1.2 for the next year, while maintaining a level request of $850 million for the Drinking Water State Revolving Fund.

I strongly support the continued funding of both these State Revolving Funds at the 2002 level, especially the Clean Water Revolving Fund at $1.35 billion. The need is especially relevant, since the EPA gap analysis is expected to indicate that the United States

will need to spend over $350 billion over the next two decades on new and existing water infrastructure.

Even more troubling, outside estimates have concluded that as much as $740 billion is needed over the next 20 years, with some $200 billion more in financing, and as much as $980 billion for local governments to operate and maintain this water infrastructure.

The programs must be maintained and increased, if possible. The huge funding estimates for water infrastructure needs also beg the question of how Congress and the EPA should prioritize and allocate the available funding to meet our most pressing needs.

Now, Madam Administrator, I have places in my State, in rural Missouri, where they do not have adequate water treatment. And I can tell you that you do not have to get very close to them to tell they have got a problem. You can smell it. And if you are talking about cleaning up the environment and making sure we take care of public health, when we do not take care of the clean water needs, we are neglecting one of the most serious and real threats to our environment and to the health of our population, because with polluted water, comes significant health problems.

In addition, the EPA faces significant challenges with regard to the new requirement for the total maximum daily load, or TMDL pollutants, the impact on public health and the environment by large animal feeding operations, increased public health risks attributable to combined sewer overflow problems, and statutory requirements for the protection of wetlands.

I also am concerned about issues related to air quality standards on the Clean Air Act, including the implementation of the New Source Review provisions of the Clean Air Act, which authorize EPA to set standards for certain facilities for the installation of air pollution control equipment.

It is an especially important issue, as we seek to maintain the economic viability of U.S. producers of energy all meeting the air quality standards.

I applaud EPA's attention and commitment to homeland security. As a follow-up to the $175.6 million Congress appropriated for EPA's investment in 2002 emergency supplemental, the Administration is asking for an additional $124 million in follow-up funding to protect the Nation's water supply, for continued security upgrades to EPA facilities, and to continue to operate the West Coast Emergency Response Team.

There is one other issue I am compelled to raise at this time. On March 8, the Wall Street Journal printed an editorial regarding the awarding of EPA funds to non-profit groups that have used the funds primarily for lobbying or litigating on EPA issues, and that these funds may have totaled as much as $2 billion from 1993 to 2001. The editorial goes on to indicate that EPA's top six non-profits that have received these funds were not environmental organizations, but senior citizens' groups. AARP received some $99 million. There are even allegations that EPA officials have erased hard drives and destroyed e-mail tapes.

These, Madam Administrator, are very troubling allegations that need to be addressed, especially since the VA/HUD Appropriations Act prohibits the use of agency funds for lobbying or litigation, and

requires the Chief Executive Officer to certify that no funds have been used to lobby or litigate on EPA issues. I trust you and the Inspector General will pursue these allegations and report back to us on what you found, and if there, in fact, has been such a problem, and the definitive steps that you are going to undertake to make sure it never happens again.

Finally, I am very glad that EPA is focusing on meeting its primary program and legal obligations, rather than creating a new series of programs and responsibilities. You have got enough work to do with what you have. In the past, we have seen lots of side efforts going off in different directions that took away from the main responsibility. We are delighted that you are going to stick with the very important primary responsibilities you have.

With that, I am going to turn to a distinguished member of the committee, Chairman of the Budget Committee, in whose good graces we all seek to be. And he can speak as long as he wants. At least until the Chair arrives.

STATEMENT OF SENATOR PETE V. DOMENICI

Senator DOMENICI. I will not be long. I thank you very much, Senator Bond. And let me open the discussion with you by telling you that I understand that the nomination of Mr. Paul Gilman, who has been selected by the President to work with you to be your Science Director, was being held up. I did want to tell you that there was a hold on his nomination but last night, it was released. At least, the Senator that suggested the hold, when I went to talk with him, said he would release it sometime yesterday. So, perhaps it is ready to go through.

Senator BOND. Thank you.

Senator DOMENICI. We look forward to his being confirmed, and I compliment you on getting a very talented science advisor, who also understands a lot about the way things are done up here. I might say that he used to work for me. He was my Administrative Assistant or Chief of Staff, but he is a great scientist. I look forward to his being at EPA, so we can work science issues with him. He will be a very big asset.

Now, I am going to talk about just one subject, and I will do it as quickly as I can. I think if I said to you, write down the subject that Domenici is going to talk about, you could write it down, because it is arsenic and the new arsenic standard in communities and cities in my State, the State of Nevada, the State of Arizona, and many others.

As an example, the City of Albuquerque has briefed us, Madam Administrator, and told us that their estimate now is $150 million to fix their system so it is in compliance. With that, we think we have an estimate for the State of New Mexico, from the largest, which is Albuquerque, down to some very small ones that if they have to put in an arsenic treatment system, they will have to go back to individual wells, because they will not be able to afford the water. Between $400 million and $700 million will be the cost in New Mexico. We are told that Arizona is very similar. So, they are between $400 million and $700 million. When we were discussing this issue on the floor, that last time, several Senators, including Senator Mikulski, who chairs this committee, Senator Boxer, Sen-

ator Clinton, Reed, Bingaman, Hagel, Hutchison, happened to be on the floor, and each, in turn, stood up and said they would like to be helpful in the passage of a bill that would grant assistance to these cities that have to make these changes that you know, they never would have made on their own. Many of them would have fought to convince anyone that their water was not dangerous. We now have a standard that for many out in the Southwest is a ludicrous standard. I think you know how we feel about it, but it is the standard.

I have two questions. One, if we were to pursue some kind of assistance, by way of grants or the like to communities so that they might be able to afford the equipment and changes that are required, would you be supportive of that?

Ms. WHITMAN. Would you like me to answer that now, Senator?

Senator DOMENICI. Yes, please.

Ms. WHITMAN. We would certainly look very closely.

Senator DOMENICI. I am going to be leaving, so I cannot stay long.

Ms. WHITMAN. Okay. I would be happy to answer that. We have identified $20 million in our budget to begin this process. One of the things we are looking at very closely is how we can aid these communities with new technologies that will help bring down the cost. We would look very closely at any legislation you propose, because we are very sensitive to this being an enormous issue for those States where you have a lot of naturally occurring arsenic.

Senator DOMENICI. And the second issue has to do with one that you touched on, that has to do with research and development of technology. I gather, from looking at your budget, you have up to $20 million for research and development in this area.

I am going to give you a hypothetical question. If, in fact, we had a technology, and it was close, not quite there, but close, and if in fact some kind of a certification could be obtained that will be ready, but not exactly on time, will you have an open mind to considering, with these communities, some way of alleviating the enormous cost, as long as they are ready to go, thereafter, with new technology?

Ms. WHITMAN. We are certainly going to do everything we can to make sure that they have time to comply with the new arsenic in drinking water standard, so it does not put them into bankruptcy and does not force people to drill their own wells, because that is one of the issues that was of concern at the very beginning. Then we have the ability to protect them against actually getting water that has much higher levels of arsenic——

Senator DOMENICI. Right.

Ms. WHITMAN [continuing]. Than is acceptable. So, we would certainly look forward to working with you and the communities to see what we can do to make this a feasible standard, an achievable standard. We already have, in the rule, exemptions for which communities can apply.

Senator DOMENICI. I thank you so much. I will not be able to stay. We are starting the budget mark-up, but I thank you for your consideration. And we will be working with you and those in your department who are experts in this field, because we have to solve

this. So, I will be dedicating time to this is my number one—let us solve the problem issue.

I think my friend would vouch that if I do that, we are probably going to find a solution.

Senator BOND. Senator Domenici, you have made a very compelling case.

And I work with you, not always successfully, to try to find a modus vivendi, but certainly, Madam Administrator, with research dollars, with assistance, and where appropriate, if there are specific actions you need to take or need legislative provisions, we would like to work with you, because my great fear is that in seeking the perfect, we will be the enemy of the good, and force many small communities to go back to untreated wells. And by trying to do something that is beyond our grasp, we could actually put people in greater harm.

Senator DOMENICI. Thank you.

Senator BOND. So, with that, Madam Administrator, I know the Chair—I am sure the Chair is avidly reading your opening statement as she comes in. She has asked that if you would go ahead and present your comments, and then we will continue until she is able to get here until traffic lets up, so she can be here.

So, Madam Administrator.

Ms. WHITMAN. Thank you very much, Senator. It is a pleasure to appear before you, once again. It is always a pleasure to be able to see you and to present the President's budget for the Environmental Protection Agency for fiscal year 2003.

This budget request provides the funds that EPA needs to complete its mission efficiently and effectively. As you know, the President's total request for fiscal year 2003 is $7.7 billion, which is more than a $200 million increase over last year's request.

Overall, our proposed budget reflects the goal that President Bush and I have of leaving America's air cleaner, it's water purer, and it's land better protected.

I should also point out that EPA's proposed budget is part of the Administration's record overall request of $44.1 billion for the environment and natural resources; the highest ever such request, representing a $1.1 billion increase over the enacted levels of the current fiscal year.

If I may, I would like to discuss some of the highlights of our proposal.

Madam Chair, good morning.

Senator MIKULSKI. Good morning.

Ms. WHITMAN. And submit a somewhat more detailed statement for the record, if that is all right.

Senator BOND. We would be happy to have it. Thank you.

Ms. WHITMAN. I would defer to the Chair, if she wants to make some comments, now.

Senator MIKULSKI. I apologize to the Administrator. It has taken me 2 hours to get here this morning from Baltimore. Why do you not go ahead with your testimony? And then, when I get ready to ask you questions, I will do it that way. Let us keep our momentum going. We both have to be at a hearing. And thank you for——

Ms. WHITMAN. Thank you.

Senator MIKULSKI [continuing]. Starting, please.

Ms. WHITMAN. All right. First, as you know, almost half our budget is in grants to State, local and tribal governments. This is reflective of our experience that many innovative, creative and effective environmental achievements are being made at the State, local and county levels.

As I have traveled around the country during the past year, I have seen some very exciting work in action. The Chair and I actually spent some time with the Alliance for Chesapeake Bay last summer, and saw just how much strong partnerships can accomplish. Good work like this is taking place in countless communities across the country, and the results speak for themselves.

In this budget, we are going to build on those results to achieve even greater environmental progress, recognizing that not all wisdom resides in Washington.

Next, this budget more than doubles the funds available for brownfields reclamation, as you pointed out, Senator, providing $200 million. This money will lead to thousands of acres of better protected land in the years ahead.

The success that so many communities have had already in cleaning our less challenging brownfields will be replicated at thousands more difficult sites across the country.

We have also continued to ask for steady funding for the Superfund Program at $1.3 billion. At a time of national crisis, this commitment to the continuity of Superfund reaffirms its significance to this Administration.

Third, this budget provides important funding for a new watershed initiative. As you mentioned, we are requesting $21 million for a program that will allow us to build an effective public-private partnership to help restore and protect 20 of the Nation's most precious watersheds.

This initiative is another opportunity to show the real results that partnerships can achieve and how such partnerships can bring together existing programs in a unified approach, including the Nonpoint Source Grant program, which we propose funding at $238.5 million. As a result, this budget will help improve water quality for drinking, boating, swimming and fishing, in those watersheds that we target.

There are numerous other important initiatives in our proposed budget. They include funding to increase the development of new technologies for environmental progress, funding for research that could lead to the significant reduction or curtailing of animal testing by building on the discoveries of the human genome project, and funding to increase our knowledge base about our air quality challenges, so that we can save lives and prevent illnesses, such as asthma, among America's children.

In addition, the funding we propose for the Drinking Water and the Clean Water State Revolving Funds is the largest such combined request. Of course, our budget request also includes significant new money to help EPA meet its homeland security responsibilities. The $124 million in new funding we are requesting, will support such important efforts as protecting the Nation's water infrastructure by funding vulnerability assessments at the Nation's drinking water utilities, and wastewater facilities securing additional personnel and equipment to expand our ability to respond to

biological attacks, and investing in research designed to enable the Nation to better detect and respond to chemical or biological attacks.

PREPARED STATEMENT

I am pleased to say, Madam Chair, that taken together, the President's proposed EPA budget for fiscal year 2003 fully supports the work of this Agency. It will enable us to transform the Agency's 30-year mission to meet the challenges of the twenty-first century, and it brings us that much closer to realizing that goal of cleaner air, purer water, and better protected land.

I look forward to answering any questions that you might have.

[The statement follows:]

PREPARED STATEMENT OF CHRISTINE TODD WHITMAN

Madam Chair and Members of the Committee, I am pleased to be here to discuss President Bush's budget request for the Environmental Protection Agency (EPA). The President's budget provides the necessary funds for the Agency to carry out our mission efficiently and effectively to protect human health and safeguard the environment. The fiscal year 2003 request is $7.7 billion, which includes more than a 100 percent increase in funding for Brownfields, and significant increases for watershed protection.

I would like to begin, Madam Chair, by emphasizing that the President's budget request for EPA reflects the Agency's strong commitment to leaving America's air cleaner, its water purer, and its land better protected than it was when we took office. It promotes that goal in a manner consistent with our commitment to fiscal responsibility; by further strengthening our partnerships with State, local and tribal governments; by funding innovative new programs, and by strengthening existing programs that work.

I'd like to touch on a few of the highlights: nearly half of EPA's budget request provides funding for State and tribal programs, including almost $3.5 billion in assistance to States, tribes and other partners. The President and I both believe that much of the innovative, creative, and effective environmental progress being made comes from State, county and local governments and our budget request supports that.

As I have traveled around the country during the past year, I've seen some really exciting programs in action. From the people of Kentucky PRIDE to the members of the Paiute Tribe in Nevada, and in countless other communities across America, the EPA is building strong partnerships for environmental progress and the results speak for themselves. In this budget, we will build on those results to achieve even greater environmental progress.

Homeland Security

I would like to thank the appropriators for recognizing the important role EPA plays in homeland security by providing $176 million in the fiscal year 2002 supplemental. Since September 11, we have seen the traditional mission of our Agency safeguarding the environment and protecting the public health take on new meaning. We now play a critical role in preparing for and responding to terrorist incidents because of our unique expertise and experience in emergency preparedness and response to hazardous material releases. Our new role of supervising the decontamination of anthrax infected buildings has shown us that better information and new technologies are needed. To continue to do our part to ensure that the nation is prepared to respond to terrorist incidents, we are investing an additional $124 million for homeland security.

Included in this figure is $75 million for research in technologies for decontaminating buildings affected by bioterrorists attacks. We will provide guidance, technical expertise and support to Federal, State and local governments in building contamination prevention, treatment and cleanup capabilities. Combined with resources provided in the Emergency Supplemental Appropriation Act of 2002, this represents a two-year total of $300 million in new resources. Also included in this figure is $20 million to address threats to the nation's drinking water supply. We, at EPA, play a significant role in working with State Governments and local utilities to protect drinking water supplies. We have already begun working with states and local utilities to assess this vulnerability. The additional $20 million being requested in fiscal

year 2003 will augment $88 million appropriated as part of the Emergency Supplemental Appropriation Act of 2002. Together, these funds will ensure that utilities have developed a comprehensive assessment of these vulnerabilities and emergency operations plans using the most current methods and technologies.

Brownfields

Our fiscal year 2003 budget more than doubles the funds available for brownfields reclamation by providing $200 million. This money will allow states, tribes, and local governments to build on the work they've already done in turning thousands of neighborhood eyesores into community assets. Despite that progress, thousands of brownfields still mar America's landscape. That is going to change. Thanks to President Bush's commitment to brownfields, this money will help us get at some of the most difficult brownfields challenges that remain. Those reclaimed brownfields will provide their communities with new jobs, new places to play, and a new sense of optimism for the future.

Watershed Projects

By providing $21 million for a new watershed initiative, our budget will target up to 20 watersheds around the country for improvement funding that will lead to millions of gallons of purer water in the years ahead. This initiative will allow us to build on existing public-private partnerships to restore and protect up to 20 of America's most threatened watersheds. When I visited Boston last year and saw first-hand the excellent work done by the Charles River Initiative, I knew we could use that effort as a model for other communities. I've heard a watershed defined as "communities connected by water." Well, with this initiative, we are connecting EPA with local watershed protection through the flow of Federal dollars. As a result, we will help improve water quality for drinking, boating, swimming, and fishing.

National Environmental Technology Competition

Of course, underlying everything we do is our commitment to partnership. One of the most exciting new partnerships this budget seeks to build upon is our proposed National Environmental Technology Competition. Over the past 30 years, advances in technology have helped us address some of our most pressing environmental challenges. I believe technology can play an even greater role as we seek to achieve the next generation of environmental progress. That is why we are proposing $10 million for our National Environmental Technology Competition. This program will use competition to foster technological innovation through public-private partnerships. It will promote the development of new, cost-effective environmental technologies that will help clean the air, water, and land. For example, in fiscal year 2003 EPA will solicit proposals related to arsenic removal in drinking water. This work will help further EPA's commitment to help fund, through research and development, cost effective methods of arsenic removal for small systems.

Cleaner Air

Under the Clean Air Act, we continue work to make the air cleaner and healthier to breathe by setting standards for ambient air quality, toxic air pollutant emissions, new pollution sources, and mobile sources. In fiscal year 2003, we will assist states, tribes and local governments in devising additional stationary and mobile source strategies to reduce ozone and particulate matter, and other pollutants. A key component to achieving the Clean Air Goal for all citizens is the request for over $232 million for air grants to states and tribes. In addition, EPA will continue to build upon its voluntary government/industry partnership efforts to achieve pollution reductions and energy savings. For example, as we continue our Energy Star Labeling and Building Program efforts, our goal is to reduce the emissions of greenhouse gases by more than 40 million metric tons annually, by 2010, while saving consumers and businesses an estimated $14 billion in net energy bill savings when using energy-efficient products.

Purer Water

Over the past three decades, our nation has made significant progress in water pollution prevention and cleanup. While we have substantially cleaned up many of our most polluted waterways, and provided safer drinking water for millions of U.S. residents, significant challenges remain. This budget request addresses the challenge to provide clean and safe water in every American community.

Protection from Drinking Water Contaminants.—The fiscal year 2003 request supports our coordinated efforts with the states and tribes to implement new health-

based standards to control for microbial contaminants, disinfectants and their by-products, and other contaminants.

Drinking Water State Revolving Fund.—The Drinking Water State Revolving Fund (DWSRF) request of $850 million will provide substantial funding to states and tribes to upgrade and modernize their drinking water systems. At this funding level, EPA will eventually meet its goal of providing an average of $500 million annually in assistance.

BEACHES Grants.—This budget includes $10 million to support our implementation of the "Beaches Environmental Assessment and Coastal Health Act of 2000." The money will be provided in the form of grants to states to develop local monitoring and notification programs for coastal recreation waters.

New Watershed Investments.—Our $21 million Targeted Watershed Program is designed to support the need for additional funding for priority watershed restoration efforts. This request supports a range of water quality restoration tools to assist local communities in restoring their waterways. This Program would provide direct grants to watershed stakeholders to implement comprehensive restoration actions.

Helping States Address Run-off and Restore Polluted Waters.—The President's fiscal year 2003 Budget provides significant resources to states to build on successes we have achieved in protecting the nation's waters, by providing states and tribes with grants to address polluted run-off, protect valuable wetlands, and restore polluted waterways.

Clean Water State Revolving Fund.—Our budget request includes $1.212 billion for states and tribes for the Clean Water State Revolving Fund (CWSRF). States receive capitalization grants, which enable them to provide low interest loans to communities to construct wastewater treatment infrastructure and fund other projects to enhance water quality. This investment allows our Agency to meet the goal for the CWSRF to provide $2 billion average in annual financial assistance over the long-term.

Protecting Human Health along the U.S.-Mexico Border.—This budget includes $75 million for water and wastewater projects along the U.S.-Mexico Border. These resources help our Agency to address the serious environmental and human health problems associated with untreated and industrial and municipal sewage on the U.S.-Mexico border.

Strong Science

The fiscal year 2003 budget supports our efforts to further strengthen the role of science in decision-making by using scientific information and analysis to help direct policy and establish priorities. EPA will achieve maximum environmental and health protections through our request of $627 million for the Office of Research and Development to address both current and future environmental challenges. This Administration is committed to the incorporation of science into regulatory decisions by having scientists participate early and often in the regulatory development process. The budget request supports a balanced research and development program that addresses Administration and Agency priorities, as well as meets 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.

Environmental Information

In fiscal year 2003, we will further our commitment to providing assistance to states and tribes to develop and implement the National Environmental Information Exchange Network. The goal of this program is to advance collaborative efforts to integrate environmental data between and among EPA, states and the Agency's other partners. The ability to easily exchange up-to-date, accurate information is critical to meet today's increasingly complex environmental challenges. The grant program has several components, each of which is aimed at building on the growing success of states and tribes in finding smarter alternatives to the current approaches for exchanging environmental data. The grants being offered include grants to enable states and tribes to re-engineer their environmental reporting; grants to demonstrate progress in developing a joint EPA/state National Environmental Information Exchange Network, and grants that challenge State or multi-state or tribal efforts to integrate environmental information.

As EPA works with states and tribes to develop the National Environmental Information Exchange Network, we will also continue to build and institutionalize a Central Data Exchange (CDX) which will be EPA's focal point for securely receiving, translating, and forwarding data to EPA's data systems. In fiscal year 2003, the CDX will service 45 States and an assemblage of 25,000 facilities, companies, and laboratories. By widely implementing an electronic reporting infrastructure, this in-

frastructure will reduce reliance on less efficient paper-based processes, thereby improving data quality, reducing reporting burden, and simplifying the reporting process.

ENFORCEMENT GRANT PROGRAMS

Most of our nation's environmental laws envision a strong role for State Governments in implementing and managing environmental programs. The fiscal year 2003 request includes $15 million in a new grant program to continue to support State agencies implementing authorized, delegated, or approved environmental enforcement programs. These funds will continue to afford states a greater role in the enforcement of environmental laws and regulations.

This budget request will allow our Agency to continue to support the regulated community's compliance with environmental requirements through voluntary compliance incentives and assistance programs. We will provide information and technical assistance to the regulated community through the compliance assistance program to increase its understanding of all statutory or regulatory environmental requirements. The program will also continue to develop strategies and compliance assistance tools that will support initiatives targeted toward improving compliance in specific industrial and commercial sectors or with certain regulatory requirements.

Safe Food

The fiscal year 2003 request includes $142.3 million to help meet the multiple challenges of the implementation of the Food Quality Protection Act (FQPA) of 1996 so that all Americans will continue to enjoy one of the safest, most abundant, and most affordable food supplies in the world. FQPA provides for the expedited registration of reduced risk pesticides to introduce alternatives to the older versions on the market. EPA implements its various authorities in a manner to ensure that farmers are able to transition with a minimal disruption in production to safer substitutes and alternative farming practices. Expanded support for tolerance reassessments will reduce the potential risks to public health from older pesticides. Reassessing existing tolerances promotes food safety, especially for infants and children, while ensuring that pesticides meet the most current health and safety standards. This budget request also supports FQPA-related science through scientific assessments of cumulative risk, including funds for validation of testing components of the Endocrine Disruptor Screening Program.

Summary

Taken together, the President's proposed EPA budget for fiscal year 2003 fully supports the work of our Agency. It will enable us to transform the Agency's 30-year mission to meet the challenges of the 21st century. It brings us that much closer to realizing our goals of cleaner air for all Americans to breathe, purer water for all Americans to drink, swim and fish in, as well as safeguarding public health.

This concludes my prepared statement. I would be pleased to answer any questions that you may have.

STATEMENT OF SENATOR BARBARA A. MIKULSKI

Senator MIKULSKI. Well, thank you very much, Administrator Whitman. And sorry I was late. It was just rolling accidents this morning. But we want to welcome you to your third hearing before this subcommittee. You came last year for the EPA's regular appropriations hearing, and then you testified in November about EPA's role in helping with the Anthrax decontamination, particularly in the Hart Building. And we have worked together on many issues.

Before I go into my comments about the President's request and questions that I will be following, I really want to thank you, personally, and your entire team, for their dedication in helping us come to grips with the Anthrax situation in the Hart Building, at Brentwood, in our postal facilities, and also in the Nation. I know that they were tireless. I know that they were dedicated.

And I just want to on behalf of our colleagues here and also postal employees, again, thank you for that. It was a very tough time for our country. I have a saying that when we face tough times, the

tough have to get going. We want to talk more about the threats to the Nation and the role of EPA and homeland security, but let me go on to some of the other basics, and then get to my questions.

I want to note that as we get ready to look at next year's appropriation, we are at somewhat of a disadvantage, because we have not received EPA's operating plan. I am not finger-pointing you about this, Madam Administrator. I know that you sent the operating plan to OMB some time ago. But it is the only agency for which we have not received an operating plan. And we would like you to really use your good office, as we believe you have developed an operating plan. We know you have. We would like to see it. We would just like to see it, so we can start operating on the plan. So, we really do need that.

I am going to ask unanimous consent that my full statement go into the record.

EPA serves this very important issue of protecting human health and the environment. And I am so pleased where the appropriations request is strong in several key areas. I really acknowledge the fact that doubling the brownfields program to $200 million will create new jobs and increase the tax base in the communities. And we want to work with you on, not only adequate funding, but really robust implementation.

As a former governor of New Jersey, a former governor of Missouri, we know that brownfields are a cornucopia of opportunity to clean up the environment, but turn them into greenfields of economic opportunity.

We also know that you have a request in here for the cost of dealing with the Anthrax both here and at Brentwood—and we will be talking more about that.

I want to talk about the enforcement of the environmental laws. I am concerned that this year's budget proposes to cut 100 "environmental cops on the beat," and move more of our efforts into State enforcement programs. I know that there has to be a partnership with the State, but in doing so, I do not believe we should weaken Federal enforcement capabilities. And in our question and answer, I would like to probe that in more detail.

I know that, right now, there are 130 unfilled positions at EPA. And these have been jobs that have been vacant since 2001. So, let us have a conversation about that.

Enforcement will be a big issue. Water infrastructure is another very big issue. I am very pleased that the appropriations request fully funds the Drinking Water State Revolving Loan Fund. This is absolutely crucial to our communities. But I am puzzled by the $140 million cut in the Clean Water State Revolving Fund. Communities in Maryland and across the Nation are really challenged by the enormous cost of upgrading old and failing sewer systems.

In Maryland, these projects, of course, are critical to the Bay. Now, water and sewer are just not sexy issues. We do not have a "Save the Sewer" group, like we have a "Save the Whale" group, but it is a whale of a job trying to save the sewers.

Everywhere I go in my State and I think Senator Bond can speak to this as well—when I go in my State to every county, they ask me for two things for the—to help them cope with twenty-first century demands. They want a fiberoptic system for schools, business,

and economic development. And they either want a new sewer grant or a new waste water treatment facility. And just the cost of modernizing, replacing, or even building, is just really overwhelming.

We cannot be skimpy on this priority. EPA is currently negotiating with Mayor O'Malley on this issue. I am not going to get into the negotiations. It is not appropriate at the hearing. But it could cost us $1 billion to comply with what we ought to comply with, but where is the $1 billion? It is not that kind of stalemate.

The State of Maryland has recently done a survey through a task force process. We have got $3.5 billion that we could spend in Maryland.

I know that OMB is critical of what we call our "earmarks." We call them "Congressionally-designated projects," probably, the biggest demand that we get are from our colleagues, really, on waste water and sewer replacement. And I feel that if we could give every one of the states $1 billion, that they would spend it wisely, going on your own excellent criteria for State plans.

So, this is an area where I think we are really in a national crisis, here. And vigorous enforcement to communities who do not have the power to pay to comply, when they want to comply—this is not stonewalling you and pushing you aside and, you know, the way we sometimes run into. They want to comply with you. And when I say, "with you," comply with the law and the regs. But it is really just a tremendous economic issue.

So, we—I think we need a new national plan for this, and a national plan that would really modernize our sewers and waste water treatment. And at the same time, this would really be creating jobs in the private sector and laying the groundwork.

Now, another area that is very troublesome is the air quality power plant issue. I am concerned about the impact of the recent decision to revisit the section of the Clean Air Act called the New Source Review, and replace it with something called the Clear Skies Initiatives. I understand that there is a desire to find ways to increase domestic utility and refinery capacity, but at the same time, taking what is a mandated proposal and turning it into a voluntary proposal. We need to hear more about that.

Also, I believe Senator Bond and I want to work very closely with you and our colleagues in the House. We really do not want riders this year, as we have resisted every year. But I am concerned that in the power plant issue, we could end up with the committee being caught in the middle, between those who want to stay the current course and those who want to follow the new course. And we become the authorizers by proxy.

The other is the issue of homeland security. And I know you have a request in here on the role you want EPA to play in Anthrax research. We would like to know how you want to do this and how this coordinates with CDC and the other Federal—even DOD, in working on this, because one agency cannot do this by itself. And we saw that here and at Brentwood.

PREPARED STATEMENT

And then the other is, particularly, when protecting America's water supply. And I know that mayors and governors have spoken

to Senator Bond and I about this. They are very concerned. And yet, local government cannot do this on its—on its own. So, we look forward to hearing your comments on that.

So, that is my opening statement.

[The statement follows:]

PREPARED STATEMENT OF SENATOR BARBARA A. MIKULSKI

I welcome Administrator Whitman to her third hearing before the Subcommittee. She appeared before us last year for EPA's regular budget hearing, and also testified in November about EPA's role in anthrax decontamination. We have worked with her through arsenic and anthrax, and I thank her for the very productive relationship we have with her and her team.

Where is the Operating Plan?

Unfortunately, the Subcommittee is at a disadvantage right now because we still have not received EPA's 2002 Operating Plan. The Operating Plan is required within 30 days after our bill is finalized. So I am puzzled why, over 3 months after the VA–HUD bill was signed into law, we still have not gotten the plan. In fact, EPA is the only Agency within our jurisdiction that we haven't heard from yet.

It's not a question of fault. I know that EPA sent the Operating Plan to OMB some time ago. But it is really unacceptable that we are beginning the 2003 budget cycle without knowing how the funding we provided last year is being prioritized. I know Administrator Whitman's staff has been willing to provide some details. But in order for the Subcommittee to give EPA the resources it needs, we really need to see the entire big picture.

Overall Budget

The 2003 budget request for EPA totals $7.7 billion, a $,175 million decrease from the 2002 level. But the request includes over $100 million for retirement funding that the budget shifts government wide. When we exclude this shift of mandatory funding to the discretionary side, the 2003 EPA budget is $7.6 billion, or about $300 million below the 2002 level.

Every Administration responds to cuts in EPA by saying that the budget eliminates earmarks. Each year, the Administration tells us that many of the Committee's priorities are not important enough to be carried in the budget. This is troubling because it implies that our decisions are inferior or not an appropriate use of limited resources. But we know that what it really means is cuts in programs to protect water quality, infrastructure, clean air, and scientific analysis.

EPA serves the very important mission of protecting human health and the environment, so I am pleased that the budget is strong in several key areas. The budget proposes to double the Brownfields program to $200 million. This will create new jobs and increase the tax base in our communities, and I thank Administrator Whitman for her support of this important program. The budget also proposes to spend $75 million researching ways to cleanup contaminated buildings. This will help ensure that places like the Brentwood postal facility are cleaned up and safe for employees. The budget also increases funding for State air programs to help manage and reduce pollution from factories and traffic congestion.

But I am also puzzled about many areas of this budget proposal. I know that EPA didn't get everything it wanted from OMB, but I really question some of the priorities here.

For example, once again, the budget seeks to reduce Federal enforcement capacity. It also cuts critical water infrastructure funding at a time when many communities—large and small, urban and rural—are facing enormous challenges in getting their facilities to comply with the law.

Enforcement of Environmental Laws

Once again, the budget proposes to shift enforcement resources from the Federal government to the states. The Committee had serious concerns about a similar proposal last year, and we rejected it. We were troubled that cuts in Federal enforcers would result in more polluters ignoring the law. So I am perturbed that this year's budget proposes to cut another 100 "environmental cops on the beat."

Instead, most of the resources freed by these cuts would go to the states in the form of a new enforcement grant program. I know that we need to do more to help enhance State enforcement programs, but in doing so we should not weaken our Federal enforcement capabilities. We need both a strong Federal and strong State enforcement presence to achieve compliance with our environmental laws not one or the other. The Committee was clear on this last year, and we will be clear again.

So I am very interested in hearing more about this proposal and how it differs from the proposal we rejected last year.

I also want to know how priorities are being set within the enforcement funding this Committee provided in 2002. Last year, we told EPA to fund Federal enforcement at no less than the 2001 level—about $465 million. I understand that EPA met that goal by eliminating about 130 unfilled positions. These were jobs that had been vacant even prior to 2001. Administrations—current and past—failed to fill them. Nobody lost their job, and I know that even under this year's proposal there wouldn't be any layoffs.

I also know that OMB sets artificial personnel "ceilings" that Agencies never meet. But at the same time, there are currently over 100 unfilled enforcement jobs at EPA. So it's not just a question of funding—this Subcommittee has really emphasized Federal enforcement. This is really a question of management, and the Administration's priority in recruiting and retaining the experts it needs to enforce environmental laws. We're not talking about building bureaucracies or empires, just about giving the Agency the resources and staff it needs.

We have "cut all the fat" that we can, and this year we don't want to hear that there are vacancies that should be eliminated. These are real jobs that provide real expertise to get polluters to comply with the law. The Subcommittee doesn't want to take the position of micromanaging staff positions. But if we have to this year, we are prepared to do so. So I want to know why EPA isn't doing more to fill these slots and how can the Subcommittee be helpful in this area.

Water Infrastructure

Water and sewer are not sexy issues. We don't have "Save the Sewer" groups like we have "Save the Trees" or "Save the Whales." But water funding means just as much to the environment. Water infrastructure funding gives us "double value" for the taxpayer dollar. It helps keep our waterways clean and safe. And for every $1 billion spent, about 19,000 jobs are created.

But Baltimore City can't hold a cocktail party to raise money to fix its crumbling sewer system. And Albuquerque can't have bingo night to raise dough to get arsenic out of its drinking water. We just cannot skimp on this priority. We can't expect communities to comply with numerous regulations—arsenic, radon, discharges, just to name a few—without giving them the money to do so.

So while I am pleased that the budget fully funds the Drinking Water State Revolving Loan Fund (SRF) at $850 million, I am puzzled by the $140 million cut to the Clean Water SRF. Communities in Maryland and all across the nation are challenged by the enormous costs of upgrading old and failing sewer systems. In Maryland, these projects are critical to protecting the Chesapeake Bay.

In fact, Maryland recently identified over $3.5 billion in immediate needs. Nationwide, it is estimated that we will need to invest over $20 billion each year for the next 20 years in wastewater infrastructure.

This budget does not acknowledge these needs. It cuts the Clean Water SRF from $1.35 billion to $1.2 billion. And those who have not read the finer print in the budget will be startled to know that it ZEROES out the Clean Water SRF program in 2006 and beyond. I have to believe that this is just a budgeting gimmick by OMB to make the numbers add up. But the Committee is really paying attention to the commitments made in this area, and we're not pleased.

I know that our authorizing committee is working to reauthorize these critical programs at much higher levels in the future. While I have serious concerns about the new formula they are proposing, I applaud Senator Jeffords' leadership in seeking additional resources for critical water infrastructure improvements. This is even more important now that water utilities must take steps to safeguard their facilities, and the chemicals they use, from possible threats.

Anthrax Decontamination

Again, I am pleased that the budget proposes $75 million to research ways to decontaminate buildings from chemical and biological agents. We need better science in this area. I have several hundred of constituents who worked out of the Brentwood postal facility, which remains closed. So I am interested in hearing how EPA plans to move forward with this research, and how the Agency will be involved at Brentwood.

I really want to thank EPA for its outstanding work at the Capitol complex, including the Hart building. I know many employees worked around the clock to get us back up and running safely.

The Subcommittee provided some $21 million in last year's Supplemental Appropriations bill for decontamination, including $12.5 million in Superfund funding to ensure that EPA didn't have to divert regular cleanup resources to pay for the Hart

building. This was based on EPA's best estimates at the time, and we know now that the cleanup actually cost much more. So we'd like to know how much in anticipation of another Supplemental. We want to be sure that EPA, and the Superfund program, are made whole for their efforts. I also look forward to hearing what progress EPA has made since our hearing last fall.

Environmental Education

For many years, EPA has run an environmental education program called the STAR fellowship program. The budget proposes to shift this modestly funded program—just $10 million per year—to the National Science Foundation. I have heard from many graduate students who are concerned that this means their funding will be canceled. So I would like to know why this shift has been suggested, and what this proposal will mean for students who are specializing in the environmental sciences and engineering.

Regulations and Riders

I am concerned about the impact of the recent decision to revisit the section of the Clean Air Act called "New Source Review," and to replace it with the proposed "Clear Skies Initiative."

I understand the desire to find ways to increase domestic utility and refinery capacity. But we must have certainty and reliability in the program for industry and the environment. I want to be sure that we're not changing the rules midstream. We can't have an open-ended dodge ball situation on this.

We need to protect children and the elderly, who are most vulnerable to the health effects of air pollution. We have record-high levels of childhood asthma, and a recent study has confirmed that air pollution contributes to lung cancer. Many water quality problems in the Chesapeake Bay and other waterways are due to air pollution. So we want to be sure that we continue the public health and environmental gains made under the Clean Air Act.

Finally, Senator Bond and I have always taken the position that the VA–HUD bill should not be a vehicle for environmental riders—good or bad ones. And I hope that as we move a bill through the Committee this year, we can continue this policy.

Ouster Study Thank You

In closing, I want to personally thank Administrator Whitman for working quickly to help fund a study by the National Academies of Sciences on the possibility of introducing a new oyster species into the Bay. I understand that EPA was able to dedicate $90,000 of existing resources for this study—more than any other Federal agency that is involved. The environmental groups and watermen who are working so hard to bring oysters back to the Bay really appreciate your efforts, and so do I.

Senator MIKULSKI. Do you want to kick off the questioning part by going right to this whole issue of enforcement? And we understand that the budget cuts $10 million from enforcement, 100 "environmental cops on the beat." And I wonder, what are the consequences of this policy shift? What will be the consequences to the environment? And then, you want to do a State program, and do we need authorizing? So, why do I not just offer some broad questions and—but let us go for it.

And, again, thank you.

Ms. WHITMAN. Certainly, Senator. First, let me say that the budget that we have proposed for enforcement, represents the highest funding level in that part.

Okay. In that part of the Agency, it is the largest commitment to vigorous enforcement. We expect to hire up another 100 in the coming months. We are looking forward to it.

We have just come off one of the most successful years ever in enforcement. We had outstanding results. Last year, alone, it was nearly record-setting. It was not quite record-setting, but nearly record-setting expenditure for violators of pollution controls and environmental clean-up.

As you know, states typically do about 90 percent of the enforcement and compliance work. And what we are seeking to do with this budget is to enhance that. Again, that is the $15 million program that we have in this budget. But we are very comfortable that the levels proposed for enforcement in this budget proposal will enable us to continue the very successful track record that we established last year. And we do not see any reduction in enforcement focus. There is going to be no reduction in the kind of dedication that we commit to enforcement.

What we are doing and what you are seeing reflected in numbers, is a reduction of the overhead. But as you pointed out, we have about 130 vacant positions. And that has been somewhat traditional for the Agency. I think we have lapsed about 120 each year. It is a question of getting people in and keep training them, keeping them in, and people leaving. The normal attrition.

So, we do not feel that this reduction in the overhead is actually going to be detrimental to the enforcement efforts of the Agency, particularly if we are able to help the States some more.

Senator MIKULSKI. So, I just want to be clear. The request is to cut $10 million from enforcement. You have 100-and-some vacancies. Then you are saying you are going to hire 100 people. Is that correct?

Ms. WHITMAN. Right. We anticipate hiring 100.

Senator MIKULSKI. Now, is that 100 to fill the vacancies?

Ms. WHITMAN. That will—yes. It is part of the normal——

Senator MIKULSKI. Or is that in addition to, and therefore, you would have 200 people——

Ms. WHITMAN. No. It will be——

Senator MIKULSKI [continuing]. To fill the vacancies, plus the 100?

Ms. WHITMAN. They—it will be to fill the vacancies.

Senator MIKULSKI. Fill the vacancies. And then you are saying the $10 million cut would have no consequence on enforcement.

Ms. WHITMAN. It is not coming out of those people who are doing the actual enforcement and inspections. It is coming from other parts within the Agency. The actual personnel of the enforcement division represents about a fifth of the overall personnel of the Agency. And that will continue to be true.

Senator MIKULSKI. Well, I think we want to see how that really works, in terms of this, and ask your staff to be able to follow-up.

Ms. WHITMAN. I would be happy to give you a more detailed breakdown for the record, if you would like it.

ENFORCEMENT: STATE GRANT PROGRAM

Senator MIKULSKI. Now, you are requesting a $15 million for a new State Enforcement Program. I would like you to describe that. And, also, do you need authorizing legislation to be able to create this, or do you want us to create it by a line item?

So—but tell us, now, what this $15 million would buy to protect the environment, if it protects it at all?

Ms. WHITMAN. Well, as I indicated to you before, the States now do 90 percent of the compliance and 90 percent of the inspections. What we want to do is leverage that, to make it as effective as it can possibly be.

They are the ones on the ground. They know where the problems are. They know who they have to go after. Some States are more sophisticated in their enforcement than others. What we are proposing, it would be a competitive program that States would submit to us what they would do with those dollars; whether they would use it to enhance—some States, for instance, may be very good on water enforcement; they may have all the technology and trained personnel, but not as good in air. And with a little bit more money, particularly, now, when they are facing budget squeezes, they could use that to enhance their ability to do the air monitoring. Others might see it as an ability to make a commitment that they have not made before to enforcement.

And so, it would be a competitive program, but it is reflective of the fact that they already do a great deal of the work. And it makes sense that they do a great deal of the compliance and enforcement work, because they are there full-time.

Senator MIKULSKI. Do you need an authorization to do this?

Ms. WHITMAN. No, we do not.

Senator MIKULSKI. But it does create a new enforcement program. You think you can do it through an executive direction.

Ms. WHITMAN. It is a current—I mean, we——

Senator MIKULSKI. That is not a confrontational question.

Ms. WHITMAN. Yes. We have current grant authority in this area. This is an enhancement. It is a change, in that we have current grant authority but are proposing to expand the current grant authority.

Senator MIKULSKI. I see. Senator Bond? Thank you. We will come back——

CLEAN WATER FUNDING

Senator BOND. Thank you very much, Madam Chair.

Pursuing the line that you and I both mentioned in our opening statements, I am very disappointed that the EPA did—or the OMB, for EPA, requested a $138 million reduction from the O2 level for clean water fund. As I mentioned in my statement, the—there are tremendous needs. And we see it in each State.

I would like your views on what a reasonable level of funding should be. How do we prioritize it? We have got aging and obsolete water infrastructure of concern to many cities in the East and Midwest, and yet, we just heard Senator Domenici talk about the huge new capital costs that the arsenic standard is going to pay require is going to require in the West, and yet, we see, with the needs going up, the money coming down. How do we balance it?

Ms. WHITMAN. Well, Senator, first of all, I would repeat what I said in my opening statement; that, in fact, the combined monies for the two programs, $1.2 billion for the Clean Water State Revolving Loan Fund, and $850 million for the State Revolving Loan Fund for the Drinking Water, is the highest request that has been made before.

But the issue that you are talking about is one where had a little bit of this discussion last year. And it is becoming even more important. I honestly, believe that water is going to be the major environmental challenge of the twenty-first century; both in quantity and quality.

Obviously, our responsibility, here, is not quantity. But the numbers that we are talking about are going to require that we engage very closely with Congress; that we reach out and work with States, and with local water authorities. Whether you take our projections or you take the gap analysis or you take the utilities' projections, we are talking about literally billions and billions,—upwards of a trillion dollars in infrastructure needs. This is far beyond the ability of any one branch of government to satisfy.

We are putting money into a great deal of research, to see if there are new technologies out there, to look at new technologies that can help address the needs. We are working closely with the water utility organizations to see what we can do to support the kind of work they are doing; to see how, in fact, we can help lower the cost for this enormous challenge that we have in both drinking water and sewer, as well as septic systems.

But this is something that is going to be far beyond any one budget cycle. And we really do need to work closely with you.

HOMELAND SECURITY: TECHNOLOGIES AND METHODOLOGIES

Senator BOND. We very much appreciate your attention to it, because I really think that the problems are big and they are getting bigger. And I would just note, parenthetically, I have had discussions with high Administration officials, who do not think that members of Congress should be able to provide funding for high-priority needs in their States.

I assure you that we see those needs. We are going to continue to do it. I know the Executive Branch does not like it. You have lots of authority, but we also are living with and listening to our people. We are going to continue to provide a very small portion where the needs are greatest. And just—my only suggestion is just relax and enjoy it, because we are going to help where we think the needs are most pressing in our State.

Let me turn to the matter that Senator Mikulski was discussing, and that is—well, first, let me turn to some problems in counterterrorism. There are many, many challenges that you have faced. And we congratulate you and the agencies who worked with them, but you had to coordinate with FEMA at the World Trade Center site, and with the Department of Justice. You have a special role to play in researching technologies and methodologies. How are you coordinating with other Federal agencies?

Ms. WHITMAN. We are coordinating very well. Most of it is done through the Office of Homeland Security, as a clearinghouse, but we also do it directly.

For instance, in the situation of the World Trade Center and up in lower Manhattan, I have put together a task force of the other Federal agencies, as well as the State and the city, to look at the issue of indoor air. If there is a gap in response, that is where we have it. I believe determining who is responsible for the indoor air and the clean-up is required after something as catastrophic as what we saw September 11.

We are working directly with drinking water systems to ensure the safety of drinking water supplies. We have been working since September 11 with the various water companies. There are 165,000 independent, individual, municipal, and State water systems na-

tionwide. We have worked with them. We work closely with Sandia Labs and the Department of Defense in enhancing our knowledge of what kind of chemical or biological attack could be expected; best ways to detect contaminants; and what is the most current technology available to deal with that.

We also, obviously, are working with the chemical industry to ensure that they have done vulnerability assessments, as well. We have done the same thing with the water systems, to make sure that they know what their vulnerabilities are. We have worked with the FBI and conducted outreach to every single local law enforcement agency right after September 11 to help expand their knowledge of what to look for around reservoirs and what kind of vulnerabilities water systems have, so that they could, in fact, help us. They need to help the systems.

We have been working very closely, as an agency, with the individual groups for which we have a responsibility, and then reaching out to our Federal counterparts. We work closely with ATSDR, the CDC, the Department of Defense, on a regular basis.

SMALL AND RURAL WATER SYSTEMS VULNERABILITIES

Senator BOND. Madam Chair, if I may just finish up on that, without asking a question.

I would ask that you submit it for the record, Madam Administrator, but we have a number of small businesses in our State, working on decontamination processes, remediation processes. One of them was working with the Department of Defense on a electrostatic decontamination. I want to make sure that those technologies are reviewed by the appropriate scientists in EPA to see what works, because we have got a new challenge. And our small businesses are very mobile. They may be coming up with something. We would like to be able to work that.

The other thing, for the record, I would like to know how you are planning to help small and rural water systems prepare for and reduce their vulnerabilities. I have been very impressed. The large water systems are very sophisticated.

And just for the record, if you would let us know what you can do to help the small systems, because a water system attack in a small community could be very deadly, because they do not have the protections built in that the large systems have.

And thank you, Madam Chairman.

Ms. WHITMAN. I can give you a little bit of that answer right now, Senator, if you would like. We are doing a great deal of work with the small and mid-sized water systems. We are conducting training for them in the use of vulnerability assessments and in the development of emergency operations plans. As I indicated before, we worked with Sandia Labs, and enabled them to move ahead in much more rapid fashion with a vulnerability study and training manuals and a disk that we are adapting that methodology to supply the small water systems.

To support them, there is $3 million that we are putting toward working with the small and medium water systems to train them on the use of vulnerability assessments and the development of emergency response plans. So that they know what they need to look for and how they need to better protect themselves.

We are very sensitive to that. Our focus is on making the most, the safest, fastest. That is how we have been guiding—how we have gone forward with the overall process of protecting the Nation's drinking water supply. As far as research is concerned, we are constantly getting applications for approval as new technologies to deal with contaminants, such as Anthrax and other types of biological and chemical weapons. We are reviewing those as quickly as we can. We have an expedited process that we are undergoing, but, obviously, we have to make sure they do what they claim.

Senator MIKULSKI. Thank you very much. I am going to do a—kind of a next-come/next-serve, if you would proceed—Senator Craig and then Senator Kohl.

COEUR D'ALENE BASIN SUPERFUND SITE

Senator CRAIG. Well, Madam Chairman, thank you. I will be very brief.

And I apologize for running late, Director Whitman, and missing your opening comments. I will read your testimony. The EPA is very important to all of us and the work you do and the work you are doing is critical. And I thank you for it.

I have got a brief statement that will probably only require a brief comment from you, that is of great concern to the Idaho delegation and our governor. And I am quite sure that, by now, you are aware of it. We have a Superfund site in north Idaho, in the Coeur d'Alene Basin area. Most know it is an old lead and silver mining area that has been in operation for nearly 100 years. And we are in what I hope are the final days of that effort. A great deal of work has been done. A great deal of time and money has been spent, but the communities involved are still in limbo as the site continues to work its will.

You are probably also aware that the citizens of north Idaho are profoundly concerned, as are we, about EPA's proposal for a 30-year, $1.3 billion clean-up in the basin. That is currently a proposal that is out there. I must tell you, in as blunt a term as I can, it does not make any damn sense.

Now, having said that, and that is probably as blunt as I will get, EPA's proposal plan is so aggressive and so far-reaching, that I do not believe that it can be effectively implemented. It will allow EPA staff a generational opportunity to live in one of the most beautiful areas in the world, which is a prime vacation site for most of the inland empire.

No, Madam Chairman, we are talking about a Superfund site. No, we are talking about one of the prime vacation sites in the United States. That is why, Director Whitman, I think it is so important that you come to the ground and see this.

Anything that is going to ask of you to find $1.3 billion and dedicate your Agency for 30 years in a place that has one of the premier golf courses of the world, one of the top destinational resorts of the world, and some of the most beautiful glacierly gouged lakes in the northern tier of our country, deserves your attention.

Now, having said that, our frustration is multiple. We know that EPA has spent a good deal of time and a lot of money. It is a 21-square-mile site. There are recommendations that it be expanded to over 1,200 square miles. Now, if you think you have got manage-

ment problems, now, try to manage a 1,200-square-mile Superfund site. That is bigger than some of the eastern States.

Senator MIKULSKI. How big is that?

COEUR D'ALENE BASIN: NATIONAL ACADEMY OF SCIENCE STUDY OF CHILDREN'S HEALTH

Senator CRAIG. 1,200 square miles is what some EPA people are proposing be a new Superfund site. It is watershed upon watershed, mountain range upon mountain range. It is time we all get real. The bureaucracy has run amok.

And here is what I am proposing we do: While the State of Idaho would like to manage this, because they think they can do it with so much more efficiency, less bureaucracy, and get a good deal more done in a shorter period of time—what I am proposing is that we ask the National Academy of Science to come in and look at the science.

While there is physical work to be done here and there, and hot spots left, what is driving all of this are blood-level measurements of the children of the area. There is, in my opinion, ample evidence to demonstrate that those blood levels have plummeted dramatically over the course of the last two decades. We have taken all of the top soil away and replaced it. We have torn down all of the old buildings and buried them. We are reconstituting the area, totally. The streams now run clear. They are swimmable and fishable. And yet, somehow, the old science lingers on and drives the bureaucracy forward, in my opinion.

Even the website of EPA on this issue has the old science. It is one of the fastest growing economic areas in Idaho, outside the edge. And yet, we had a company with 300 new jobs, less than 6 months ago, look at the website and look at the old science in a final decision-making process whether to come and locate in that area, and they left. And it was devastating to the opportunity of the economy of that area.

It really, I believe, demands our attention. Now, what I am proposing, Madam Chairman, is that we get the National Academy of Science in to look at the science, to peer review it, to give it an objective second- or third-party view. It has had none of that. It has been in-house science. And I believe it is obsolete science today. And to do that, I am going to be asking this committee to help me find some money to direct them. I would like your support, Director Whitman. But most importantly, we need your attention to resolve this issue.

I hold a golf tournament in the middle of a proposed Superfund site each year, along the shores of this beautiful lake that is full of boats and vacation homes and all of that, and people say, "Larry, they are talking about this being a Superfund site?" And I say, "Uh-huh."

It just does not stand the test. Therefore, it does, I believe, require your attention, and ours, to resolve this issue, to bring some closure to it and some permanency and some direction. It should not allow 30 years and $1.3 billion, because this committee and this Congress and America's taxpayers do not have that kind of money to waste, when, I believe, for a less than a third of that, you

can clean up the remaining hot spots and let Mother Nature help to finish the rest.

That is all I have to say, but I hope I have gained your attention and that we can work together to resolve this. I know that you are aware of it, and we chatted about it. It is time, now, for us to lead on this issue and bring some finality to it.

Thank you, Madam Chairman.

Senator MIKULSKI. Thank you, Senator Craig.

And the Idaho situation has—I think, first of all, its enormity and significance is most compelling for, really, your personal attention, I believe, Madam Administrator.

And I know Senator Murray also wanted to be at the hearing, because of its impact also on Washington State, and would ask that whatever dialog occurs and problem-solving, that Senator Murray be included. But there is no doubt that this is a big issue and it is a big buck issue, and its consequences are significant to Idaho, Washington State.

SPOKANE RIVER HOT SPOTS

Senator CRAIG. Thank you, Madam Chairman. That is well put, because these drainages do flow into the State of Washington. And we have done work in that area to know that there are hot spots along the Spokane River that deserve our attention—the Coeur d'Alene River.

Senator MIKULSKI. Senator Craig, I think Senator Murray wanted to talk, but I—I think, right now, let us really make this a really top priority with EPA, and perhaps could make it really an—a real model for cleaning up this. But when you are talking about cleaning up mountain ranges and so on, this is—this is something.

So, let us turn, then, to Senator Kohl. I hope you have some easier problems.

Senator CRAIG. Madam Chairman.

Senator MIKULSKI. Yes, sir. I just——

Senator CRAIG. Could we give the Director an opportunity to make a comment on that?

Senator MIKULSKI. Oh, I am sorry. I am sorry. Go ahead.

Ms. WHITMAN. No. That's all right. I just wanted——

Senator MIKULSKI. Please. I apologize, Senator Craig.

Ms. WHITMAN. I wanted to assure the Senator that his eloquent plea has not gone unheard. I have had the opportunity to talk to Governor Kempthorne on a number of occasions. We have sent the Regional Administrator for Region 10 there to sit down and see if we cannot bring a resolution to this issue.

The National Academy of Science remains a very real potential possibility. I know there are some proposals that would clean up at least the residential area, within 5 years, at a much lower cost than had originally been proposed by the Agency. We are looking at all of those things.

I also believe that they are trying to set up a trip for me to be able to go out there and see it and take advantage of the beautiful park.

Senator CRAIG. Well, we would like to have you. We will—we will show you a good time. And what is most important about that is to look, Madam Chairman, in its whole perspective. A lot of work

has been done. A lot of good work has been done. An awful lot of money has been spent, and a phenomenal amount of time.

It is not a showcase of efficiency, but it has solved a lot of problems. And I am not condemning the work of the past. What I am condemning is the perspective of the past lurking in future proposals.

Thank you.

Ms. WHITMAN. I look forward to working with you on this, Senator.

Senator CRAIG. Thank you very much. Thank you, Madam Chairman.

Senator MIKULSKI. Senator Kohl.

STATEMENT OF SENATOR HERB KOHL

Senator KOHL. Thank you, Senator Mikulski. Governor Whitman.

Ms. WHITMAN. Senator.

Senator KOHL. Lord Alfred Tennyson wrote, and I quote, "In the spring, a livelier iris changes on the burnished dove. And in the spring, a young man's fancy lightly turns to thoughts of love."

Senator KOHL. However, Governor Whitman, in Wisconsin——

Ms. WHITMAN. I do not think that is what is happening.

REFORMULATED GAS PRICE INCREASE

Senator KOHL [continuing]. We worry about whether gasoline prices are going to go through the roof, again. I can assure you, as my constituents start to defrost this year, we—you and I are going to be grilled, and rightly so, over what we are doing to make sure that regional gas prices do not go through the roof again, like they did last year.

We do appreciate, very much, the new regulations that EPA has put forth, allowing refiners some flexibility in making the shift from winter to summer fuel. And we are hopeful that will be enough to solve the problem; however, if it is not, and if we see another gas price spike unique to our region, will the EPA be prepared with some additional policy or response? Can we get your commitment that if gas prices skyrocket again, solely, in the Chicago-Milwaukee area, EPA will engage immediately and actively to fix the problem?

Ms. WHITMAN. We will certainly work with you to determine, first of all, what is causing that problem and if we need to take some action to help alleviate it, as we did last year.

As you point out, we have made some regulatory changes that should ease the burden. And we do not believe that with the flexibility we have given to the refineries on the blended stock and the flexibility we have given on the 2 percent, that there is no reason to assume, unless there is a major catastrophe at one of the refineries, that there should be any price spike due to the reformulated gas. But we certainly will watch that very carefully and work with you on that.

FOX RIVER CLEANUP PROJECT

Senator KOHL. I thank you. Governor Whitman, EPA has issued a new guidance for river clean-up or sediment management. You

recommend a so-called iterative process, that is being used on the Hudson River clean-up. As I understand, it means that the EPA will clean up large river sites in phases, starting upstream and moving downstream, so that you can learn from the work and modify the remedy as the work is done.

For us, in Wisconsin, what could this mean for the Fox River Clean-Up Project?

Ms. WHITMAN. Well, Senator, we are moving forward, obviously, with Fox River. We are very focused on it. Fox River is larger and there are more contaminants to be taken out of the river there. At this point, it appears to be a much less expensive program, but that is because of the way that the sediments will be handled once they are taken out of the river.

There is not a transportation issue, because of some of the willingness of the responsible parties and agreements that have been reached that settle—the sediment will be taken care of closer to the site. And that vastly reduces the cost.

I believe, as we go forward on any of these major undertakings, that we should constantly be looking at the science, looking at the results, to determine whether or not what we project is going to happen is happening, and be willing, as we look at these, to change, if we see we are having an adverse impact; if something—if we are resuspending more than we thought we were resuspending, and it becomes a bigger threat to the health and the environment of the river, then we ought to stop and take another look and go back at it in the right way.

These are large undertakings. The Hudson River and the Fox River Project are both enormous. They are very important. They need to get done, but they need to get done right. We believe we have the science. We believe we have the appropriate approach, but I do not think there is anything wrong with checking yourself as you go along.

There have been some allegations that have said that if you do that, you are really just looking for a way out. I do not see it that way at all. I see it as a way of doing it better, making sure we are getting it right, making sure we are doing exactly what we said we would do for the river and for people who live in those areas.

FOX RIVER CLEANUP PROJECT: COST AND PUBLIC ACCEPTANCE

Senator KOHL. Okay. In the case of the Fox River, there is a great deal of uncertainty about the cost of the clean-up, because people are concerned that the disposal site identified in the plan is not practical. Local disposal sites for dredge sediments are an important part of any clean-up effort, as we know. The disposal site influences costs and public acceptance of the clean-up plan, as we know.

Should EPA try to identify and tell the public about potential disposal sites before the clean-up plan is proposed for public comment?

Ms. WHITMAN. Well, we are in the process of reviewing the comments. As far as the actual work on the river goes, as you may know, we did a demonstration project that we did with the State of Wisconsin, and were able to meet all the goals.

Once we have proposed the solution, we go through the comment period and the proposed plan, and that will obviously include the concerns raised by citizens as for ultimate disposal. And that will be part of our response to the citizens and to the concerns that they raise.

Senator KOHL. As I understand it, the disposal site permit has not been granted, and there is some considerable question as to whether or not it is going to be granted.

Ms. WHITMAN. I am not as up-to-date with that.

Senator KOHL. I will, perhaps, work with your office on that in greater detail.

Ms. WHITMAN. Certainly.

ENVIRONMENTAL EDUCATION: TRANSFER TO NATIONAL SCIENCE FOUNDATION

Senator KOHL. One other question, Governor Whitman. I have been told that the Office of Management and Budget has proposed a transfer of the EPA's Office of Environmental Education to the National Science Foundation. OMB claims that the transfer was made because the Environmental Education Program was ineffective; however, supporters of the program think this is only an attempt to de-fund Environmental Education. And I have heard nothing but good things about the work that the EPA is doing.

Was EPA unhappy with the way Environmental Education was working? As an Administrator of EPA, did you recommend that the Environmental Education Program be transferred to the National Science Foundation? Does the EPA agree with OMB's evaluation of the Office of Environmental Education, or was this an attempt to cut the budget for Environmental Education?

Ms. WHITMAN. Senator, I do not believe this was an attempt to cut the budget for the Environmental Education. When I talked to those who were concerned about it and making the recommendation, it was more an effort to consolidate Environmental Education at the National Science Foundation. There was a finding that, in fact, their work had not been recognized enough in previous budgets and they need to and deserved to continue to broaden the scope of their work, and that they, in fact, have the ability to administer this very well.

We did keep, as you know, a part of our research fellowship program, our work with minority universities. I think we were doing a pretty good job on the Environmental Education program, but I can understand the desire to consolidate Environmental Education in one place, if that allows you to maximize your dollars and make sure you are having the most effect that you possibly can.

Senator KOHL. It was my understanding that this was a $9 million program, and when it was transferred to the National Science Foundation, the funding did not go along. So, the inference was at least given that the program was going to be de-funded, which, to most people, means it is going to be, basically, eliminated.

I do not know whether or not you are aware of those details, but——

Ms. WHITMAN. No.

Senator KOHL [continuing]. But that is the information that I got. And it is in that connection that I bring the question to you today.

Ms. WHITMAN. I can appreciate that. I am not aware of the National Science Foundation's budget, as it reflects environmental education.

Senator KOHL. I thank you very much. And I thank you, Madam Chairman.

Senator MIKULSKI. Senator, you have raised some very important questions. And the questions that you raised regarding environmental education, really, very much paralleled my own. And I want you to know, as we look at NSF, which is funded at this committee, that I would encourage you and your very able staff to also look at it.

I am concerned about the transfer. Everyone who seems to work with the small but obviously very effective program, and the EPA is quite satisfied. The Chesapeake Bay Foundation, which is a premier environmental advocacy and education agency just speaks so highly of it, and their networks with their counterparts around the country speak about this. And this is really where we teach the stewardship of the environment, where the young people get hands-on experience and so on.

So, I think we need to look at it. Senator Bond and I need to talk about it. And we welcome your input. Just rearrange—the question is: What is the objective we seek? If it is really to have a really outstanding environmental education program, it is where is the best place to put it, and where should we be putting our money?

So, we thank you for that.

CHESAPEAKE BAY RESEARCH PROGRAM: RECRUITMENT

Administrator Whitman, I am going to come back to the—speaking of the Bay, before I go on to clean water. How are we on getting a permanent head of the Chesapeake Bay Foundation Research—I mean, the Chesapeake Bay Research Program?

Ms. WHITMAN. We have a number of outstanding candidates. We have winnowed the list down from seventy. We had seventy applications. We have gotten that down now to a number where we are going to start to do the interviewing and hope to be able to appoint somebody very quickly.

CLEAN WATER REVOLVING LOAN PROGRAM

Senator MIKULSKI. Yes. Because we have been without one since Mr. Murkowski retired. And so, we really think it needs the—needs a permanent appointment. So, we look forward to hearing about this.

Let us go on, back to the Clean Water State Revolving Loan Program. In the budget, it really does cut it from $1.35 billion to $1.2, and also, when we read the fine print, it startled us, because the fine print indicated to myself and my staff that it will zero out the Clean Water State Revolving Loan Program when we get to 2006, just at the same time when—I think if the committee had its way, we would make this a $3 billion or even $5 billion program.

Have we read this wrong, or is this OMB? We do not want to put you in a difficult situation with OMB, but we—and I know they are

trying to cope with how to achieve the budget, homeland security, and Nonpoint source. I mean, this is not the committee that is going to debate that. But we will debate that this program cannot be phased out and we cannot use budget gimmickery with it.

Ms. WHITMAN. Senator, I think the important thing here is that the fund has enough money and will continue to have enough money to revolve at more than $2 billion a year. It has been at least for the last few years. It is revolving at almost $4 billion now, because it is a fund that gets repaid and replenished by those who are using it.

It is really at a very healthy stage. Now, this gets back to the broader question that both you and Senator Bond have been talking about this morning, which is that the needs are far, far greater than that. And that is why we need to have vigorous support of Congress in the discussion of how we address these issues. But as far as the actual dollars going in, the fund will be able to continue to revolve. Congress initially had supported a $2 billion revolving loan fund. It will certainly be at that, even if no more money is provided. Right now, it is revolving at closer to $4 billion.

Senator MIKULSKI. Well, I am troubled about this. I am troubled by the whole Clean Water SRF and its lack of funds. I know our colleague, Senator Jeffords, is leading an effort to re-authorize this program. I am concerned about the formulas. And we do not want to get into an East Coast-Midwest-Western struggle. Under the current proposal, I lose out. What I do think, when they are—I just heard, "Me, too."

So, you can understand. The appropriators are not going to lose out to the authorizers.

Ms. WHITMAN. You never do.

Senator MIKULSKI. No. We just will not but I think that this is the time where, really, you and your team have to really get in it with the efforts that are being made by the Environmental Public Works Committee. They are the authorizers. We respect them. We value them, but not necessarily their formula changes.

But really, this is a great opportunity for us to create a 21st century Clean Water State Revolving Loan Fund and to be serious about what we need to do and the amount that it is going to take, and then the best way to do it.

We really would encourage your very strong hands-on involvement with the committee. You know it as a governor, you know it now as an Administrator; you—you were very active, of course, with the National Governors Association. I mean, you have kind of been there, too. And you know what it is like passing water weights along to those—like those older communities in New Jersey. And we could go to—we could go to Wisconsin, we could—you heard Senator Craig talk about arsenic. Anyway——

Ms. WHITMAN. Senator, there is no question that there is a gap developing between the existing level of water and waste water infrastructure investment and the growing need. There is just no question about that. Just to reassure you that, while the planning assumptions of the President's budget do recognize a ramp-down, that is nothing new. It does not reflect any policy decisions.

This is the way the formula was set up in the beginning, and it will not affect any of the decisions that we are making, but we do

need to address what is a very serious growing gap. When I say I think water, both its quality and its quantity is the environmental challenge for the Twenty-first Century, I mean it. And this discussion is part of it. We do need an investment in water infrastructure, but we are going to have to work together. We need to work very closely with you to try to identify the best way.

Senator MIKULSKI. Well, are you actively involved with the efforts of the Environmental Public Works Authorizing Committee on this topic, and their legislative initiatives?

Ms. WHITMAN. Yes. Yes.

U.S. GEOLOGICAL SURVEY: CONTAMINENTS IN WATER

Senator MIKULSKI. And so, we—we do need to be talking about it. My time has expired, and I want to go to Senator Bond, but one other question about water. I was very troubled to read about the U.S. Geological Survey recently identifying that there is a number of contaminants showing up in water, from birth-control pills to steroids to pesticides to—et cetera. As a result of the recent study, FDA said it was going to take a look at its effects on the environment.

Where do you come in, with this startling report of the U.S. Geological Survey? Again, validating your belief and mine, that water is the big issue.

Ms. WHITMAN. We're working very closely with all of the other Federal agencies that are addressing this issue, to get an understanding of what this means. This is reflective of something that we have seen coming and, I think, all of us have seen coming for some time. As science gets more sophisticated, it is able to identify more substances. It is not, at the same time, able to tell us exactly what the impact of those substances are on the human body or on the environment, in general. That is where we need to turn our attention, now that we are beginning to identify that, in fact, these things are appearing in water.

We need to get a better understanding of what levels do they affect humans or at what levels do they affect the environment? We need a lot of scientific research here. We are putting our scientific focus on this. And we are working very closely with all those who are involved in it in the Federal Government.

Senator MIKULSKI. Are you working with FDA——

Ms. WHITMAN. Yes.

Senator MIKULSKI [continuing]. And the Geological Survey?

Ms. WHITMAN. Yes.

Senator MIKULSKI. Well, again, I would like to come back to that, probably, even, maybe, at another hearing, because it is—the question is: Where—how did this get into the water? And now that it is in, what—what is the effect, but also, what is the synergistic effect? But that is a little bit more than for this appropriations hearing. But I really welcome your staff paying very close attention to this. And your own commitment to science, I think, will help us be able to get in—get into this and solve it.

Senator Bond?

NEW SOURCE REVIEW

Senator BOND. Thank you very much, Madam Chair. I am going to have to ask you a couple of quick questions, because we have got a long way to go and a short time to get there. And the Chair and I both have other hearings we are supposed to be in.

Number one, I commend you on your emphasis on water. We look forward to working with you. I commend you for having the largest request in history for the SRFs. It is not enough. This committee criticized previous Administrations, because they provided even less. So, we look forward to working with you on that.

New Source Review—this is going to be a real challenge to balance the environmental goals, the energy policy, without driving up costs. Give a quick thought on how you balance those two compelling needs.

Ms. WHITMAN. Well, New Source Review is a part of the Clean Air Act that has been subject to a lot of attention and the subject of a lot of concerns particularly from the utility industry. Some of the concerns are the lack of clarity in some of the definitions, what was routine maintenance, repair and replacement; what triggered New Source Review. There is some compelling evidence that, in fact, initiatives that might have cleaned up some emissions from power plants were not undertaken, because of concern of triggering New Source Review, but it is always hard to prove the negatives. So, it is something that has been very contentious.

The New Source Review reform was first undertaken by the previous Administration, back in 1996. We are looking very closely at what was proposed there. It was also a plea from the National Governors Association that we look at how we can reform New Source Review, in order to ensure that we protect the environment. We need to make it more efficient and more effective. And, we are looking at doing that.

INSPECTOR GENERAL DRAFT REPORT: POLLUTION ENFORCEMENT

Senator BOND. I will be looking forward to working with you in the EPW Committee, there, as well.

In addition, EPA IG issued a draft report out, criticizing the EPA for failing to monitor and enforce pollution levels. Only 64 percent of the major sources apparently have obtained permits. The New England region and the States near and dear to us are at the bottom of the list.

How does the EPA plan to address the problem?

Ms. WHITMAN. We are continuing to focus on that. We have done a great deal, even since the draft report was issued, to address the failings that they found and the concerns that they raised, to ensure that we continue to enforce the laws. And we are enforcing the laws. As I said, last year, we had almost the best year ever as far as enforcement actions that were undertaken against those who had violated permits. We have required them to spend a great deal of money because we believe in polluter-pays to rectify the situation. And we will continue to enhance the enforcement efforts of the Agency.

WALL STREET JOURNAL ARTICLE: NON-PROFIT GRANTS

Senator BOND. I mentioned, in my opening statement, the allegations in the Wall Street Journal editorial about EPA funds being used by not-for-profits.

What steps has the EPA taken to ensure that—that this has not occurred? Have—have you done any preliminary investigations? What steps can you take to make sure these allegations do not, in fact, occur in the future?

Ms. WHITMAN. The first and most important thing is we are going to move to a competitive basis for non-profit grants. That, I think, is a very important commitment. And that is the way we are going to move those non-profits grants to a competitive funding source.

We are also going to ensure that we are focusing on the kind of compliance that is required of the grantees; those that get these awards. We are going to ensure that we are doing everything possible to have them submit to us, in a timely fashion, the kind of data that would ensure that what was alleged has not gone on or does not go on in the future. And we will look at what has been done.

Senator BOND. We would like you to advise us when you find out what has happened or has not happened—

Ms. WHITMAN. Certainly.

Senator BOND [continuing]. We would like to know, because the—the allegations are very serious. If they are untrue, we need to put them to rest.

Ms. WHITMAN. Yes.

HOMESTAKE MINES IN SOUTH DAKOTA: INDEMNIFICATION

Senator BOND. If they are true, then we also need to know about it.

The final issue I am going to have time to ask about today, I would like just your quick response, Homestake Mine in South Dakota. We are very much concerned about that. This is a potential multi-billion dollar project. We are going to have to ask the NSF about it. There are environmental reviews required, but I have a specific question about indemnification.

A January 29th Associated Press article said the Mining Committee was unhappy, because the legislation did not protect the company from litigation regarding environmental hazards. The article mentioned that some kind of side letter would be, essentially, developed as a memorandum of understanding to outline that the Department of Justice and EPA would implement indemnification measures.

This is a very major project, with some very serious implications for funding, as well as remediation.

Is there any truth to the report, or where does that process stand?

Ms. WHITMAN. Right now, Region 8 is working very closely with South Dakota Department of Environment to address this issue. We intend to continue to work together and to try to work with the company to see if we cannot get resolution as quickly as possible. We are in the process of consultation and due diligence, and public

participation to meet the requirements of the time tables and the legislation.

Senator BOND. Well, if you would keep us involved, because this committee is in the middle of this thing. And this could be an extremely expensive effort. We need to know what your take is on it.

Thank you, Madam Chair.

Madam Administrator, always a pleasure.

Senator MIKULSKI. Thank you, Senator Bond, for those insights and also calling to the attention the excellent work of the IG. In fact, perhaps, while you are here, would you, would Ms. Tinsley come up, please, for a minute?

Ms. TINSLEY. Yes, ma'am.

WALL STREET JOURNAL ARTICLE: INSPECTOR GENERAL DRAFT REPORT

Senator MIKULSKI. First of all, this committee really appreciates the role of the Inspector General. And though they—we sometimes do not extend our hearings, et cetera, and we are not going to ask the IG to testify, but we want to express the—really, the outstanding work that IGs perform in all of the agencies and bring them to our attention.

And we are going to ask Ms. Tinsley to brief both of our staffs on, kind of, what you consider some of the flashing yellow lights in the Agency.

But Senator Bond raised something, and then I am going to come back, in my round of questioning, to—to the issues over the Clear Skies Initiative. The—The Journal, on March 12th—and I ask unanimous consent that it go into the record—says that you concluded that efforts to monitor and enforce pollution levels have fallen behind, and asserts that EPA has not realized the benefits from Congress—that Congress intended in the 1990 Clean Air Act, and that it should give us pause, because of the tremendous backlogs, bureaucratic confusion, and so on.

[The information follows:]

[From The Wall Street Journal, March 12, 2002]

REPORT SAYS MANY MAJOR POLLUTERS OPERATE WITHOUT REQUIRED PERMITS

A third of the nation's major polluters operate without permits and monitoring systems that Congress had required by 1997 because of a chronic lack of resources and bureaucratic confusion in State agencies, according to a draft report by regulators.

The report from the Environmental Protection Agency's inspector general's office concludes that efforts to monitor and enforce pollution levels have fallen behind, and asserts that the EPA has "not realized" benefits that Congress intended in 1990, when it made the last major changes to the Clean Air Act.

The latest report is likely to give Congress pause as it considers deeper cuts in pollution levels being pressed by both Democrats and the Bush administration.

In 1990, Congress required each major industrial polluter to obtain one permit that holds their emissions on regulated pollutants to specific levels and requires monitoring. The permit was to be issued by state agencies paid through fees charged to polluters based on emissions.

The report states that by last July, only 63 percent of the 19,025 major sources of industrial pollution in the U.S. had obtained permits, although the law imposed a deadline of 1997. The most delinquent region, according to the report, is New England, where on average only 37 percent of the permits had been issued. Among states, the most delinquent region is New Jersey, where only 30 percent have been issued.

Kyla Bennett, director of the Boston office of Public Employees for Environmental Responsibility, which had obtained a copy of the internal report, said the "poor track

record" of industrial states "should be setting off alarm bells." The largest polluters, such as power plants, are generally the ones lacking permits, according to PEER, which represents employees in some of the 112 State and local agencies that implement the program.

EPA spokesman Joe Martyak acknowledged the program has had problems and blamed some of the delays on lawsuits by industries. "We've given the message to our offices in various regions to focus on things that really matter and to get these permits in place and correctly in place." The final version of the report is expected to be released in April.

Bradley Campbell, named last week as commissioner of New Jersey's Department of Environmental Protection, said, "I share the concerns that are raised in the report." He has launched an investigation on the permit backlog and how to deal with it.

The report noted that several states in the EPA sample lacked sufficient resources to run the program and that many states had difficulties getting EPA guidance on how the agency's regulations should be applied to a specific polluter.

One big problem is a so-called new source review section of the Clean Air Act that applies to power plants and other complex facilities. John D. Walke, a lawyer who formerly oversaw the program for the EPA, said that industries often pressured State legislatures to "low ball" the fees charged to operate the program. Legislatures in states that had collected adequate fees sometimes shifted the money to other purposes. "These were two of the dirty secrets we had to deal with," Mr. Walke said.

Senator MIKULSKI. Again, this is not meant to be a debate or a confrontation. It is meant to—how do we get a cleaner environment?

Could you share with us—essentially, is what was reported in The Journal your position? And could you then share with the committee your concerns, as the Inspector General, about the pollution control efforts that are hit by bureaucratic concerns and the lack of funds?

And I think Senator Bond would like to hear this. And we work together on these kinds of issues. So——

Ms. TINSLEY. The comments in the Wall Street Journal were actually premature. The Wall Street Journal got a copy of a report that was a draft document. We have not issued that report, in final, yet. We hope to have it out by the end of March. We have a revised draft that the Office of Air and Radiation is looking at now.

And so, I would really rather wait until we have a final report to give you to talk about that in detail, because the comment process is very important to us on draft documents.

Senator MIKULSKI. No. I am not asking you to comment here.

Ms. TINSLEY. Right. And so——

Senator MIKULSKI. No. We believe that you are supposed to find things, and then the agencies are supposed to tell you if they think you really did find them.

Senator MIKULSKI. I mean, is that not right?

Ms. TINSLEY. Well, yes. I probably would not say it exactly that way, but, yes, we value the agencies' comments, because we want to make sure that what we do report is as accurate as possible.

Senator MIKULSKI. Well, Ms. Tinsley, this is what The Journal reported prematurely still is of concern. We recognize the appropriateness that we discuss this after the final report is issued, which is in a matter of weeks—a matter of a week. And we really invite you, then, to come and brief our staffs and, perhaps, if appropriate, then—or necessary, to come back and discuss this with Senator Bond and myself.

But before I turn back to Ms. Whitman, are there any other flashing yellow lights that you want to tell us about at EPA? And then—or did I catch you by surprise, here?

Ms. TINSLEY. Yes. Well, you caught me by surprise, but I am trying to be responsive. We have a lot of issues around the management challenges. And, in fact, the President's Management Score Card, that we are working closely with the Agency on. And these are important to help this Administration better manage Agency activities and make better decisions about how to spend the limited resources that it does have.

Senator MIKULSKI. Well, why do we not take a look at the report? And I know—first of all, Administrator Whitman, everything I know about her and everything I believe about her is she really—really sound management and good management is really kind of one of her—in—in terms of being the way—one of her signature issues.

So, we did not mean to catch you by surprise or—or whatever, but you never know what we are going to do here.

Ms. TINSLEY. No. No. That is fine. I am happy to speak to you about that.

CLEAR SKIES INITIATIVE AND NEW SOURCE REVIEW

Senator MIKULSKI. Well, let us get that report, and then let us look at this report, because whether it is—whether it is the Clear Skies Initiatives or the New Source Review, again, if it is not working at the State level and so on, all we are doing is top-down rearrangement.

[The information follows:]

[CLERK'S NOTE.—The Office of Inspector General Evaluation Report on Air EPA and State Progress In Issuing Title V Permits, can be found at the following website *www.epa.gov/oigearth.*]

Senator MIKULSKI. So, let me say thank you. And I am going to turn, now, to Administrator Whitman.

Senator Bond raised issues about the Clear Skies Initiative. And as you know, Administrator Whitman, they have become enormously controversial. There are ads about you by TomPayne.com and a variety of things.

My questions goes, I think, to the core. How will replacing this mandatory review with a voluntary program, be better to protect the environment and public health, when the mandatory program, in and of itself, had so many problems? And why would volunteer be good? And is this not just a loophole for community—for polluters to squeeze-out, fade-out, loophole-out?

Ms. WHITMAN. Well, Senator, I am glad you asked that question, because there is nothing voluntary about the Clear Skies proposal. It is mandatory. It proposes mandatory caps. It is based on what I think was a very prescient piece of legislation enacted by the Congress when they did their reforms to the Clean Air Act, which was the Acid Rain Trading Program, which has been enormously successful.

The proposal, here, is to establish mandatory caps on three of the most onerous emissions from power plants: SO^2, NO_X, and mercury. Under the proposal, what we would do is set those standards up front, so that the utilities understand exactly what those stand-

ards are. Under the current Clean Air Act, we have at least five different regulatory proceedings that are either in place or about to be in place, but they come at different time frames, and they are subject to litigation.

They are subject to a lot of back and forth. They do not result in the environmental benefits that we necessarily seek in the time frame that we want to seek it.

What we are proposing is, to have Congress set out, now, standards for SO_2 emissions, for emissions of NO_X for emissions of mercury. The utilities will know what they are. We establish a cap and trade program. And as with the Acid Rain Program, we feel, and all our models show, this will be faster; we will get deeper cuts, deeper reductions.

In fact, from our modeling, at the numbers that the President has proposed in the Clear Skies Program, we should get 25 million tons better reductions in sulfur dioxides over the next 10 years, than under the Clean Air Act; 10 million tons better reduction in nitrogen oxides over the next 10 years, than under the current Clean Air Act; and 20 tons better reduction in mercury over the next 6 years, than under the current Clean Air Act.

That is because you make it simpler. We are not proposing to roll back the Clean Air Act. We are not proposing to do away with New Source Review, until we know what those numbers are. But if the numbers are what the President proposed, we are actually getting, as I indicated, better reductions than under the current regulatory process, which is very complicated and convoluted, takes a long time, and costs a lot of money. Then New Source Review as it applies to utilities, would become redundant, and there would not be a need for it. But that is not something that we could do. That is something that Congress would have to consider, as they consider the legislation.

The reform of New Source Review was first seriously undertaken by the previous Administration. And with the support of governors and State environmental commissioners, we are looking at again, subject to a lot of misinformation, shall we say—looking at finalizing, over the next few months some parts of those original proposals that were put out in 1996 and have been subject to the full comment period. Then moving it on to the White House.

Along with that, we would make other recommendations for anything else that we thought would improve the program. Anything else would have to be subject to the regular rule-making process, which is at least a 3-year process.

Clear Skies is totally separate from New Source Review; however, in our minds, as we look at the numbers, if the Clear Skies mandatory cap on these emissions is set in accordance with what the President recommended, then New Source Review becomes redundant and, in fact, could be a deterrent to moving forward and reaching these goals.

CARBON DIOXIDE EMISSIONS: VOLUNTARY VS. MANDATORY REGULATION

Senator MIKULSKI. Well, I want to just take a minute to talk about carbon dioxide. As you talked about the voluntary—that it is not a voluntary program; that it is a mandatory program.

Ms. WHITMAN. Right. For those three emissions.

Senator MIKULSKI. My—what staff has shared with me, as we looked at this, is that, yes, the carbon dioxide, though—the carbon dioxide pollutant is—would be a voluntary one, and the other three would stay—would be a mandatory effort. And my——

Ms. WHITMAN. Clear skies it does not deal with carbon dioxide.

Senator MIKULSKI. Tell me about carbon dioxide.

Ms. WHITMAN. It does not deal with carbon dioxide. It talks about sulfur dioxide, nitrogen oxides, and mercury. Carbon dioxide is an issue that I know will be subject to a very broad and thorough and in-depth discussion. But these three emissions are the ones that have the most immediate impact on public health, on asthma, bronchitis, heart disease. They are the ones that contribute to smog. They are the ones that impact on our visibility at national parks. And we feel it is important to move forward with these three, but carbon dioxide is not part of the President's proposal.

Senator MIKULSKI. Well, during President Bush's campaign, he said that carbon dioxide emissions should be regulated as a pollutant, and that—because the CO_2 is a greenhouse gas, a great contributor to global warming, and spoke from there.

You even spoke in support of the Kyoto Protocol, which would talk about the CO_2. Now—and I am not trying to re-hash things. I know it was a very awkward time as the—last year, when the Administration—but what is the Administration's position on carbon dioxide? Does it want it regulated? And how does it want it regulated? And when does it want it regulated?

Ms. WHITMAN. Well, Senator, first of all, let me just say that even as a governor, I was opposed to the Kyoto Protocol. The issue of carbon dioxide is something else, again. And as you know, last year, the President indicated, given the overall concerns he had about energy demands and energy self-sufficiency for this country, he did not feel it was appropriate, along with the additional science that he had received, to mandate a cap on carbon dioxide.

He did propose, at the same time that he proposed Clear Skies, a separate program to address global climate change. What he has done for the first time is to set a target for the United States of an 18-percent reduction in intensity of greenhouse emissions over the next 10 years. It is with a proviso that if the science justifies, at the end of that time, to not just reduce the intensity, but to stop the production of greenhouse gases entirely, and then to reverse the trend. But that is if science justifies it.

The proposal also calls for a program of technology transfer to bring in some of the developing countries by provide a structure, such that they could continue to grow their economies, but not committing the same kind of mistakes that we did when we went through the Industrial Revolution and all the harm that we caused to the environment. China is the second largest emitter of greenhouse gases and India in the top five.

We have come too far in environmental technology not to be able to provide them with alternatives to some of the development that we see occurring now. The argument has been that you cannot involve the developing Nations, until their economies reach the same plateau or are equal with the developed Nations. The President—

and I concur, believes that this just does not make any sense, because for the overall environment, that is very harmful.

In this program, he has provided a baseline protection for any company that wants to take early action to start reducing their greenhouse gas emissions. He has called for the Environmental Protection Agency to work with the Department of Energy to enhance their reporting model, so that companies can come in and report their greenhouse gas emissions. We will have the appropriate base and know where we are coming from; and companies have some kind of protection, should there be a regulatory change in the future that would put a cap on carbon dioxide.

The program also has a great deal of money focused on technology and science, because there is an understanding that while we recognize that global climate change is occurring, the science is not nearly as precise as to all that goes into that as you would like it to be.

What is the role of black soot? If we are going to make these enormous investments in addressing global climate change, then let us make sure we are absolutely certain of where to make them. But the President said, at the same time, he does not believe that that means we should sit back and do nothing, which is why he set that carbon intensity target, which links our greenhouse gas emission to the economy and allows for economic growth at the same time that we are decoupling the same rate of greenhouse gas emissions.

Senator MIKULSKI. Well, I think that as we move on, eventually, to our mark-up, this is—the—the Clear Skies issue, the carbon dioxide issue, will be a controversial issue. And, again, we, as appropriators, do not want to become the Conflict Resolution Committee, though——

Ms. WHITMAN. That is a good role.

Senator MIKULSKI [continuing]. You know, we are prepared to do it. It is a very good role and—and so on, but, first of all, you—you explained the Administration's position quite well. I think we do need further conversation on it, but my time is complete.

And I would like to turn to Senator Leahy.

NEW SOURCE REVIEW: AGENCY RELAXATION OF ENFORCEMENT

Senator LEAHY. Thank you, Madam Chair.

Administrator Whitman, everybody is talking about terrorism. And sometimes we forget that you actually have one of the most difficult jobs in Washington, because it is so important to each and every American.

The EPA's mission to safeguard our Nation's land and air, water, to protect the health of our children, our citizens—especially, our children—from environmental pollutants. And you have got to balance all of the major health and environmental issues we face today, and do it with increasingly limited resources.

Now, I have appreciated the work the EPA—in my home State of Vermont, EPA has been instrumental in helping Vermont's citizens restore the health of Lake Champlain and the Connecticut River watersheds. You have worked with local communities. You made a commitment to cleaning up two Superfund sites, and in-

cluding the Elizabeth Mine. Vermonters, over the years, thought of the EPA as one of our greatest protectors and best friends.

So, with that as a backdrop, I have got to tell you, I do not know when I have been so disappointed in you or your Agency. I think of how vigorously the Administration has worked to undermine enforcement of the Clean Air Act, which was enacted with strong bipartisan support. My predecessor, Senator Bob Stafford, was actively involved in that.

So, you have—careful balancing is required to protect public health, but now that balance has been unbalanced, because special interests have been permitted to put their thumb on the scales. And I am talking about the New Source Review regulations that the EPA is on the verge of announcing. And I know Senator Mikulski and others may have talked about this, but I look at months of meetings with the energy industry lobbyists, and the Administration came up with a wish list of items for power companies that we can—New Source Review, that is right at the top.

From a cold financial perspective, I can see why power companies want a special interest provision that gives them immunity from a Federal law. They just simply look at dollars and cents. Of course they want that.

The New Source Review requires the oldest and dirtiest power plants comply with clean air requirements, when they make upgrades of these facilities. It is a core provision that is supposed to gradually eliminate—but everybody knew there was a loophole in the Clean Air Act, but a loophole that was allowed, because it was going to be eliminated over time. A loophole that lets power plants emit thousands of tons of pollutants into our Nation's air and into our children's lungs and everybody else's.

A lot of years, power companies ignored the requirement. Their oldest plants add controls. Your immediate predecessor, Administrator Browner, made it a priority to enforce, not undermine, the New Source Review regulations. She followed up on Agency investigations and found energy companies illegally exploiting a loophole in the Clean Air Act. She found those irresponsible power producers that chose to put the money back into the profits, rather than cleaning our air, and she said, "Enough is enough." And she went to the Department of Justice in November of 1999. She filed lawsuits against the facilities with these egregious violations.

And guess what happened? When the violators actually believed somebody was going to call them on it and actually bring them to court on it, they started lining up, and said, "Okay. How do we settle all of this?"

And the settlements, of course, meant cleaning the air of millions of tons of pollutants. It also meant billions of dollars in fines that would go into our—the coffers for—to help the taxpayers of this country.

One settlement, alone, resulted in, I think, about $1 billion in fines and reduced about 200,000 tons of pollutants. Another recent settlement had around $350 billion in fines and over 50,000 tons of pollutants.

So, it is fulfilling EPA's mission to enforce the Clean Air Act, and it also said we are serious about it.

Then the new Administration came to town. First major energy proposal by the Bush Administration was that the New Source Review enforcement should be undermined by administrative debt. And guess what? Two major companies who had previously announced agreements in principle to settle said, "Oh, boy, new sheriff in town. We do not have to do it. We can back off."

Even though their settlements would have reduced pollution by over 750,000 tons and would have given $3 billion back to our Nation's taxpayers. They said, "Heck. If we are not going to be enforced, you know, if it is going to be,' go ahead and pollute, we do not give a hoot,' that is a great symbol, and let us go for it."

And so, the pollution still goes on. The polluters do not pay for the crime.

As a matter of public record, the energy companies wanted this relaxation of New Source Review. Many were already under the gun and knew that they were going to have to pay up and actually obey the law. But your Administration, suggest EPA, chose to listen to these people, actually act upon their request, and roll back the Clean Air Act, It just baffles me, because we had already proven—all you have to do is enforce it, and they will show up.

A lot of us in the Northeast asked you about it. In January, the Department of Justice found that all current New Source Review cases were legally justified and the violators were right to be prosecuted. I mean, this is during Attorney General Ashcroft's Justice Department. But you continue to follow the requests of the energy industry.

Two weeks ago, one of your experts of the Clean Air law resigned in dismay at the handling of the matter at your Agency. Monday, the Washington Post reports you are continuing to follow their requests.

I have heard you say that the Administration's legislation to cut emissions from power plants, your Clear Skies Initiative is a replacement for the New Source Review. Well, that is not true at all. The New Source Review is specific to individual facilities. It is also mandatory.

The Clear Skies Initiative is about voluntary lowering of emissions. It does nothing for the communities stuck next to a 1950s coal-fired power plant.

I will tell you, right now, anybody in the Justice Department—I see you shaking your head, but I disagree. The relaxation in New Source Review regulation would cover far more than 1,100 coal-fired power plants that are under your Clear Skies Initiative. New Source Review applies to more than 15,000 industrial facilities or refineries—pulp, paper mills.

Also, New Source Review is in the—in the law right now. Why not enact it right now? When I was a prosecutor, I believe if you had a law on the books, you enforce it. If the legislature or, in this case, the Congress wants to change the law, let them do it. But this idea of saying, "We do not like that a lot. We do not want to protect the environment. We do not want to stop pollutants coming down into the waters and the streams of Vermont or anywhere else in the Northeast."

Heck, when you were governor of the great Garden State, you strongly supported the strongest clean air regulations, including enforcement under the New Source Review.

I—the Administration is—if you tell people we are not going to enforce the law, none of these companies—I mean, they have already shown that when the law is being enforced, then they start—they pay the fines, they start cleaning up. You tell them the law is not going to be enforced, they say, "Okay. Good-bye. See you."

It is like having a speed limit somewhere. You have got one where you have got the radar——

Senator MIKULSKI. Excuse me, Senator. I have to get to another mark-up. Do you want to continue for an extended line of questioning and——

Senator LEAHY. If I could.

Senator MIKULSKI. I would ask you, then, to close out the hearing.

Senator LEAHY. Certainly.

Senator MIKULSKI. It is a mark-up on the pension bill. So, I did not mean to interrupt your train——

Senator LEAHY. I appreciate that.

Senator MIKULSKI. I am going to, then, yield the gavel to Senator Leahy.

Senator LEAHY. I am only going to be a few more minutes, anyway, but thank you.

Senator MIKULSKI. And—and then, Senator—and then, Administrator Whitman, we look forward to working with you.

Senator LEAHY. I would have been here earlier, but we had a closed meeting with the intelligence agencies on another mark-up. So, I had to be at that. Thank you.

Senator MIKULSKI. Yes. And I have got to get to the pension——

Senator LEAHY. Thank you.

Senator MIKULSKI. So, please, continue. And—and then I will ask you to, then, conclude the hearing.

Senator LEAHY. Yes. And—okay. I have—and that is also fair. Then I will give you time to respond. But, I tell you, in Vermont, we look at this—well, we take a bipartisan attitude toward the environment. And I hear it from just as many Republicans as I do Democrats, saying, "What in heaven's name is going on at the EPA?"

Ms. WHITMAN. Well, Senator, if all I did was read the papers, I would probably ask the same question. As a person in public life, and as I certainly found as a governor of the State of New Jersey, I learned to have a little bit of skepticism about everything I read in the paper. I, too, believe that our NSR cases are strong. We continue to urge companies to come to the table. In fact, one of the two settlements that you talked about was with, a New Jersey company, PSE&G, and was concluded just recently. It was part of the work that we have done. We have gone forward.

We continue to enforce New Source Review. In fact, in the last year, we made approximately 87 information requests to power plants, refineries, and other facilities. We issued about 22 notices of violation. We have concluded at least seven cases. We are still vigorous in our pursuit of New Source Review.

Senator LEAHY. Are you—are you going to prosecute violations of it? Are you going to——

Ms. WHITMAN. We are going to continue to prosecute violations.

Senator LEAHY [continuing]. Prosecute as aggressively as the last Administration did?

Ms. WHITMAN. Absolutely. We are going to continue to prosecute.

What we are talking about in reform of New Source Review is what was proposed by the previous Administration back in 1996. We will make some proposals to the White House within the next couple of months that would be based on what was proposed by the Clinton Administration in 1996, subject to full public review.

Any additional comments that we make, as far as how to streamline and make New Source Review more efficient and more effective, would be subject to the full public process, which is about a 3-year process.

Senator LEAHY. Do you have any companies that announced agreements in principle, who have now changed their mind?

Ms. WHITMAN. We are in negotiations with a number of companies. And some are more active than others. We continue to have settlement agreements every week. But as you well know, as a former prosecutor, not all cases have a very smooth road to completion and that people go forward and they move back and they go forward and they move back. But we are continuing. We have negotiations going on for settlement every week.

Senator LEAHY. Well, did we talk about what is in the—did the energy companies want—did any energy companies want relaxation of New Source Review?

Ms. WHITMAN. Oh, I am sure there are a number of them that would love it.

Senator LEAHY. Are there any that came to you or met with you and asked you to do that? You or your Agency?

Ms. WHITMAN. There have been discussions of what is going on, but no, I have not been individually lobbied.

Senator LEAHY. No energy companies have come to the EPA and asked for relaxation of New Source Review?

Ms. WHITMAN. No. They have asked us to look at changes and how we could make it more efficient. But they have not asked me to relax it. They have not asked me—I have not been personally lobbied by anyone asking me to change New Source Review.

Senator LEAHY. Are you aware—are you aware of——

Ms. WHITMAN. They have certainly indicated their displeasure with it.

Senator LEAHY. Are you aware of anybody in the Administration who has been lobbied for—by any energy companies for relaxation of New Source Review?

Ms. WHITMAN. I am not, personally. I would not be surprised, because, certainly, this has been something that has gone on for a long time. It is why the National Governors Association unanimously asked that the Agency look at streamlining New Source Review.

Senator LEAHY. But you are not aware of any energy companies—you are not aware.

Ms. WHITMAN. Not personally. No, sir.

Senator LEAHY. Well, what do you mean, "not personally"? I mean, you are either aware of it or you are not aware of it.

Ms. WHITMAN. I do not know whether there have been meetings. I am not aware of them.

Senator LEAHY. I am not asking you about—you are not aware of it. Okay.

Ms. WHITMAN. No.

Senator LEAHY. Would you be amazed to hear that some have come to the Administration to ask for that?

Ms. WHITMAN. Would I be amazed if what? I am sorry.

Senator LEAHY. To hear that some have come to the Administration—some energy companies—asking for relaxation of New Source Review?

Ms. WHITMAN. No. Not at all. And any meetings, by the way, Senator, that we have, will be part of the record.

Senator LEAHY. And no one in the Administration has asked you to.

Ms. WHITMAN. I am sorry, Senator.

Senator LEAHY. No one in the Administration has asked you to relax New Source Review.

Ms. WHITMAN. I have been asked, as you know, under the auspices of the energy policy, to conduct a review of New Source Review. I have had numerous meetings with energy companies, with environmentalists, with the States' Attorneys General, on the issue of New Source Review and on the issue of enforcement, but I have not been specifically requested by anyone to make any particular changes to New Source Review.

Senator LEAHY. No one has asked you to relax the issue of—on enforcement.

Ms. WHITMAN. No. They may complain, but they do not ask.

ENFORCEMENT PROGRAM

Senator LEAHY. Years ago, we had a predecessor—yours—who took the enforcement department, and about every 6 weeks she would reorganize it, so nobody could ever get started on enforcement. I mention that only because some worry that—and just administratively, you can have a law on the books, but make sure it is not being enforced.

It is something that we—I imagine many will—many will watch, because, frankly, I do not see this—well, let me ask you this: Is EPA's enforcement budget—your proposal, is it the same this year as last year? More or less? What?

Ms. WHITMAN. The overall request for enforcement is higher than last year. And, Senator, if I might, if you look at last year's record, when "this new boy in town," as you said, or the new gang in town was there, our——

Senator LEAHY. I did not say "this new boy in town."

Ms. WHITMAN. Well, I am sorry. Whatever. The new—the new sheriff.

Senator LEAHY. I would not be that disrespectful. I would not be——

Ms. WHITMAN. I think you said "new sheriff in town."

Senator LEAHY. I would not be—I would not call any President——

Ms. WHITMAN. I—I apologize.

Senator LEAHY [continuing]. A boy.

Ms. WHITMAN. New sheriff in town. But our enforcement program achieved outstanding results. It was almost a record-setting amount of penalties.

Senator LEAHY. And these are all——

Ms. WHITMAN. Almost——

Senator LEAHY. These are all actions that your Administration began. None of them were left over from the past——

Ms. WHITMAN. Oh, no. Some of them were left over, but we had to——

Senator LEAHY. Ah.

Ms. WHITMAN. We had to finish enforcing them. If we were not interested in enforcing them, it is just as easy to walk away from an ongoing negotiation.

Senator LEAHY. No. It is not, actually. Actually, it is not, because if you had some——

Ms. WHITMAN. Well——

Senator LEAHY [continuing]. Enforcement that was successfully going forward, the political cost would have been enormous to walk away from them.

Ms. WHITMAN. Well, Senator, I would be very happy to give you a complete breakdown of all the cases that we have brought in this year; that we have brought——

Senator LEAHY. I would appreciate that.

Ms. WHITMAN [continuing]. And all the actions that we concluded. And suffice it to say that maybe we would not have walked away from ongoing cases, but the fact that the penalties we got were almost record level and the time served by people we were able to convict, were almost record level, I believe, indicates a commitment to enforcement that belies some of what you have been reading in the press about a hidden agenda to walk away from what is important to this country.

ENFORCEMENT PROGRAM: FTE REDUCTION

Senator LEAHY. Well, and please supply that for the record, because I—I do not want to——

Ms. WHITMAN. I would be happy to.

[The information follows:]

CLEAN AIR ACT/NEW SOURCE REVIEW ENFORCEMENT ACTIVITY

EPA's enforcement activities under the Clean Air Act to address New Source Review (NSR) violations continue to be vigorous. Beginning with investigations, of which we have over 100 under way, and concluding with a filed case or settlement, EPA aims to reduce harmful air pollution caused by refineries, power plants and other industrial processes, such as paper mills.[1]

[1] These activities reflect EPA's approach to enforcement generally, which includes the following steps:

Investigate possible violations by gathering information, e.g., through information. requests, citizen complaints, inspections or other reports;

Review collected information to determine compliance

Issue "Notices of Violation" or other formal notification to the violator to alert them to the violations detected and give them an opportunity to correct those violations

Enter into negotiations with the violator in an attempt to reach an agreed upon settlement to resolve the violations

Continued

Our current data shows that—between January 2001 and March 2002—EPA made 115 information requests; issued 23 Notices of Violation; filed and settled 15 cases, concluding 7 of them (i.e., they were entered by the appropriate court); and engaged in numerous other enforcement activities such as depositions, motion practice and on-going settlement discussions—all to enforce the Clean Air Act's NSR requirements.

Since the start of NSR initiative in 1997, EPA has, through settled cases alone, reduced nitrogen oxides (NO_X) and sulfur dioxide (SO_2) emissions by approximately 329,000 tons per year; ordered nearly $3 billion in injunctive relief aimed to rectify the violations; required that nearly $43 million be spent on environmental mitigation projects; and ordered over $57 million in civil penalties to be paid.

Further pollutant reductions and reparations are expected from cases in which we have a settlement agreement in principle: a reduction in nitrogen oxides (NO_X) and sulfur dioxide (SO_2) emissions by approximately 591,000 tons per year; $3 billion in injunctive relief; over $35 million in environmental mitigation projects; and almost $14 million in civil penalties.[2]

SO_2 and NO_X are significant contributors to acid rain and fine particulates. NO_X also contributes to the formation of ground level ozone, which is a component of smog. Fine particulate matter

Proceed with formal enforcement by filing a case for litigation if no resolution of the violations could be achieved.

[2] Current data as of April 19, 2002.

2001-02 NSR SETTLEMENTS

COMPANY *Intervenors* & # of *Facilities*	ANNOUNCED*	CONCLUDED**	EMISSION REDUCTIONS Tons per Year	CONTROL COSTS	CIVIL PENALTIES	SEPS
Aristech *Ohio* *1 Chemical Plant*	November 7, '01	April 23, '01			$ 450 K	
Williams *Colorado* *Gas Processing Plant*	February 4, '01	April 23, '01			$ 950 K	
BP - *Indiana* *Ohio* *Washington*	January 18, '01	August 31, '01	NOx - 18,300 SO_2 - 19,600 PM - TBD	$600 M	$10 M	
MOTIVA - *Louisiana* *Delaware* *Washington* *9 refineries*	March 22, '01	August 20, '01	NOx - 19,570 SO_2 - 51,120 PM - 1,300	$400 M	$9.5 M	$5.5 M
MAP - *Louisiana* *Michigan* *Minnesota* *7refineries*	May 11, '01	August 30, '01	NOx - 8,000 SO_2 - 12,800 PM - 800	$265 M	$3.8 M	$6.5 M
CLARK *Illinois* *1 refinery*	July 12, '01	September 24, '01	NOx - 270 SO_2 - 4,700 PM - 630	$20 M	$2 M	$1.15 M

COMPANY *Intervenors* & # of *Facilities*	ANNOUNCED*	CONCLUDED**	EMISSION REDUCTIONS Tons per Year	CONTROL COSTS	CIVIL PENALTIES	SEPS
Murphy Oil *Wisconsin* *1 refinery*	January 24, '01	March 21, '01		$ 12 M	$ 5.5 M	
CONOCO - *Louisiana* *Montana* *Oklahoma* *Colorado* *4 refineries*	December 20, '01		NOx - 3,200 SO_2 - 4,000 PM - 400	$110 M	$1.5 M	$5.1 M
NAVAJO & MONTANA REFINING - *New Mexico* *Montana* *2 refineries*	December 20, '01		NOx - 250 SO_2 - 2350 PM - 100	$ 20 M	$ 0.75 M	$ 1.4 M
Gulf Oil *Connecticut* *Gasoline Terminal*	October 15, '01				$ 40 K	$ 421 K
Olsonite *Wisconsin* *Wood Coater*	March 7, '01				$ 255 K	
PSEG *New Jersey* *2 coal plants*	January 24, '01		NOx -18,000 SO_2 - 36,000	$ 337 M	$ 1.4 M	6.0 M
Atofina *3 Chemical Plants*	January 2, '01		VOC -742 ODS- 720	$ 10 M	$ 300 K	

COMPANY *Intervenors* & # of *Facilities*	ANNOUNCED*	CONCLUDED**	EMISSION REDUCTIONS Tons per Year	CONTROL COSTS	CIVIL PENALTIES	SEPS
Boise Cascade *4 Wood Product Mfg. Plants*	March 13, '01		VOC - 1,766 PM - 400	$15 M	$ 4.35 M	$ 2.9M
Ferro Corporation *Indiana Flame Retardant Mfg.*	March 18, '01				$ 3 M	$ 844 K

- Consent Decrees were signed by all parties and lodged with the court by the date noted.

** Consent Decrees were entered by the court on the date noted.

Senator LEAHY. I do not want you to, in any way, feel that you were not given a chance to answer these questions. And I will make sure they are part of the record. And—because, you know, I have a great deal of respect for you, personally. And I want to make sure that you have a full opportunity to answer.

I am concerned that, as I read the EPA enforcement budget, I see it as a cut. The—when I have asked questions about this, I have been told that it was simply allocating more power to the States. But I find most States, especially small States, do not want that. They want you to do it, because they do not have the ability to. Is there a dichotomy that I am missing here?

Ms. WHITMAN. There are two different things, here, Senator.

Senator LEAHY. Oh.

Ms. WHITMAN. The fiscal year 2003 request for enforcement and compliance is, in fact, higher than last year's. It totals $482 million, which is the highest ever for the program. That is over $16 million higher than fiscal year 2001 and $7 million higher than last year's request.

But what we are also showing as part of the overall effort as—one of the things that Congress requested of us a couple of years ago or last year was to continue to tighten our overhead. And so, what we are showing is a reduction of full-time equivalents of 100 or 113.

We are also in a position where we have unfilled positions. We lapse about 120 positions a year. We anticipate hiring 100 new people into the enforcement program in the coming year, to fill those that have left.

Our program, essentially, will be pretty close to what it is—what it is now, in terms of bodies. About one-fifth of the overall personnel of the Agency resides in that office.

And we believe, because of the success we had last year, that we are not going to see any kind of backing away from that. The $15 million program for the States is first of all, in recognition, that the States do 90 percent of the compliance and enforcement work. And we want to be able to enhance that; particularly at a time when States are facing tighter budgets.

There are some States that have very sophisticated enforcement programs. But they may not be consistently sophisticated. They may—for instance, be very good at air monitoring and not water, and with some extra money, they would be able to bring it all up. They are on the ground. They know where the bad actors are. They know where to target the resources.

And we believe that combined with the strong emphasis on enforcement at the Federal level, leveraging the States' abilities can only enhance enforcement, overall.

ENFORCEMENT: COMPETITIVE GRANT PROGRAM

Senator LEAHY. But this is not a case of putting unwanted enforcement on the—on the States. In other words, every State that will ask EPA for help in enforcing will still get the same help today that they would have a couple of years ago.

Ms. WHITMAN. This would be a largely competitive program. Any State that would be interested in putting in a proposal to access these dollars, it would be done on a competitive basis.

Senator LEAHY. Enjoying the job?

Ms. WHITMAN. It is a challenge.

Senator LEAHY. Do you miss being governor?

Ms. WHITMAN. Oh, yes.

Senator LEAHY. The—well, you have an interesting job. I am curious. With all your knowledge of the politics in New Jersey, did Mr. Ray talk to you about running for the Senate prior to leaving his office?

Ms. WHITMAN. He did not talk to me about running—his personal running. He talked about whether or not the Senate race—well, no. Actually, I take it back. What he did was say he might have an interest in it, but he did not ask for my support or get into any particulars as to how you would run a Senate race.

ADDITIONAL COMMITTEE QUESTIONS

Senator LEAHY. Well, that is not a matter for this thing anyway. I was just curious.

Thank you very much.

Ms. WHITMAN. Thank you, Senator.

Senator LEAHY. And we will leave the record open for further questions.

Ms. WHITMAN. Certainly.

[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 BARBARA A. MIKULSKI

ENFORCEMENT OF ENVIRONMENTAL LAWS: BUDGET PROPOSAL

Question. Once again, EPA's budget proposes a fundamental shift in policy. It shifts enforcement resources from the Federal to State governments. How does the budget proposal differ from last year's request?

Answer. Last year when the President's fiscal year 2002 Budget proposed a $25 million enforcement grant program, EPA worked extensively with States and Tribes to solicit and consider their comments and suggestions. The design for the proposed $15 million program in the President's fiscal year 2003 Budget will build on the comments and suggestions received previously to create a program that is effective and responsive to State priorities.

In terms of a shift in resources, it should be noted that the President's request for the enforcement office at EPA represents the highest funding level in that office's history. The proposed State grant program will help ensure that states have the resources they need to be effective partners with EPA in enforcing our environmental laws.

ENFORCEMENT OF ENVIRONMENTAL LAWS: BUDGET CUTS AFFECT ON ENFORCING ENVIRONMENTAL LAWS

Question. The budget cuts $10 million from enforcement, and 100 environmental "cops on the beat." How will this affect EPA's ability to carry out its responsibilities to enforce environmental laws?

Answer. As noted, the President's request for EPA's enforcement office represents the highest funding level in that office's history. The fiscal year 2003 budget provides EPA's enforcement and compliance assurance program sufficient resources to carry out the appropriate Federal role, focusing on Federal cases involving multi-state or multi-facility corporations, environmental programs which cannot be delegated to states due to statutory prohibition, or issues for which EPA can provide specialized expertise. The shift of some resources to the states tracks what has happened on a national level. ECOS has documented a substantial increase in programs delegated to the states over the last decade."

ENFORCEMENT OF ENVIRONMENTAL LAWS: CONSEQUENCES OF BUDGET REDUCTION ON CATCHING PROSECUTING POLLUTERS

Question. What are the consequences of this reduction? How many fewer polluters will be caught and prosecuted?

Answer. We expect performance results in the national Enforcement and Compliance Assurance program to remain the same, with states picking up an additional increment of that work. EPA and the states have different, but complementary roles when it comes to enforcement of our Nation's environmental laws. States have primary responsibility for implementing and enforcing most environmental programs through delegated authority from the EPA. In addition to ensuring a presence in the regulated universe, and identifying violations that need to be corrected, the EPA's Federal role is to implement and enforce programs that cannot be delegated to states, to handle more complex cases involving multiple states or corporations with multiple facilities, to deal with issues that require expertise or resources that only EPA can provide, and to enforce when states are unable or unwilling to. Given the interplay between the State and Federal programs, we believe the State and tribal enforcement grant program will enhance both State and EPA efforts to increase compliance with environmental laws.

ENFORCEMENT OF ENVIRONMENTAL LAWS: NEW STATE GRANT ENFORCEMENT PROGRAM

Question. The budget requests $15 million for a new State enforcement grant program. How does EPA plan to award the new State grants?

Answer. Though details of the proposed enforcement grant program have not been finalized we anticipate that funds will be awarded through a combination of one or more of the following mechanisms: competitive grants available to states and tribes, base-share grants available to states, and a competitive set-aside available only to tribes. Options for allocating grant funds identified during the outreach process are outlined below.

Options for Allocating Funds to States and Tribes (One or a combination of options may be used)

—Competitive Awards: funds will be awarded based on the merits of the proposal; not all states and tribes would receive funds.

—Base Share Grants: each State receives a minimum amount, plus additional funds are available through the competitive award process.

—Tribal Set-Aside: Recognizing that Tribal environmental programs may not compete well with states, it may be necessary to set aside a portion of the funds for Tribal grants.

ENFORCEMENT OF ENVIRONMENTAL LAWS: SPECIAL OR NEW AUTHORITY LEGISLATION

Question. Does EPA need special authority or new authorizing legislation to create a new State enforcement grant program?

Answer. While we believe we have existing authority, we are proposing an expansion of that authority to accommodate the multimedia context in which the grants will be administered. Accordingly, authorizing language in the appropriations bill that funds the program would facilitate the administration of the grants.

ENFORCEMENT OF ENVIRONMENTAL LAWS: GAO REPORT ON STATE ENFORCEMENT WEAKNESSES

Question. GAO has reported weaknesses in State enforcement programs. Will states with good enforcement records be given preference? Or will the grants go to states with poor records?

Answer. Based on comments received, and draft guidance prepared for the grant program proposed in the President's 2002 budget, we anticipate that the grant program will have base-share and competitive components. Competitive grants will be awarded to those states whose proposals address significant environmental problems, and have the greatest potential for achieving measurable environmental results. Base-share grants will be available to all states that submit an acceptable proposal that implements a problem-based strategy or program improvement.

ENFORCEMENT OF ENVIRONMENTAL LAWS: WORK WITH STATES WITH POOR RECORDS

Question. How will EPA work with states that have poor records?

Answer. With respect to the proposed grant program, we expect that most of the base-share grants would be used by states to bolster existing programs, or address specific state program deficiencies. Implementation of competitive grant proposals will also help to improve State program performance.

In general, EPA helps to improve the capacity of states, local, and tribal government compliance and enforcement programs through the delivery of training and other capacity building activities. In fiscal year 2001 EPA delivered 128 training courses, reaching over 4,700 students; and conducted approximately 900 EPA assisted inspections to help build capacity of State, local, and tribal governments. EPA provides environmental management, planning, funding, and regulatory information to local governments through the Local Government Environmental Assistance Network (LGEAN). Additionally, when requested, EPA assists states with specific enforcement and compliance initiatives.

ENFORCEMENT OF ENVIRONMENTAL LAWS: MONITORING STATES' USE OF FUNDS

Question. How will EPA monitor states' use of these funds?

Answer. States will be approved for grant funding only if their grant proposal includes specific plans to measure and report on their performance in achieving results. For example, states will need to define performance measures for determining whether they are having an impact on the environmental risk or noncompliance pattern they are addressing with the grant funds. EPA will establish required reporting intervals for states to provide performance information that can be reviewed by EPA on a regular basis.

ENFORCEMENT OF ENVIRONMENTAL LAWS: STATES' USE OF FUNDS FOR ENFORCEMENT ACTIVITIES VS OTHER ACTIVITIES

Question. Will EPA require that these funds be used solely for enforcement activities, or will states be able to use the grants for other activities?

Answer. States and tribes will be required to use grant funds for enforcement and compliance assurance activities. We anticipate states will use the funds for general enforcement capacity building or to implement problem-based strategies to address a specific risk or non-compliance pattern.

WATER INFRASTRUCTURE: INFRASTRUCTURE FUNDING

Question. The budget cuts $138 million from the Clean Water SRF and $340 million in targeted water projects. What are the consequences of this cut? How many water projects won't be funded as a result of these cuts? How many jobs won't be created?

Answer. For fiscal year 2003 the President has requested $1,212,000,000 for the Clean Water State Revolving Fund (CWSRF), the largest request since fiscal year 1997. At the $1,212,000,000 funding level, and without further capitalization, the CWSRF would revolve at an average of $2.22 billion annually between 2010 and 2035. The CWSRF long-term revolving level, which includes loan repayments, is the projected average annual amount of funds available to states for clean water infrastructure. Because the CWSRF has been well-capitalized over the years, changes in the appropriated level do not significantly affect the revolving level.

WATER INFRASTRUCTURE: WATERY SECURITY IMPROVEMENT

Question. Water utilities are facing enormous burdens in meeting water regulations and upgrading aging infrastructure. Now, they're also facing needs to improve security. What is EPA doing to help wastewater and drinking water utilities improve security

—of their physical infrastructure?

—of the chemicals they use?

Answer. EPA is working with other Federal agencies, states, tribes and utilities to improve water security with the goal of "making the most systems safest soonest." To achieve this goal, the Agency and its partners are working to: (1) accelerate the development and testing of counter terrorism tools, such as vulnerability assessment methods; (2) train utilities in the development of vulnerability assessments and emergency operations plans; (3) provide needed technical and financial assistance to utilities conducting vulnerability assessments and other security-related work; (4) identify research needs and conduct research on topics such as detection technologies, potential contaminants, and treatment effectiveness for water collection and treatment systems; and (5) test new technologies and disseminate information on their application.

EPA currently is reviewing grant applications to conduct vulnerability assessments at the approximately 400 largest drinking water systems nationwide, and plans to award $53 million for these assessments by the end of July 2002. EPA also is working with its partners to support assessments at the Nation's small and medium-sized drinking water systems. Vulnerability assessments are designed not only

to identify weaknesses in the physical infrastructure of water systems, but also in the protocols for safeguarding the chemicals used in water treatment processes. In subsequent years, EPA will revise the training and tools it provides to utilities based on (1) the new monitoring and detection technologies under development, and (2) new approaches to continuously improve water security as a result of utilities' experience conducting vulnerability assessments.

WATER INFRASTRUCTURE: METHODS FOR DETECTING SECURITY VIOLATIONS

Question. What is EPA doing to help water systems develop methods for detecting security violations like contaminants in the drinking water?

Answer. Through $2 million of the fiscal year 2002 Supplemental Appropriation, and $500,000 in fiscal year 2002 earmarked funds, the Agency currently is supporting the development of water security-related detection, monitoring and treatment tools. There are several initiatives underway or in the planning phase for fiscal year 2002. Specifically, EPA is:

Supporting research by the University of North Carolina at Greensboro to research real-time detection methods for pathogens.

Co-sponsoring a detection technologies conference at Rutgers University in June. This was a forum where water utilities, regulatory agencies and scientific researchers could discuss needs and solutions to issues in water safety and security related to real-time monitoring and modeling.

Developing a water security technology verification and outreach program to verify the performance of innovative technical solutions to intentional contamination that threatens human health or the environment. This program is designed to accelerate the entrance of new environmental technologies into the domestic and international marketplace.

HOMELAND SECURITY: STATUS OF FUNDING FOR HOMELAND SECURITY AND ACTIVITIES UNDERTAKEN

Question. Congress provided $176 million in the 2002 Supplemental for EPA Homeland Security efforts. What is the status of this funding? What specific activities has EPA undertaken?

Answer. Of the $176 million EPA received the Emergency Supplemental, $12.5 million was for partial reimbursement for the Capitol Hill anthrax cleanup. An additional $5.5 million was allocated to establish a western branch of the Environmental Response Team in Las Vegas, NV improving our ability to provide timely technical expertise to emergency situations nationwide. $23 million has been primarily allocated to our ten regional emergency response centers, to provide response staff, equipment and contract support, with the goal of developing sustained response capability throughout the country. EPA also received $1.5 million and 2 FTE as part of the fiscal year 2002 Emergency Supplemental for Homeland Security research. EPA has used these resources to: (1) evaluate the performance of drinking water treatment systems for their ability to cost-effectively remove inactive biological and chemical agents; (2) work with State and Federal agencies to coordinate research efforts and (3) prepare for the implementation of the proposed Homeland Security research in 2003.

EPA's Office of Administration and Resources Management (OARM) is responsible for leading and managing physical security efforts at EPA's facilities nationwide. Under the President's Supplemental Counter Terrorism Budget, OARM is being appropriated $30 million for physical security improvements, including vulnerability risk assessments, guard services, equipment, communications systems, and window enhancements. OARM has obligated 6 percent of the $30 million as of May 20, 2002. These funds were used for conducting vulnerability risk assessments at EPA facilities nationwide, procuring additional security guard services nationwide, purchasing and installing a smart card system at EPA's Region 2 Office in New York City, and purchasing and installing an integrated emergency communications system at EPA's Federal Triangle Complex in Washington, DC.

The Acute Exposure Guideline Levels (AEGL) Program was established to develop short-term exposure limits applicable to the general population for a wide range of extremely hazardous substances for purposes of chemical emergency response, planning, and prevention related to chemical terrorism and chemical accidents. EPA would use Supplemental Homeland Security funding to accelerate the development of guidelines in 2002 and beyond.

EPA's Office of Pollution Prevention and Toxics (OPPT) is participating in national and international efforts to develop one standardized set of scientifically sound short-term exposure values. EPA also planning to use Supplemental Homeland Security funding to initiate work in concert with the International Chemical

Weapons Convention (CWC) to identify and fill analytical gaps in the assessment of potential risks of chemicals potentially used in the manufacture of chemical weapons. EPA would offer Structure Activity Relationship expertise to assist in expanding the information available on CWC-listed chemicals to include chronic toxicity and ecotoxity aspects, would expand its work in the Green Chemistry program to include CWC-listed chemicals in tools (e.g., expert systems), and broaden the Green Chemistry Challenge program to identify alternatives to CWC-listed chemicals.

$89 million in supplemental appropriations was provided for water infrastructure protection. It has been allocated as follows.

$53 million for water security planning grants for the largest drinking water utilities that regularly serve populations over 100,000. Collectively, these large systems provide drinking water to nearly half of Americans served by public water systems. Over 380 applications from publicly owned drinking water utilities were received. EPA plans to approve all eligible grants by the end of July.

$23 million to address the needs of small and medium-size utilities. EPA is working with the industry, environmental groups, and the states to define the best approach for providing these utility systems with awareness training, technical assistance, vulnerability assessment tools, and capacity building.

$5 million in grants to support State, tribal, and territorial counter-terrorism coordination (from State/Territorial Assistance Grants). EPA Regions are now working with states to award these funds.

$2 million for investigation of security-related detection, monitoring and treatment tools.

$3 million for wastewater tool development, training on vulnerability assessments and emergency operations, technical assistance, and investigation of treatment and detection tools.

Nearly $2 million for additional needs, including training of public health officials, local government, law enforcement, and support for the information sharing and analysis center.

HOMELAND SECURITY: PROGRESS FOR IMPROVING HOMELAND SECURITY

Question. What progress has been made in improving homeland security with this spending?

Answer. The Environmental Response Team (ERT) is EPA's premier technical support group for emergency response operations; historically, the team has been based in Edison, NJ, with a small annex in Cincinnati. We are nearing the completion of establishing a western ERT branch in Las Vegas, NV, which will improve EPA's coverage of the western half of the country, as well as build staff capacity in specific technical areas, such as bio-hazard assessment and remediation.

One of the lessons we learned from the 9/11 events and the anthrax incidents was that our response capacity was dangerously low; we were forced to draw on resources from all ten of our regional emergency response programs and curtail other time-critical response work. The fiscal year 2002 supplemental budget provides each region with an additional five response personnel and approximately $1.6 million in funds for equipment and contract support, increasing our overall response capacity by 20 percent.

The resources received in fiscal year 2002 for Homeland Security research also helped EPA to prepare for the efficient use of the $75 million requested in fiscal year 2003 for Homeland Security research. This preparation will allow for quicker and more effective development and certification of new methods as well as techniques for detecting, treating, disposing, and understanding how best to manage buildings contaminated with biological or chemical agents.

Office of Administration and Resources Management (OARM) is in the process of conducting vulnerability risk assessments at EPA's 146 facilities nationwide. These assessments will provide EPA with the current physical security conditions at its facilities, including identifying and documenting vulnerabilities and risks, assessing human threat, and determining the overall qualitative risks as it relates to perimeter security, entrance and exit security, interior security, and security planning. Based on the findings from the assessments, OARM will develop recommendations and cost estimates to mitigate the risks, and implement mitigation and countermeasure efforts, where appropriate.

OARM is using a phased approach in conducting these assessments, where our more critical facilities are assessed first and the less critical facilities are assessed last. To date, we have completed site visits at 50 facilities and laboratories nationwide, and completed 25 reports of findings. We are currently in the process of ranking and prioritizing the risks associated with our most critical facilities, and expect to make funding decisions in June 2002. This funding will be used to purchase addi-

tional guard services, equipment, and communications systems. OARM plans to continue this process until we complete the assessments and mitigate the vulnerabilities at all our facilities nationwide.

EPA's Water Protection Task Force and Regional Offices, working with many partnering organizations, are taking actions to improve the security of the nation's drinking water and wastewater infrastructure. The actions underway:

To date, the Task Force has:

—Supported development of vulnerability assessment tools (developed by Sandia/AWWA, and AMSA) and released emergency operations planning guidance;

—Trained thousands of water utility personnel on security planning and vulnerability assessment methodologies;

—Completed an assessment of the State of knowledge on technologies to detect contaminants, monitoring protocols and techniques, and treatment effectiveness.

On-going actions include:

—Providing technical assistance, training, and capacity building tailored to the needs of small and medium drinking water, and wastewater utilities;

—Supporting information sharing between government organizations and industry by funding start-up of a secure Information Sharing and Analysis Center;

—Supporting research to improve treatment and detection methods.

HOMELAND SECURITY: DEVELOPMENT OF OUTCOME-BASED MEASURES AND SPECIFIC SPENDING PLANS

Question. Has EPA developed outcome-based measures and specific plans to assure that this spending will improve the security of our homeland?

Answer. Prior to the events of last fall, EPA had undertaken a comprehensive review of the agency's Emergency Response Program, developing standards and measures to ensure a high degree of consistency and responsiveness in regional response operations. Subsequent to the terrorist responses, we took the lessons learned from those actions and integrated them into the overall response program framework. This effort will be reflected in the Agency's GPRA measures for the fiscal year 2003 enacted budget, as well as the fiscal year 2004 President's Budget.

EPA has also developed goals and measures to support all aspects of the draft Agency Homeland Security Strategy to help ensure efficient and effective spending.

EPA's goal for water infrastructure security is to get the most systems as secure as possible as soon as possible. EPA works closely with utility organizations, the states, and security experts to identify the most effective approaches and tools needed to improve the security of the nation's critical water infrastructure.

EPA has developed a new Annual Performance Goal in its fiscal year 2003 President's Budget request to track development of Acute Exposure Guideline levels (AEGL) for additional chemicals. The measures are quantitative, so they will clearly identify the additional numbers of chemicals and guidelines developed each year. Additionally, EPA is continuing to review the program activities and has identified areas for improvement, including development of health and safety plans for select agent, developing occupational and medical monitoring plans, addressing containment issues, securing laboratory space and identifying and tracking samples.

HOMELAND SECURITY

Question. How does EPA plan to spend the additional $124 million requested in fiscal year 2003?

Answer. EPA Superfund plans to continue to improve the emergency response program by insuring that the additional capacity and technical capability that were first funded in fiscal year 2002 will be maintained in fiscal year 2003 and beyond(including both the ERT-West operation and regional and HQ response program improvements).

EPA requested $75 million for Homeland Security research. Work will focus on five main areas: detection of contaminants, containment of contaminants, decontamination of indoor materials, disposal of contaminated clean-up equipment and supplies, and risk communication including the transfer of improved methods to users. Before initiating efforts in any of these areas EPA will survey the private sector and other agencies and organizations to assess existing capabilities and where possible work to bring that technology, information or process to those who need it. Where others have already established a lead in a given area, EPA can defer to that organization. In other cases, a collaborative working relationship may be best suited. A leadership role may also be appropriate for EPA.

EPA has requested $22 million in fiscal year 2003 for critical water infrastructure protection. $17 million of the request will support continued work to: develop tools and training for small and medium drinking water utilities to complete vulnerability

assessments; develop and enhance emergency response plans, and; develop and disseminate detection, monitoring and treatment technologies. $5 million of the request will be directed to states to support state-level coordination of homeland security activities with EPA and drinking water utilities.

HOMELAND SECURITY: ANTHRAX DECONTAMINATION SPENDING

Question. How much did EPA spend on this effort? Did this funding come from the Superfund program?

Answer. EPA has expended over $28 million for Capitol Hill response out of its Superfund removal program.

In general, the USPS, other government agencies and privately owned facilities, such as the America Media, Inc. site in Florida, are funding their own cleanups. EPA is providing technical assistance from our On-Scene Coordinators, our Environmental Response Team, and other personnel. EPA estimates that it has spent approximately $2 million for anthrax cleanup and technical assistance at sites other than the Capitol Hill Complex.

Estimated costs for OPPT in fiscal year 2002 are approximately $900,000. These funds were not provided from the Superfund program, they are being paid by the pesticides program.

HOMELAND SECURITY: ANTHRAX DECONTAMINATION FULL REIMBURSEMENT

Question. How much more does EPA need in order to be fully reimbursed?

Answer. EPA has expended over $28 million for Capitol Hill response out of its Superfund removal program. The fiscal year 2002 Supplemental Appropriations bill reimbursed EPA for $12.5 million of that. The Administration has requested an additional $12.5 million in reimbursement.

HOMELAND SECURITY: LESSONS LEARNED FROM THE ANTHRAX DECONTAMINATION AT THE HART BUILDING

Question. What "lessons learned" can EPA provide about the anthrax decontamination at the Hart building?

Answer. We verified that our basic response infrastructure and authorities are sound, and that our regional response programs are up to the task of mitigating new and unique threats to public health. We also learned that we need to enhance and develop our short term assessment and mitigation methods.

HOMELAND SECURITY: PROGRESS MADE ASSURING CLARITY OF ROLES AND SAFETY

Question. What progress has EPA made in assuring clarity in: Who is in charge?

Answer. We believe the basic roles and responsibilities defined by the Federal Response Plan, the National Contingency Plan and PDDs 39 and 62 are clear and do not need further amendment. However, the execution of these authorities may be compromised by inconsistent application in different situations; we have discussed this with the Office of Homeland Security and are hopeful that clarifying guidance will be forthcoming.

The National Response Team has established an ad hoc committee, which includes EPA, CDC, OSHA, USCG and other agencies, to consolidate and coordinate civilian and military expertise on detecting and cleaning up anthrax contamination. This committee is close to completing an interim final technical assistance document that begins to address this issue for anthrax. Lessons learned by this group will be applied to broader efforts to address risk-based decision making in other scenarios involving chemical or biological terrorism. We believe the continuing dialogs and related improvements in cross-agency coordination in this area will improve our ability to make definitive cleanup decisions in the future.

Question. How clean is safe?

Answer. The risk-based response protocols established by the Superfund program provide a solid foundation for making site-specific cleanup decisions, but these decisions must be informed by improved government-wide understanding of the nature of biological risks. We believe the continuing dialogs involving EPA, CDC and other agencies will improve our ability to make definitive cleanup decisions in the future.

PHARMACEUTICAL POLLUTION OF WATERWAYS

Question. A recent study by the USGS found trace pharmaceuticals in 80 percent of streams analyzed. What is EPA's role in looking at the possible effects of drug wastes on the environment? Is EPA looking at how these contaminants affect drinking water?

Answer. EPA has statutory responsibilities under the Clean Water Act and the Safe Drinking Water Act to evaluate the environmental and human health risks of pollutants, including pharmaceuticals and personal care products (PPCPs) , and to determine whether ambient water quality criteria or drinking water standards are needed. In response to this mandate, EPA is focusing on collecting and evaluating occurrence data in water sources to assess potential ecological and human health risks. Based upon the risk assessments, EPA will develop intra- and inter-agency research strategies for future research. EPA has been exploring the effect of chlorination (which is commonly used to treat both waste water and drinking water) on selected pharmaceuticals to determine if the process is effective at removing the compounds from the water, as well as what by-products are formed. This data was presented at the Society of Environmental Toxicology and Chemistry (SETAC) annual meeting in November 2000, and is currently being summarized for publication in fiscal year 2002. In addition, EPA has previously funded several PPCP-related research projects, including aquatic effects studies through the Sceince to Acheive Results (STAR) program. Information on these projects is available at: http://www.epa.gov/nerlesd1/chemistry/pharma/star.htm The EPA also hosts the world's only web site devoted to environmental issues associated with PPCPs (http://www.epa.gov/nerlesd1/chemistry/pharma/index.htm.

Question. As a result of the recent study, FDA said it would take a closer look at the effects on the environment. Is EPA working with FDA on this issue?

Answer. EPA and FDA staff interactions have resulted from joint participation in organizing a scientific session devoted to PPCPs (the 2000 American College of Toxicology Annual Meeting) and from FDA review of EPA PPCP-related presentation materials. EPA plans to engage FDA in the development of an inter-agency research strategy to establish risk-based research priorities and opportunities for inter-agency collaborations.

Question. The U.S. Geological Survey is also looking at how these contaminants might affect drinking water. Is EPA working with USGS?

Answer. EPA has collaborated and co-authored published papers with USGS on a Neuse River Basin, North Carolina, field study to develop better measurement methods and to collect occurrence data for antibiotic and endocrine disrupting compounds near animal feeding operations. EPA is currently collaborating with USGS on a project using pharmaceuticals, as well as other chemicals found in human waste streams (e.g, detergents, surfactants), as tracers of human fecal contamination. As part of this work, samples will be taken upstream, at the point of discharge, and at two points downstream of waste water discharges. This data should provide information about the lifetime of pharmaceuticals in the environment (i.e, are they found one mile downstream from the discharge point, or are they removed/reduced due to effects such as photo- or bio-degradation, sedimentation, and dilution), which will be useful for exposure assessment. The EPA and USGS staff have also been collaborating by exchanging information, reviewing each other's documents, and collaborating on research. EPA–USGS collaborated on the research project: "Analytical Chemistry for Mapping Trends of Pharmaceutical and Personal Care Product Pollution from Personal Use: Some Current Research and Future Needs."

Question. Is EPA developing technologies for ways to remove these contaminants from drinking water?

Answer. EPA is evaluating the removal of steroid hormone compounds by various drinking water treatment processes. In the future, a group of nonylphenolic compounds and additional pharmaceuticals will also be added. Analytical methods to identify and quantify the steroid hormones will be developed, and a reporter gene assay, the MVLN assay, will evaluate the removal of estrogenic activity from the water samples. Once the analytical and MVLN assays are in place, bench, pilot, and field-scale evaluations of various drinking water treatment processes will be conducted. Of special interest are technologies amenable to small systems. To reduce the need for treatment, EPA also is considering ways to minimize the occurrence of PPCPs in drinking water sources, such as encouraging safer disposal of discarded pharmaceuticals.

Question. Is there any funding in the budget related to these efforts?

Answer. In the fiscal year 2003 President's Budget, EPA requested approximately $1.2 million and 11 FTE for PPCP research. This includes work focusing on collecting and evaluating occurrence data in water sources to assess potential ecological and human health risks, developing intra- and inter-agency research strategies to determine risk-based priorities for future research, the effects of chlorination on selected pharmaceuticals to determine if the process is effective at removing the compounds from the water as well as evaluating the removal of steroid hormone compounds by various drinking water treatment processes.

ENVIRONMENTAL EDUCATION: RATIONALE FOR ELIMINATION OF APPROXIMATELY $10M FROM K–12 ENVIRONMENTAL EDUCATION

Question. The budget proposes to eliminate approximately $10 million for K–12 environmental education. What is the rationale for this cut?

Answer. The President's fiscal year 2003 budget transfers the Agency's Environmental Education Grant program to the National Science Foundation's (NSF) math and science program. The functions of the EPA's grant program will continue at NSF.

Consolidation of the EPA's Environmental Education program with those of NSF will combine similar programs, improve the services delivered to environmental institutions, and reduce costs. The function of Environmental Education is better served by one agency and NSF is fully capable of administering the requirements of S. 876.

STAR FELLOWSHIP: RATIONALE FOR SHIFT FROM EPA TO NSF

Question. The budget proposes to shift the STAR fellowship program from EPA to NSF. What is the rationale for this shift?

Answer. The President's Budget proposes to strengthen math and science education in the United States by improving the quality of math and science education in grades K–12 and by attracting the most promising U. S. students into graduate level science and engineering by providing more competitive stipends. The President's K–12 math and science initiative and the higher graduate stipends are being funded through the National Science Foundation's (NSF) budget. NSF is noted for its expertise and success in funding competitive programs in math and science. Funding for EPA's STAR Fellowship Program was shifted to NSF in fiscal year 2003 as part of the Federal initiative to strengthen math and science programs.

EPA will continue funding its Minority Academic Institutions (MAI) Fellowships program at $1.5 million in 2003. The Minority Academic Institution (MAI) fellowship program offers undergraduate and graduate fellowships in academic disciplines relating to environmental research, and are intended to help defray costs associated with environmentally-oriented study leading to the bachelor's, master's or doctoral degree. Undergraduate fellows agree to participate for up to 12 weeks at an EPA laboratory/center as a summer intern. Eligible students in both the undergraduate and graduate programs must attend a 4-year U.S. Minority Academic Institution, defined as Historically Black Colleges or Universities (HBCUs), Hispanic Serving Institutions (HSIs), and Tribal Colleges (TCs).

STAR FELLOWSHIP: GRADUATE STUDENTS COMPLETING FELLOWSHIPS?

Question. How would this affect graduate students who are completing their fellowships? Will their funding be canceled?

Answer. No, the STAR fellows funding will not be canceled. EPA presently supports about 200 STAR fellows. The terms of those agreements provide funding for the next 1 or 2 years. EPA plans to fully fund the present fellows for the intended duration of their fellowships. EPA will use fiscal year 2002 resources to fund students presently in the STAR fellowship program through the completion of their fellowships.

STAR FELLOWSHIP: THE STAR PROGRAM?

Question. How does EPA propose to spend 2002 funding provided for the STAR fellowship program?

Answer. EPA will use fiscal year 2002 resources to fund students presently in the STAR fellowship program for the duration of their fellowships.

STAR FELLOWSHIP: CITATION

Question. Please provide the citation within the NSF budget where this program is proposed to be funded in 2003.

Answer. Resources for the STAR Fellowship Program, previously funded by EPA, were redirected to the National Science Foundation (NSF), though the program itself was not transferred. No funding exists within the NSF Budget for the STAR Fellowship program. Funding to graduate students pursuing studies in some of the environmental sciences supported by EPA is available through existing well-established graduate research fellowship and traineeship programs in NSF. These programs are discussed on pages 285–286 of NSF's fiscal year 2003 Budget Justification to Congress.

STAR FELLOWSHIP

Question. If NSF takes over this program, would it remain as a separate program focusing on the environmental sciences, or would it be folded into NSF's other science education programs?

Answer. As mentioned above, EPA's STAR Fellowship Program was not transferred to NSF. However, NSF does provide financial assistance to graduate students across the nation studying scientific disciplines through existing well-established graduate research fellowship and traineeship programs. Graduate students pursuing degrees in a subset of the environmental sciences who previously sought EPA's financial assistance may apply to these NSF programs.

BROWNFIELDS: QUESTIONS RAISED CONCERNING EFFECTIVE USE OF FUNDING

Question. Recent reports by the House Energy and Commerce Committee (Nov. 2000) as well as GAO (Dec. 2000) and the EPA Inspector General (Sept. 2000) all raised serious questions about whether past funding for the program had been effectively used. Specifically, few cleanup loans had been made, and EPA could not demonstrate what tangible results had been achieved with the funding that had been provided. Have these past problems been corrected? If so, how?

Answer. EPA has responded to the recommendations in numerous ways. EPA has clarified certain critical requirements and streamlined them. Currently 143 Brownfields Cleanup Revolving Loan Funds Pilots (BCRLF) have been selected. In addition, EPA has deobligated eleven BCRLF where progress has not been made by the recipient in making loans. Recent improvements to the BCRLF program include the development of model documents and a marketing guide.

In the past year, the number of loans being made by BCRLF pilots has more than doubled to 17 loans with an additional three expected within the next quarter and more under discussion with EPA regions. We attribute the lag in community participation in this program to a number of factors, including lack of familiarity with the program requirements and the limited competitiveness of Federal funds that require recipients to comply with all Superfund requirements. Improved outreach on the part of the EPA Brownfields program, increased understanding of this program, and the increasing competitiveness of these funds has increased the rate of loans being made in the last year. We anticipate that communities will continue to find the BCRLF funds attractive when combined with other public and private resources.

Most importantly however, the new legislation signed by President Bush on January 11, 2002, the Small Business Liability and Brownfields Revitalization Act, provided significant relief to the program from its current regulatory burdens. The new Act provides that the EPA may determine which specific provisions of the Superfund National Contingency Plan are applicable to the brownfields program and thus use only provisions which are needed in implementing the program. EPA's Legislative Implementation work group is developing a transition guidance to outline the requirements of the new law. This will assist grant recipients in determining whether to choose to take advantage of the new statutory provisions. We anticipate that many grant recipients will take advantage of the new statutory provisions and a substantial increase in loans and/or cleanup subgrants will result from the transition.

BROWNFIELDS: INCREASE IN FUNDING FOR FISCAL YEAR 2003

Question. How will the large increase in funding for fiscal year 2003 be used effectively?

Answer. Increased funding will be focused upon several significant areas. These areas include increasing the number of grants, and supplemental funding for existing grantees for assessment and brownfields cleanup revolving loan funds. New grant categories are also created by the legislation including direct and indirect grants for cleanup and funding for assessment and cleanup of petroleum-contaminated properties. In addition, funding to the fully authorized ceiling has been requested for State and tribal response programs.

ROLES AND RESPONSIBILITIES OF EPA'S REGIONAL OFFICES: WORKFORCE ANALYSIS AND PROJECTIONS

Question. Different regions do their jobs in different ways, in terms of the levels of effort they apply to enforcement actions, technical compliance assistance, community outreach efforts, and so forth. OMB has asked all agencies, including EPA, to provide workforce statistics now and as they would see their workforces changing over the next 5 years. What is the status of EPA's workforce analysis for OMB, and what do the workforce projections show?

Answer. The Agency submitted the Workforce Analysis to OMB on June 29, 2001 in response to OMB Bulletin 01–07. Projections included in that report show a changing workforce in age and other demographics. By 2005, 25.6 percent of the workforce will be eligible for voluntary, FERS 10-year, or Law Enforcement Officer retirement.

ROLES AND RESPONSIBILITIES OF EPA'S REGIONAL OFFICES: ANALYSIS PERFORMED TO DETERMINE SIZE OF REGIONAL OFFICES

Question. Has EPA performed an analysis to determine the appropriate size of the regional offices? If not, will such an analysis be done?

Answer. The Agency has not completed an analysis to determine the appropriate size of regional offices, and does not plan such a specific study. However, EPA is undertaking an Agency study to determine the competencies necessary to meet mission needs in the future which may in turn have organizational impacts. The resultant workforce planning system from this study is to be available for EPA line manager's use second quarter of fiscal year 2004.

ROLES AND RESPONSIBILITIES OF EPA'S REGIONAL OFFICES:

Question. Has or will the issue of different regional approaches to carrying out EPA's responsibilities be addressed?

Answer. The Agency has not completed an analysis of various regional approaches. The Agency will, however, continue to examine how to best perform EPA's responsibilities.

QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER S. BOND

COMPLIANCE ASSISTANCE: LIST OF RULES FOR DEVELOPING COMPLIANCE ASSISTANCE TOOLS

Question. List the rules currently considered economically significant for the purposes of developing compliance assistance tools? Provide the rule finalization date and the status of any tools development for rules finalized or to be finalized by December 2002.

Answer. EPA develops compliance assistance tools for rules that have an economic impact of $100 million or more on companies and/or government facilities or other rules, as appropriate. EPA also develops compliance tools for rules that have a significant economic impact on a substantial number of small entities as defined under the Small Business Regulatory Enforcement Fairness Act.

The potential universe of regulations for which compliance guides may be developed is continually changing based on changes to specific provisions of a regulation and subsequent economic analysis. Also, changes in rule finalization dates alter the compliance tool schedule. Extensions in developing compliance tools are allowed because of factors such as resource constraints, providing for greater stakeholder involvement, or demands of other work.

For the purposes of this response, Attachment A contains information, as of May 22, 2002, on the three economically significant rules finalized or expected to be finalized by December 2002.

COMPLIANCE ASSISTANCE—LIST OF RULES FOR DEVELOPING COMPLIANCE ASSISTANCE TOOLS

Regulation	Projected/Actual Final Publication Date	Projected/Actual Compliance Tool Completion Date	Estimated Compliance Tool Cost
Office of Air and Radiation:			
Emissions from Nonroad Spark-Ignition Engines and Standards for Recreational Spark Engines (Contact: A. Stout, 734–214–4805).	September 2002	December 2002	Uncertain [1]
Office of Prevention, Pesticides and Toxic Substances:			
Groundwater and Pesticides Management and Plan Rule (Contact: A. Williams, 703–305–5239).	September 2002 [2]	December 2002	Not Applicable. See Note 2

COMPLIANCE ASSISTANCE—LIST OF RULES FOR DEVELOPING COMPLIANCE ASSISTANCE TOOLS—Continued

Regulation	Projected/Actual Final Publication Date	Projected/Actual Compliance Tool Completion Date	Estimated Compliance Tool Cost
Office of Water:			
National Primary Drinking Water Regulations: Arsenic and Clarifications to Compliance and New Source Containment Monitoring (Contact: A. Bielanski, 202–564–3824).	January 2001	June 2002	$52,000

[1] EPA will work with the regulated community to develop the appropriate compliance assistance tool. EPA expects to use in-house resources to complete the tool.
[2] The Projected Final Publication date is delayed until the end of fiscal year 2002. The delay is allowing EPA to explore potential modifications to the proposed final regulation to address issues raised by the regulated community and co-regulators.

COMPLIANCE ASSISTANCE: ESTIMATE OF COST TO DEVELOP COMPLIANCE ASSISTANCE TOOLS

Question. Provide an estimate of the cost of developing compliance assistance tools for each economically significant rule finalized or to be finalized in 2002?

Answer. The costs associated with developing compliance assistance tools for economically significant rules vary significantly. Cost variations are based on the type of technical issues associated with the substantive requirements of a rule, the degree of experience that the regulated community has in dealing with environmental rules, and the diversity of the regulated community (e.g., need for bilingual assistance materials). In addition, cost variations arise because of the multiple ways in which information exchanges occur with the regulated community, including face-to-face training and delivery of information via computer-based technology. Cost variations are also associated with whether EPA develops a compliance guide within the agency or uses contractor assistance to develop the guide. Attachment A contains information on the cost associated with each completed compliance guide for economically significant rules or estimated costs for upcoming compliance guides.

COMPLIANCE ASSISTANCE—ESTIMATE OF COST TO DEVELOP COMPLIANCE ASSISTANCE TOOLS

Regulation	Projected/Actual Final Publication Date	Projected/Actual Compliance Tool Completion Date	Estimated Compliance Tool Cost
Office of Air and Radiation:			
Emissions from Nonroad Spark-Ignition Engines and Standards for Recreational Spark Engines (Contact: A. Stout, 734–214–4805).	September 2002	December 2002	Uncertain [1]
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Groundwater and Pesticides Management and Plan Rule (Contact: A. Williams, 703–305–5239).	September 2002	December 2002	Not Applicable. See Note 2
Office of Water:			
National Primary Drinking Water Regulations: Arsenic and Clarifications to Compliance and New Source Containment Monitoring (Contact: A. Bielanski, 202–564–3824).	January 2001	June 2002	$52,000

[1] EPA will work with the regulated community to develop the appropriate compliance assistance tool. EPA expects to use in-house resources to complete the tool.
[2] The Projected Final Publication date is delayed until the end of fiscal year 2002. The delay is allowing EPA to explore potential modifications to the proposed final regulation to address issues raised by the regulated community and co-regulators.

COMPLIANCE ASSISTANCE: RANKING OF TOP TEN COMPLIANCE ASSISTANCE NEEDS

Question. Provide a ranking of the top 10 compliance assistance needs and identify the criteria used for the ranking such as risk of environmental damage or susceptibility of the problem to compliance assistance techniques.

Answer. EPA integrates compliance assistance as appropriate when addressing national enforcement and compliance assurance priorities, newly promulgated regulations, and special needs of specific industry sectors. OECA has also developed guidelines for staff to use in reviewing the regulatory agenda to determine whether new or upcoming rules would be good candidates for compliance assistance. Attachment A contains these guidelines for determining rules which are good candidates for compliance assistance.

National priorities are environmental risks or noncompliance patterns that can often be addressed using compliance assistance in combination with compliance incentives, inspections and investigations, and enforcement actions. Decisions about whether to use assistance to address specific national priorities are based on the nature and complexity of the regulatory requirement, the compliance history of the industry sector(s) to which the requirement applies, the capacity of the sector to receive and utilize assistance, and whether assistance can be effective (by itself or in combination with other tools) in increasing compliance or reducing risks associated with a specific priority.

Compliance assistance needs are also identified through consultation with industry sectors about the compliance challenges confronting these sectors. This consultation can result in development of tailored compliance guides and creation of sector-based online compliance assistance centers.

GUIDELINES FOR SCREENING NEW RULES FOR COMPLIANCE ASSISTANCE

Screening Guidance

As you are reviewing the list of Tier I, Tier II and Tier III proposed rules, consider the following factors in determining whether the proposed regulations are good candidates for compliance assistance.

Compliance Assistance Required

Is the rule an "economically significant rule?" (impact of 100M or more on regulated community. See RFA (Regulatory Flexibility Act)/SBREFA tracking report in RAPIDS (Rule and policy Information Development System) or the Rule Tiering Forms.)

—Compliance guide, fact sheet or expert system required by Aiming for Excellence Report

Is the rule a "SBREFA rule?" (rule has a significant impact on substantial number of small entities. See RFA/SBREFA tracking report in RAPIDS or Rule Tiering Forms)

—Compliance guide required under Small Business Regulatory Enforcement Fairness Act (SBREFA))

Possible Candidate for Compliance Assistance

Does the rule impact a sector with a large number of small businesses who may lack the resources/ability to obtain compliance assistance on their own? (See RAPIDS for list of rules that impact small businesses but don't meet SBREFA threshold or check SBA guidance on definition of small business)

—May be candidate for compliance assistance

Does the proposed rule impact a larger number of entities with varying degrees of prior regulatory experience and access to compliance assistance resources?

—May be candidate for compliance assistance

Does the proposed rule embody new or novel concepts to which existing compliance assistance concepts or activities are inappropriate or ineffective?

—May be candidate for compliance assistance

Is the regulated community willing and able to assist EPA in developing compliance assistance tools?

—May be candidate for compliance assistance

Is the sector(s) impacted by the proposed rule on the "emerging sector" list?

—May be a candidate for compliance assistance

Does the rule address an Agency initiative, priority in the Strategic Plan or OECA or program office MOA priority?

—May be a candidate for compliance assistance

Less Likely Candidate for Compliance Assistance

Is the proposed rule concise and easily understood by the regulated community? Does it mirror existing, familiar regulatory approaches that apply to the same regulated community?

—Compliance assistance may not be needed

Does the proposed rule impact a small number of regulated entities that are reasonably expected to be familiar with the regulatory environment and/or have access to existing compliance assistance resources?

—Compliance assistance may not be needed

Does a large proportion of the industry sector(s) affected by the rule belong to a trade association?

—Compliance assistance may not be needed

COMPLIANCE ASSISTANCE: ACTIVITY PLAN

Question. Describe how does the Compliance Assistance Activity Plan direct EPA actions and resources to meet these priority needs?

Answer. The Compliance Assistance Activity Plan is helpful in guiding EPA toward the best opportunities for using compliance assistance. The Plan reflects EPA's continuing efforts to better identify the priority needs for compliance assistance, improve the process for obtaining stakeholder input, engage in dialogue on how best to meet the identified needs, and provide guidance on how to direct resources to the highest priority needs.

COMPLIANCE ASSISTANCE: ANALYSIS OF NEW REGULATORY REQUIREMENTS AND COMPLIANCE ASSISTANCE TOOLS IN FISCAL YEAR 2003

Question. In fiscal year 2003, how will EPA comprehensively analyze its upcoming new regulatory requirements and determine the compliance assistance tools most likely to help bring about compliance with those requirements?

Answer. EPA will continue to utilize the mechanisms developed in prior years for determining needed compliance assistance tools to address upcoming regulatory requirements. One mechanism EPA uses for continuing the compliance assistance needs discussions with its partners is the National Compliance Assistance Forum. Discussions and information provided at the Forum have been used to identify compliance assistance needs and provide input on EPA's National Compliance Assistance Activity Clearinghouse (Clearinghouse) and the Annual Compliance Assistance Activity Plan. Another vehicle for assessing compliance assistance needs comes from EPA's work with the Compliance Assistance Advisory Committee (CAAC) which is a component of the National Advisory Council for Environmental Policy and Technology (NACEPT). These efforts not only support the development of compliance assistance tools, but they also provide a forum to assess the effectiveness of EPA's compliance assistance efforts. Through all of these activities EPA is comprehensively analyzing forthcoming regulatory requirements to identify which are best suited to compliance assistance.

Based on discussions with stakeholders, EPA has also decided to identify, through the rule development process, rules that have an "economically significant" impact on the regulated community, defined as $100 million or more, and EPA may develop compliance guides for those rules as appropriate. Similarly, as mandated by the Small Business Regulatory Enforcement Fairness Act (SBREFA), based on the regulatory flexibility analysis conducted early in the rule development process, EPA develops plain English compliance assistance guides for all SBREFA rules. OECA has also developed guidelines for staff to use in reviewing the Regulatory Agenda to assess whether regulations would be good candidates for compliance assistance. Attachment A contains these guidelines for identifying compliance assistance candidates.

GUIDELINES FOR SCREENING NEW RULES FOR COMPLIANCE ASSISTANCE

Screening Guidance

As you are reviewing the list of Tier I, Tier II and Tier III proposed rules, consider the following factors in determining whether the proposed regulations are good candidates for compliance assistance.

Compliance Assistance Required

Is the rule an "economically significant rule?" (impact of 100M or more on regulated community. See RFA (Regulatory Flexibility Act)/SBREFA tracking report in RAPIDS (Rule and policy Information Development System) or the Rule Tiering Forms.)

—Compliance guide, fact sheet or expert system required by Aiming for Excellence Report

Is the rule a "SBREFA rule?" (rule has a significant impact on substantial number of small entities. See RFA/SBREFA tracking report in RAPIDS or Rule Tiering Forms)

—Compliance guide required under Small Business Regulatory Enforcement Fairness Act (SBREFA))

Possible Candidate for Compliance Assistance

Does the rule impact a sector with a large number of small businesses who may lack the resources/ability to obtain compliance assistance on their own? (See RAPIDS for list of rules that impact small businesses but don't meet SBREFA threshold or check SBA guidance on definition of small business)

—May be candidate for compliance assistance

Does the proposed rule impact a larger number of entities with varying degrees of prior regulatory experience and access to compliance assistance resources?

—May be candidate for compliance assistance

Does the proposed rule embody new or novel concepts to which existing compliance assistance concepts or activities are inappropriate or ineffective?

—May be candidate for compliance assistance

Is the regulated community willing and able to assist EPA in developing compliance assistance tools?

—May be candidate for compliance assistance

Is the sector(s) impacted by the proposed rule on the "emerging sector" list?

—May be a candidate for compliance assistance

Does the rule address an Agency initiative, priority in the Strategic Plan or OECA or program office MOA priority?

—May be a candidate for compliance assistance

Less Likely Candidate for Compliance Assistance

Is the proposed rule concise and easily understood by the regulated community? Does it mirror existing, familiar regulatory approaches that apply to the same regulated community?

—Compliance assistance may not be needed

Does the proposed rule impact a small number of regulated entities that are reasonably expected to be familiar with the regulatory environment and/or have access to existing compliance assistance resources?

—Compliance assistance may not be needed

Does a large proportion of the industry sector(s) affected by the rule belong to a trade association?

—Compliance assistance may not be needed

COMPLIANCE ASSISTANCE: ANALYSIS OF PROSPECTIVE ENFORCEMENT ACTIVITIES IN FISCAL YEAR 2003

Question. In fiscal year 2003, how will EPA analyze its prospective enforcement activities to determine where compliance assistance might fill the gaps where the enforcement program does not currently reach?

Answer. EPA will continue to use a problem-solving approach that applies integrated strategies tailored to address specific environmental risks and noncompliance patterns. For some of these problems a period of assistance designed to increase compliance is the best approach. For other problems, assistance combined with incentives for self-policing works best. In other instances, bringing enforcement actions can be used as a tool with compliance assistance. Assistance will be used with inspections, incentive policies, and enforcement actions in combinations appropriate to the problem.

COMPLIANCE ASSISTANCE: DOCUMENTING AND MEASURING ENVIRONMENTAL IMPROVEMENTS

Question. How is EPA documenting and measuring environmental improvements from compliance assistance activities? Provide the results of these efforts.

Answer. EPA is advancing management of environmental improvements from its compliance assistance activities through tracking of outcomes from specific compliance assistance initiatives, surveys of compliance assistance recipients, and by providing grants to states for measurement of assistance outcomes. Beginning in fiscal year 2003, all regional offices are being required to report on the outcomes of compliance assistance projects. These results will be compiled in a national database and analyzed to learn more about the results of assistance. The database will capture outcome measures in three broad areas: (1) understanding of regulatory requirements; (2) changes within the regulatory community to improve environmental performance; and, (3) direct reduction of emissions/discharges.

In 2001, the Compliance Assistance Centers conducted a survey of their users. Ninety percent of the regulated survey respondents reported the Centers helped them understand applicable environmental requirements. Survey respondents indi-

cate that Center information is well used. In fact, 73 percent of the regulated entity respondents took one or more actions as a result of Center use. Actions ranged from contacting a regulatory agency, changing a process or practice, to conducting a self audit. Additionally, 69 percent of the survey respondents indicated a cost savings from actions taken as a result of using a Center. Furthermore, 85 percent of respondents indicated an environmental improvement from actions taken as a result of using a Center. In addition to the survey results, annual usage of the Centers by the target audience has increased three fold since 1998.

To encourage State programs to measure compliance assistance outcomes EPA has awarded approximately $2.3 million in grants to states in the last 2 years. A limited amount of funds are available in fiscal year 2002 for this purpose.

COMPLIANCE ASSISTANCE: STATUS OF TOTAL RESOURCES DEVOTED TO COMPLIANCE ASSISTANCE

Question. What is the status of EPA's efforts to determine total resources devoted across the agency to compliance assistance activities?

Answer. EPA has completed its efforts to determine total resources devoted across the agency to compliance assistance programs. A Compliance Assistance key program was created to track planned resources and FTE for this activity across the Agency.

COMPLIANCE ASSISTANCE: COMPLIANCE ASSISTANCE ANALYSIS IN ANALYTIC BLUEPRINT FOR NEW REGULATIONS IN FISCAL YEAR 2003

Question. In fiscal year 2003, how will EPA ensure that the analytic blueprint for each new regulation includes a compliance assistance analysis?

Answer. Pursuant to the Small Business Regulatory Enforcement Fairness Act (SBREFA), EPA has committed to develop compliance guides for Federal regulations that have a "significant economic impact on a substantial number of small entities." The Agency also develops either a compliance guide or a self-audit checklist for Federal regulations with an "economically significant" impact of $100 million or more on companies and/or government facilities. As of April 5, 2002, there are seven rules for which EPA expects to develop a guide or checklist in calendar year 2002.

Further, Agency guidance requires program offices responsible for "Tier 1 and Tier 2" regulatory actions (i.e., those that require participation of the Administrator's office and those that need cross-media or Assistant Administrator-level involvement) to develop an "analytic blueprint" as an initial step in the regulatory development process. An analytic blueprint is a plan for development of the rule. It identifies the significant issues in the rule and discusses the methodologies that will be used to resolve them. This includes the economic, scientific, technical and intergovernmental information that will be developed; the analyses that are required by law and Executive Order; and, the significant policy issues, including implementation issues, that need to be addressed.

An Agency-wide Task Force on the EPA Regulatory Development Process has reaffirmed the importance of preparing an analytic blueprint. EPA is updating its internal guidance on the preparation of an analytic blueprint, a process which is scheduled to be completed this year. The revised guidance will address implementation issues such as whether the proposed rule will likely require the preparation of a compliance guide or whether other types of compliance assistance tools should be developed.

The analytic blueprint is prepared by the lead Program Office for the rule. As a result of the Task Force recommendations, EPA's Office of Enforcement and Compliance Assurance (OECA) now has the opportunity to review blueprints for, among other things, the analysis of compliance assistance opportunities.

COMPLIANCE ASSISTANCE: RESOURCES FOR IMPLEMENTATION AND PERFORMANCE AND ASSESSMENTS

Question. In fiscal year 2003, how will EPA ensure that each rulemaking working group performs an assessment of the compliance assistance needs associated with the various regulatory options, including an assessment of the resources needed for implementation?

Answer. EPA examines the need for compliance assistance through several different mechanisms throughout the rule development process. The Small Business Regulatory Enforcement Fairness Act (SBREFA) requires EPA to develop compliance guides for Federal regulations that have a "significant economic impact on a substantial number of small entities." The Agency also has decided to prepare either a compliance guide or a self-audit checklist for Federal regulations with an "economically significant" impact of $100M or more on companies and/or government fa-

cilities. The Agency's "1999 Revised Interim Guidance for EPA Rulewriters: Regulatory Flexibility Act as Amended by the Small Business Regulatory Enforcement Fairness Act," directs regulatory workgroups to begin developing compliance assistance guides as early in the process as there is enough information to do so, with a goal to publish the guides within 2 months of promulgation of the rules. This helps ensure timely consideration of resources necessary to implement the guide. The guidance further states that "[i]t remains EPA policy that program offices should assess the direct impact of every rule on small entities and minimize any adverse impact to the extent feasible, regardless of the magnitude of the impact or number of small entities affected."

In addition, the recent Agency-wide Task Force report on the EPA Regulatory Development Process mandates that EPA improve consideration of implementation issues, including the provision of compliance guides, throughout the regulatory development process. This report reaffirms the importance of preparing an analytic blueprint for "Tier 1 and Tier 2" regulatory actions (i.e., those that require participation of the Administrator's office and those that need cross-media or Assistant Administrator-level involvement). An analytic blueprint is a plan for development of the rule. It identifies the significant issues in the rule and discusses the methodologies that will be used to resolve them. This includes the economic, scientific, technical and intergovernmental information that will be developed; the analyses that are required by law and Executive Order; and, the significant policy issues, including implementation issues, that need to be addressed. Revised Agency guidance on the analytic blueprint is scheduled for completion this year. The revised guidance will address implementation issues such as whether the proposed rule will likely require the preparation of a compliance guide or whether other types of compliance assistance tools should be developed and the resources necessary to provide that assistance.

COMPLIANCE ASSISTANCE: TARGETING COMPLIANCE ASSISTANCE TO CONSTITUENCIES IN FISCAL YEAR 2003

Question. In fiscal year 2003, how will EPA better target compliance assistance to constituencies which have not traditionally participated in compliance assistance activities?

Answer. EPA is taking numerous steps to draw more diverse constituents into compliance assistance activities. In particular, EPA is soliciting more input from our stakeholders. The Office of Enforcement and Compliance Assurance (OECA) sponsors the Compliance Assistance Advisory Committee (CAAC), a multi-stakeholder working group of the National Advisory Council for Environmental Policy and Technology to provide input and guidance into the national compliance assistance program. OECA also broadly solicits input into its compliance assurance priorities by holding stakeholder meetings and issuing a Federal Register Notice prior to its selection of priorities. EPA also seeks out new constituents through the annual Compliance Assistance Providers Forum which brings together an array of compliance and environmental assistance providers and industry to collaborate and identify compliance assistance priorities.

COMPLIANCE ASSISTANCE: DOLLARS AND FTE FOR COMPLIANCE ASSISTANCE ACTIVITIES WITHIN AND OUTSIDE OF OECA

Question. Provide the dollars and FTE for compliance assistance activities, within and outside OECA. In meeting this request, provide resource levels from the fiscal year 2002 enacted, fiscal year 2002 actuals, and fiscal year 2003 request. Organize the information by Appropriation, Office or Region, and Activity.

Answer. Provided below are resource and FTE for Agency-wide compliance assistance activities from the enacted fiscal year 2002 operating plan and the fiscal year 2003 President's request by Appropriation and Office. The Agency does not track key programs, including Compliance Assistance, by Activity or by actual obligations.

Appropriation/Office	Fiscal year	
	2002 Enacted Op Plan	2003 President's Budget
EPM	$60,376.3/465.9 FTE	$60,579.2/455.1 FTE
Office of Air and Radiation	1,003.4/5.2 FTE	1,005.6/5.2 FTE
Office of Water	23,940.7/161.2 FTE	24,684.8/162.3 FTE
Office and Pesticides & Toxic Sub.	1,257.2/0.0 FTE	1,257.0/0.0 FTE
Office of Solid Waste/Emerg. Resp.	7,168.3/75.0 FTE	7,168.3/75.0 FTE
Office of Enforcement & Compliance Assistance	25,706.7/206.1 FTE	25,103.5/194.2 FTE
Office of the Administrator	1,300.0/18.4 FTE	1,300.0/18.4 FTE

Appropriation/Office	Fiscal year	
	2002 Enacted Op Plan	2003 President's Budget
S & T	$5,340.6/54.0 FTE	$6,315.0/54.0 FTE
Office of Air and Radiation	5,340.6/54.0 FTE	6,315.0/54.0 FTE
STAG	$2,459.3/0.0 FTE	$2,459.3/0.0 FTE
Office and Pesticides & Toxic Sub.	250.0/0.0 FTE	250.0/0.0 FTE
Office of Enforcement and Compliance Assurance	2,209.3/0.0 FTE	2,209.3/0.0 FTE
LUST	$670.0/5.5 FTE	$689.8/5.5 FTE
Office of Enforcement and Compliance Assurance	670.0/5.5 FTE	689.8/5.5 FTE
OIL	$264.8/1.8 FTE	$271.4/1.8 FTE
Office of Enforcement and Compliance Assurance	264.8/1.8 FTE	271.4/1.8 FTE
TOTAL	69,111.0/527.2 FTE	70,314.7/516.4 FTE

COMPLIANCE ASSISTANCE: CUTS PROPOSED BY FISCAL YEAR 2003—PRESIDENT'S BUDGET FOR COMPLIANCE ASSISTANCE AND CENTERS KEY PROGRAM

Question. Provide a detailed explanation of the cuts proposed in the fiscal year 2003 President's Budget for the Compliance Assistance and Centers key program.

Answer. In fiscal year 2003, EPA is requesting a total of $26,067,900 and 201.5 workyears for the Compliance Assistance and Centers key program. This represents a total reduction of 11.9 workyears and $602,300 from fiscal year 2002. This reduction is part of the Agency's efforts to redirect resources from Federal to State enforcement and compliance programs. The Office of Enforcement and Compliance Assurance (OECA) will reduce development of guidance and policies, and assistance tools by about 3 FTE. The remaining 9 FTE reduces general assistance provided to the regulated community. We expect that the states will use their increased funding to increase the assistance provided to the regulated community on the environmental programs delegated to their states.

ENFORCEMENT: FTE CEILING AND ON-BOARD LEVELS AS OF OCTOBER 1, JANUARY 1, MARCH 1, AND JULY 1 FOR OECA

Question. Provide the FTE ceiling and on-board levels as of October 1, January 1, March 1, and July 1 in each of the last 3 years for OECA, the Office of Regulatory Enforcement, the Office of Compliance, and the Office of Criminal Enforcement, Forensics, and Training.

Answer. The following tables provide the FTE and on-board levels for the Office of Enforcement and Compliance Assurance (OECA), Office of Regulatory Enforcement, Office of Compliance, and the Office of Criminal Enforcement, Forensics, and Training. The workyear ceiling is allocated at the beginning of the fiscal year and did not change during the year. The on-board levels reflect the total number of full and part time employees at the beginning of the pay period close to the dates listed below. It is important to note that the Office of Regulatory Enforcement, Office of Compliance, and the Office of Criminal Enforcement, Forensics, and Training include headquarters FTE only. Regional and headquarters FTE are included in the OECA chart.

OFFICE OF ENFORCEMENT AND COMPLIANCE ASSURANCE (OECA)

Fiscal year	FTE	On-Board Employees			
		Oct 1	Jan 1	March 1	July 1
1999	3,645.6	3,060	3,380	3,368	3,463
2000	3,565.0	3,505	3,449	3,459	3,463
2001	3,536.8	3,404	3,411	3,401	3,420
2002	[1] 3,456.8	3,383	3,304	3,303	3,335 (May 17)
2003	3,311.3				

[1] Fiscal year 2002 includes 50.0 FTE from the emergency supplemental for Homeland Security.

OFFICE OF REGULATORY ENFORCEMENT (ORE)

Fiscal year	FTE	On-Board Employees			
		Oct 1	Jan 1	March 1	July 1
1999	148.1	150	151	151	148
2000	138.9	147	146	145	142
2001	143.5	141	140	143	145
2002	136.8	144	144	144	145
					(May 17)
2003	127.8				

OFFICE OF COMPLIANCE (OC)

Fiscal year	FTE	On-Board Employees			
		Oct 1	Jan 1	March 1	July 1
1999	168.0	169	167	170	173
2000	158.7	171	170	166	158
2001	155.9	158	151	148	144
2002	145.5	145	145	146	148
					(May 17)
2003	135.5				

OFFICE OF CRIMINAL ENFORCEMENT, FORENSICS, AND TRAINING (OCEFT)

Fiscal year	FTE	On-Board Employees			
		Oct 1	Jan 1	March 1	July 1
1999	394.4	404	401	399	399
2000	386.1	390	384	379	370
2001	385.8	364	360	361	360
2002	[1] 454.3	361	363	367	397
					(May 17)
2003	399.8				

[1] Includes 50.0 FTE from emergency supplemental for Homeland Security.

ENFORCEMENT: FEDERAL INSPECTIONS TO AREAS THAT POSE GREATEST RISK TO HUMAN HEALTH OR THE ENVIRONMENT IN FISCAL YEAR 2003

Question. In fiscal year 2003, how will EPA target Federal inspections to the areas that pose the greatest risk to human health or the environment? Discuss the technical tools as well as management attention necessary to ensure inspections focus on the greatest risks to human health or the environment.

Answer. EPA targets Federal inspections for three elements of the national enforcement and compliance assurance program: national priorities, core program areas, and special initiatives.

National priorities are selected as a result of reviewing Agency compliance data systems, feedback from field inspectors, discussions with EPA program offices and State environmental agencies, and comments from external stakeholders. Through this process EPA selects the most important environmental risks and noncompliance patterns. In developing strategies for each of these priorities EPA determines the need for inspections and investigations that will help reduce risks and improve compliance. The priorities for fiscal year 2003 are:

—Clean Water Act—Wet Weather
—Safe Drinking Water ActMicrobial Rules
—Clean Air Act—New Source Review/Prevention of Significant
—Deterioration
—Clean Air Act—Air Toxics
—Resource Conservation and Recovery Act (RCRA)—Permit Evaders
—Petroleum Refining

Core program areas under the 14 Federal laws for which EPA has enforcement authority also receive inspection coverage as part of EPA's national enforcement and compliance assurance program. For example, EPA conducts inspections under the

Clean Air Act and Clean Water Act to ensure an appropriate level of compliance monitoring for basic provisions of these laws.

Inspections are also conducted as part of special initiatives that EPA develops to address specific risks or noncompliance patterns associated with economic sectors, geographic areas, pollutants, or particular regulatory requirements. These initiatives are sometimes developed using tools such as the On-line Targeting System (OTIS), a multi-media database that contains information on approximately one million facilities nationwide. This internal database contains information such as basic facility and permit data, Federal and State enforcement and compliance data (inspections, enforcement actions, significant violations), environmental justice data, and pollutant release information. The data base can be accessed by EPA and State employees, and it helps inspectors identify facilities that consistently pose a threat to human health and the environment by allowing them to review patterns of noncompliance and pollutant emissions by industry sector and geographic location.

ENFORCEMENT: CIVIL ENFORCEMENT ACTIVITIES TO AREAS THAT POSE THE GREATEST RISK TO HUMAN HEALTH OR THE ENVIRONMENT IN FISCAL YEAR 2003

Question. In fiscal year 2003, how will EPA target its civil enforcement activities to areas that pose the greatest risk to human health or the environment? Discuss specifically the role of OECA management in ensuring that OECA civil enforcement efforts remain focused on the greatest risks to human health or the environment.

Answer. For fiscal year 2002/2003, OECA management collaborated with the Headquarters' Program Offices, Regional offices, and State and Tribal agencies in developing national priorities, as delineated in the Office of Enforcement and Compliance Assurance's Memorandum of Agreement (MOA) 2002/2003 guidance. National priorities are selected for a two year cycle. In selecting the national priorities for fiscal year 2002/2003, stakeholders were asked to consider three criteria in their decision making. These three criteria were: (1) risk reduction—program areas or sectors where significant reductions in risks to human health or the environment may be made through concerted Federal attention; (2) noncompliance—consistent patterns of noncompliance in particular programs or sectors where concentrated Federal effort will result in improvement; and, (3) EPA responsibility—identified problem areas or programs that can better be addressed by EPA nationally due to a lack of delegation or State capacity/performance issues.

The six priorities that the Agency selected for the fiscal year 2002/2003 MOA cycle are:

—Clean Water Act—Wet Weather
—Safe Drinking Water Act—Microbial Rules
—Clean Air Act—New Source Review/Prevention of Significant
—Deterioration
—Clean Air Act—Air Toxics
—Resource Conservation and Recovery Act (RCRA)—Permit Evaders
—Petroleum Refining

In addition, much of the Agency's core enforcement and compliance program focuses resources, through long standing enforcement response policies and program guidance, on those violations that present the greatest risk to the environment and human health. As directed by the OECA MOA guidance, each Region develops and submits their MOA work plan each Fall to OECA. OECA management and staff review the activities in each of the Regional work plans to ensure that Regional work supports the national priorities, thereby ensuring that the work of the Regions is focused on the greatest risks to human health or the environment. Division Directors in OECA must concur on each Region's final MOA workplan.

ENFORCEMENT: EPA'S INHERENT CONFLICT BETWEEN DESIRE TO MEET INSPECTION AND CASE OUTPUT PERFORMANCE GOALS AND STRATEGIES

Question. Given that in certain circumstances or sectors regulatory or non-enforcement initiatives or incentives may produce greater benefits to the environment or reductions in pollution than traditional enforcement actions, how will OECA avoid the inherent conflict between its desire to meet inspection and case output performance goals and strategies which may prove more beneficial to the environment?

Answer. EPA takes a problem-solving approach to identifying environmental problems and devising the best strategies to deal with them, focusing on the most effective and efficient ways to use our resources to achieve the best possible environmental results. EPA uses an integrated approach to strategically mix our available tools incentives, compliance assistance, inspections, investigations, settlements in a manner targeted and tailored to particular problems and situations, to produce the most benefit to the public and the environment.

One example of a recent successful integrated approach is the Federal Lead Paint Program, in which EPA identified the significant environmental and public health problem of childhood lead poisoning (48 million homes contain lead-based paint and nearly 890,000 children have elevated lead levels) and partnered with states and HUD to implement a solution in cities across the nation. The strategy uses a mix of tools including dedicated compliance assistance, audit incentives, and focused enforcement to combat the problem.

Specifically, EPA has partnered with State and local agencies to deliver compliance assistance by providing members of the real estate community with compliance assistance packages, sample disclosure forms and information on how to achieve compliance. We have conducted seminars for local State and real estate associations and provided mailings and TV/radio public service announcements. EPA and HUD have taken advantage of the existing framework of EPA's Audit Policy, which allows the disclosure and correction of violations at a substantially reduced penalty, to reach out to landlords in 11 cities across the nation and return them to compliance. EPA, HUD and the Department of Justice have focused their enforcement actions in four major cities Los Angeles, Chicago, New York, and the District of Columbia on large management companies responsible for buildings which were covered by the disclosure rule and had multiple incidents of children with elevated blood levels.

EPA sets annual performance goals for inspections, but not for cases. By setting an annual goal for inspections EPA ensures a presence in the regulated universe, and identifies violations that need to be corrected. There are no performance goals set for cases, as this would establish a quota that might lead to less serious cases taken for the sake of meeting an annual target.

ENFORCEMENT: PROCESS USED TO CHOOSE AND EMPLOY THE MOST EFFECTIVE REGULATORY TOOL

Question. In fiscal year 2003, what process will EPA management use to choose and employ the most effective regulatory tool in a given sector or circumstance—albeit traditional enforcement by OECA, or other approach by OECA or another EPA office including regulatory flexibility, compliance assistance or incentive—to produce the greatest benefit to health of the environment?

Answer. The Office of Enforcement and Compliance Assurance (OECA) uses a problem-solving approach to identify and address environmental risks and noncompliance patterns, and to devise the best ways to deal with them. OECA strategically combines our available tools compliance assistance, inspections and investigations, enforcement and innovative settlements using Supplemental Environmental Projects, and incentives provided by the Agency's self disclosure policies to achieve the desired environmental results. OECA works with other EPA Program and Regional offices, states, the regulated community and public interest groups, as appropriate, to identify and analyze the cause of compliance problems and develop strategies integrating use of all appropriate compliance and enforcement tools to address problems.

OECA currently has four efforts underway to improve and refine identification of environmental problems and development of strategies to address them. First, a pilot project is underway that has established a problem identification and analysis team to review data bases and other information sources for noncompliance patterns. Second, an analysis of industry sectors is being conducted to determine whether there are particular sectors with new or emerging compliance problems. Third, a mechanism for gathering feedback more systematically from field inspectors is being developed to ensure that their experience informs the selection of national priorities and initiatives. Fourth, a work group of senior managers is currently reviewing ways to improve the development and implementation of strategies that integrate assistance, inspections, incentives, and enforcement.

ENFORCEMENT: APPROPRIATE BALANCE, ROLES, AND RESPONSIBILITIES BETWEEN STATE AND FEDERAL ENFORCEMENT AGENCIES

Question. What is the appropriate balance, roles and responsibilities between State and Federal enforcement agencies?

Answer. Enforcement of environmental programs is done in cooperation with states and Indian tribes. States have the primary authority for implementing and enforcing most environmental programs through authorization or delegated authority from the EPA. The EPA's Federal role is to implement and enforce programs that cannot be delegated to States and Indian tribes, to handle more complex cases involving multiple states or corporations with multiple facilities, to deal with issues that require expertise or resources which only EPA can provide, and to enforce when states are unable or unwilling to do so.

ENFORCEMENT: IMPACT OF REDUCTION OF ENFORCEMENT FTES AND ADDITIONAL STATE ENFORCEMENT RESOURCES ON ENFORCEMENT OUTPUT

Question. How will the proposed reduction of enforcement FTE and additional State enforcement resources impact enforcement outputs—Federal, State and total?

Answer. We expect performance results in the national Enforcement and Compliance Assurance program to remain the same, with states picking up an additional increment of that work. EPA and the states have different, but complementary roles when it comes to enforcement of our Nation's environmental laws. States have primary responsibility for implementing and enforcing most environmental programs through delegated authority from the EPA. The EPA's Federal role is to implement and enforce programs that cannot be delegated to states, to handle more complex cases involving multiple states or corporations with multiple facilities, to deal with issues that require expertise or resources that only EPA can provide, and to enforce when states are unable or unwilling to. Given the interplay between the State and Federal programs, we believe the State and tribal enforcement grant program will enhance both State and EPA efforts to increase compliance with environmental laws.

States will be approved for grant funding only if their grant proposal includes specific plans to measure and report on their performance in achieving results. For example, for environmental risks or noncompliance patterns they are addressing with the grant funds, states will need to define performance measures for determining whether they are having an impact (e.g., pollution reductions, improved environmental practices at facilities or within an industry, increased compliance rates). EPA will establish required reporting intervals for states to provide performance information which can be reviewed on a regular basis by EPA.

ENFORCEMENT: IMPACT OF REDUCTION OF ENFORCEMENT FTES AND ADDITIONAL STATE ENFORCEMENT RESOURCES ON NATIONAL ENVIRONMENTAL INDICATORS

Question. How will the proposed reduction of Federal enforcement FTE and additional State enforcement resources impact national environmental indicators, such as clean air and clean water?

Answer. National environmental indicators such as clean air and clean water are affected by a number of factors such as land usage, stress from population, economic and financial considerations, compliance rates, and the severity of violations. We expect that the proposed resource shift will result in a national level of enforcement activity that is equal to or greater than baseline levels.

ENFORCEMENT: GEOGRAPHIC AREAS SUBJECT TO DECREASE IN FEDERAL ENFORCEMENT FTE REALIZE INCREASE IN STATE ENFORCEMENT RESOURCES

Question. How will EPA ensure that geographic areas subject to a decrease in Federal enforcement FTE personnel realize an increase in State enforcement resources?

Answer. The President's fiscal year 2003 budget proposes a reduction of 100 workyears from EPA's enforcement and compliance assurance program to help fund the proposed State and tribal enforcement grant program. states will use the grant funds to address important environmental risks and noncompliance patterns. In addition, the fiscal year 2003 budget provides EPA's enforcement and compliance assurance program sufficient resources to carry out the appropriate Federal role, focusing on more complex cases involving multi-state or multi-facility corporations, dealing with issues that require expertise or resources that only EPA can provide, ensuring compliance with environmental programs that cannot be delegated to states due to statutory prohibition, and to enforce when states are unable or unwilling to do so.

ENFORCEMENT: ACCEPTANCE OF MULTIPLE PROPOSALS FROM STATES FOR NEW ENFORCEMENT GRANTS

Question. Will EPA accept multiple proposals from states for the $15 million in new enforcement grants and thereby reward states which have the resources to submit numerous high quality proposals?

Answer. Based on feedback from states and tribes EPA will likely require a lead agency within a State or tribe to submit a single, consolidated proposal. Agencies other than the lead agency will remain eligible to receive grants funds if they are included in the proposal.

ENFORCEMENT: NEW ENFORCEMENT GRANT PROGRAM GRANTS AWARD TO STATES AND/OR USED BY EPA

Question. Will states receive the entire $15 million from the new enforcement grant program or will EPA use some of that money?

Answer. EPA will distribute the entire $15 million to states, tribes, and other eligible entities.

ENFORCEMENT: INFORMATION OBTAINED FROM STATES MEASURING OUTPUTS OR OUTCOMES FROM USAGE OF NEW ENFORCEMENT GRANTS

Question. How will EPA obtain information from states measuring their outputs and outcomes from usage of the new $15 million?

Answer. States will be approved for grant funding only if their grant proposal includes specific plans to measure and report on their performance in achieving results. For example, states will need to define performance measures for determining whether they are having an impact on the environmental risk or noncompliance pattern they are addressing with the grant funds. EPA will establish required reporting intervals for states to provide performance information that can be reviewed by EPA on a regular basis.

ENFORCEMENT: DETERMINING IMPACT ON ENVIRONMENT BY ENFORCEMENT FTE CUTS FROM INFORMATION FROM STATES

Question. Will the information EPA obtains from states on their use of the $15 million be sufficient for EPA to determine whether the environment was hurt by the enforcement FTE cuts?

Answer. Information gathered from states and tribes on their use of grant funds will allow the Agency determine the impact they are having on the environmental problems they chose to address. In addition, EPA will continue oversight of State enforcement programs, reviewing not just what is being achieved with grant funds, but the overall performance of the enforcement program of each State.

EPA will continue to collect and analyze performance information about its own programmatic outputs and outcomes to ensure we are focusing on important problems, and achieving the right results and outcomes. By monitoring the use of the grant funds, providing oversight of State programs, and analyzing the performance of the Federal enforcement effort, EPA believes it can provide a credible deterrent to pollution while maximizing compliance.

ENFORCEMENT: VERIFICATION AND VALIDATION OF ACTUAL ACCOMPLISHMENTS FROM ENFORCEMENT ACTIVITIES

Question. In fiscal year 2003, how will EPA verify and validate that actual accomplishments resulted from EPA activities?

Answer. EPA's attorneys and technical staff analyze completed enforcement actions and report an estimated, predicted outcome in terms of reduced emissions, preventive management of potential pollutants, treatment of contaminated materials, and industrial modifications. These estimates are produced using technical guidance EPA revised and issued in fiscal year 2001. The guidance was developed in consultation with engineers, environmental management practitioners, and experienced environmental attorneys and administrators. EPA is currently completing detailed training on this guidance in all of its regional offices and in headquarters, for hundreds of EPA staff. As a result of the guidance and training, EPA expects that there will be an improvement in the quality of the estimates, and an increase in the number of concluded enforcement actions that report such estimates.

The Agency can and does, in conjunction with the Department of Justice and under the supervision of the Courts, confirm that the terms of court imposed settlement agreements are adhered to by Defendants. Additionally, in a memorandum dated February 8, 2001, EPA's Office of Regulatory Enforcement and Office of Site Remediation and Enforcement, in response to recommendations from the EPA's Inspector General, reemphasized to regional offices that progress towards meeting the terms of compliance in Federal judicial settlements must be monitored, documented and tracked in a data system from which reports can be issued quarterly. This will help ensure that EPA will monitor, and take further action if necessary, to ensure required steps are taken to achieve the environmental progress required for compliance in orders and settlements.

GRANTS: NUMBER OF NON-PROFIT RECIPIENTS OF NON-CONSTRUCTION GRANT AWARDS IN LAST THREE YEARS

Question. How many different non-profit recipients received non-construction grant awards in each of the last 3 years?

Answer. EPA awarded grants to 846 different non-profit recipients in fiscal year 1999, 759 in fiscal year 2000, and 772 in fiscal year 2001.

GRANTS: DOLLARS OF NON-PROFIT RECIPIENTS OF NON-CONSTRUCTION GRANT AWARDS IN LAST THREE YEARS

Question. How many dollars did the Agency award to non-profit recipients in non-construction grants in each of the last 3 years?

Answer. EPA awarded $249,983,517 to non-profit recipients in fiscal year 1999, $264,898,545 in fiscal year 2000, and $349,978,246 in fiscal year 2001.

GRANTS: TOP TWENTY NON-PROFIT GRANT RECIPIENTS BY NUMBER OF AWARDS IN FISCAL YEAR 2002

Question. List the top twenty non-profit EPA grant recipients by number of awards in fiscal year 2002. Provide also the number of awards and total dollar amount awarded.

Answer.

FISCAL YEAR 2001—TOP 20 NON-PROFIT GRANTEES BY NUMBER OF AWARDS

	Number of awards	Amount
NATIONAL OLDER WORKER CAREER CENTER, WASHINGTON, DC	75	$20,805,037
NATIONAL CAUCUS & CENTER ON BLACK AGED, WASHINGTON, DC	74	10,285,948
NATIONAL SENIOR CITIZENS ED & RSCH CTR, SILVER SPRING, MD	61	11,544,270
NATL ASIAN PACIFIC CENTER FOR AGING, SEATTLE, WA	48	6,330,332
NATIONAL ACADEMY OF SCIENCE, WASHINGTON, DC	36	6,816,253
THE ENVIRONMENTAL CAREERS ORGANIZATION, BOSTON, MA	30	5,833,801
NATIONAL COUNCIL ON AGING, WASHINGTON, DC	28	4,415,772
NATIONAL ASSOCIATION FOR HISPANIC ELDE, PASADENA, CA	24	5,700,429
INTERNATIONAL CITY/COUNTY MGMT. ASSOC., WASHINGTON, DC	16	2,716,184
NORTHEAST STATES FOR COORDINATED AIR U, BOSTON, MA	10	3,313,275
NATL CONFERENCE OF STATE LEGISLATURES, DENVER, CO	9	749,532
ENVIRONMENTAL LAW INSTITUTE, WASHINGTON, DC	8	689,272
CENTER FOR CLEAN AIR POLICY, WASHINGTON, DC	8	1,055,224
NATIONAL ASSOCIATION OF COUNTIES, WASHINGTON, DC	8	870,300
INTER TRIBAL COUNCIL OF ARIZONA INC., PHOENIX, AZ	8	1,352,277
ENVIRONMENTAL COUNCIL OF THE STATES, WASHINGTON, DC	7	805,488
NATIONAL CENTER FOR MANUFACTURING SCIE, ANN ARBOR, MI	7	1,319,615
WV UNIVERSITY RESEARCH CORPORATION, MORGANTOWN, WV	7	5,515,808
RESEARCH TRIANGLE INSTITUTE RESEARCH, TRIANGLE, NC	7	2,354,288
WESTERN GOVERNORS' ASSOCIATION, DENVER, CO	7	3,200,806

This data is for fiscal year 2001. Fiscal year 2002 data can be provided at end of fiscal year.

GRANTS: TOP TWENTY NON-PROFIT GRANT RECIPIENTS BY TOTAL AMOUNT OF FUNDS AWARDED IN FISCAL YEAR 2002

Question. List the top twenty non-profit EPA grant recipients by total amount of funds awarded in fiscal year 2002. Provide also the number of awards and total dollar amount awarded.

Answer:

FISCAL YEAR 2001—TOP 20 NON-PROFIT GRANTEES BY DOLLARS AWARDED

	Number of awards	Amount
NORTH AMERICAN DEVELOPMENT BANK, SAN ANTONIO, TX	1	$84,000,000
NATIONAL OLDER WORKER CAREER CENTER, WASHINGTON, DC	75	20,805,037
NATIONAL SENIOR CITIZENS ED & RSCH CTR, SILVER SPRING, MD	61	11,544,270
NATIONAL RURAL WATER ASSOCIATION, DUNCAN, OK	5	10,631,100
NATIONAL CAUCUS & CENTER ON BLACK AGED, WASHINGTON, DC	74	10,285,948
BORDER ENVIRONMENTAL COOPERATION COMM., EL PASO, TX	5	8,192,000

FISCAL YEAR 2001—TOP 20 NON-PROFIT GRANTEES BY DOLLARS AWARDED—Continued

	Number of awards	Amount
HEALTH EFFECTS INSTITUTE, CAMBRIDGE, MA	2	7,500,000
NATIONAL ACADEMY OF SCIENCE, WASHINGTON, DC	36	6,816,253
NATL ASIAN PACIFIC CENTER FOR AGING, SEATTLE, WA	48	6,330,332
THE ENVIRONMENTAL CAREERS ORGANIZATION, BOSTON, MA	30	5,833,801
NATIONAL ASSOCIATION FOR HISPANIC ELDE, PASADENA, CA	24	5,700,429
WV UNIVERSITY RESEARCH CORPORATION, MORGANTOWN, WV	7	5,515,808
AMERICA'S CLEAN WATER FOUNDATION, WASHINGTON, DC	3	5,080,000
GAS TECHNOLOGY INSTITUTE, DES PLAINES, IL	1	4,989,000
THREE RIVERS WET WEATHER INC., PITTSBURGH, PA	1	4,845,000
NATIONAL COUNCIL ON AGING, WASHINGTON, DC	28	4,415,772
CANAAN VALLEY INSTITUTE, DAVIS, WV	4	4,194,800
WATER ENVIRONMENT RESEARCH FOUNDATION, ALEXANDRIA, VA	2	3,966,400
NORTHEAST STATES FOR COORDINATED AIR U, BOSTON, MA	10	3,313,275
WESTERN GOVERNORS' ASSOCIATION, DENVER, CO	7	3,200,806

This data is for fiscal year 2001. Fiscal year 2002 data can be provided at end of fiscal year.

GRANTS: NUMBER OF BENCH REVIEWS CONDUCTED OF NON-PROFIT NON-CONSTRUCTION GRANTEES FROM FISCAL YEAR 2000 TO FISCAL YEAR 2002—BY REGION

Question. How many bench reviews did EPA conduct of non-profit non-construction grantees in fiscal year 2000, fiscal year 2001 and fiscal year 2002? List by Region.

Answer.

Regional Grants Management Office	Bench Reviews Fiscal Year		
	2000	2001	2002 as of 5/25/2002
I	0	0	0
II	0	2	1
III	3	0	0
IV	0	22	18
V	0	0	0
VI	2	4	4
VII	0	0	1
VIII	0	2	10
IX	0	0	0
X	0	0	1
HQ	15	21	10
Total	20	51	45

GRANTS: NUMBER OF ON-SITE REVIEWS CONDUCTED OF NON-PROFIT NON-CONSTRUCTION GRANTEES IN FISCAL YEAR 2000 TO FISCAL YEAR 2002 BY REGION

Question. How many on-site reviews did EPA conduct of non-profit non-construction grantees in fiscal year 2000, fiscal year 2001 and fiscal year 2002? List by Region.

Answer.

Regional Grants Management Offices	On Site Reviewz Fiscal Year		
	2000	2001	2002 as of 5/25/2002 (to date)
I	2	1	0
II	3	3	4
III	1	2	2
IV	0	0	0
V	2	2	1

Regional Grants Management Offices	On Site Reviewz Fiscal Year		
	2000	2001	2002 as of 5/25/2002 (to date)
VI	0	0	0
VII	0	1	1
VIII	0	2	0
IX	5	3	1
X	0	0	2
HQ	13	22	23
Total	26	36	34

GRANTS: NUMBER OF FTES AND ON-BOARD PERSONNEL CONDUCTING ON-SITE REVIEWS OF GRANTEES IN FISCAL YEAR 2002 AND FISCAL YEAR 2003

Question. How many FTEs and on-board personnel are and will be devoted to conducting on-site reviews of grantees in fiscal year 2002 and fiscal year 2003?

Answer. To date, Headquarters and Regional Grants Management Offices devoted approximately 4 FTEs to conducting on-site reviews in fiscal year 2002. In addition, EPA awarded three contracts to perform eleven evaluative on-site reviews of non-profit grantees.

In fiscal year 2003, EPA plans to devote a minimum of 4 FTEs to conducting on-site reviews and continue to procure additional contractor support to perform reviews of non-profit grantees.

GRANTS: NUMBER OF HOURS OF PAPERWORK BURDEN IMPOSED ON BUSINESSES

Question. How many hours of paperwork burden did EPA impose on businesses in the last reporting year and each of the previous 3 years?

Answer. Total EPA burden hours (including both business and State burden) at the end of each of the last four fiscal years are listed below:

[In millions]

Fiscal year	*Burden hours*
2001	131
2000	129
1999	119
1998	115

GRANTS: NUMBER OF HOURS OF PAPERWORK BURDEN IMPOSED ON BUSINESSES

Question. In fiscal year 2003, how will EPA reduce the paperwork burden it imposes on businesses?

Answer. Many EPA programs are taking the initiative to reduce reporting and record-keeping burden. Although EPA does not have quantified burden reductions estimates for these initiatives, these efforts include:

Resource Conservation and Recovery Act (RCRA) Burden Reduction Initiative (Office of Solid Waste and Emergency Response), a broad-based initiative aimed at streamlining paperwork and regulations associated with RCRA .

Reg-in-a-Box Expert Advisors (Office of Prevention, Pesticides, and Toxic Substances), an expert software system which can aid the public in understanding if and how regulations affect them.

Toxic Release Inventory (TRI) Made Easy (Office of Environmental Information), an expert software system that assists facilities in reporting their TRI data.

Central Data Exchange (CDX) (Office of Environmental Information), a single Agency portal enabling the submission of data via the Internet and aimed at improving the collection, management, and sharing of environmental information among the states, Tribes, and EPA.

Performance Track (Office of Policy, Economics, and Innovation), an initiative designed to motivate and reward top environmental performers that take a systematic approach to managing environmental responsibilities and are leading the way to environmental excellence while saving money and improving productivity.

GRANTS: OEI WORK WITH PROGRAM OFFICES TO TAILOR NEW RULES TO IMPOSE LESS PAPERWORK BURDEN

Question. In fiscal year 2003, how is the Office of Environmental Information working with program offices to tailor new rules to impose less paperwork burden?

Answer. The Office of Environmental Information (OEI) is working on the following initiatives which are aimed at helping program offices decrease the amount of paperwork burden imposed on the public.

Guidelines on Minimizing Burden and Ensuring Sound Burden Estimates

OEI is working on several guidelines to assist program offices in developing information collections which minimize the burden imposed on regulated entities. These guidelines highlight examples of successful streamlining efforts in program offices and offers numerous suggestions for areas where burden may potentially be decreased. The guidelines currently under development are:

—Guidelines on Streamlining Existing Collections
—Guidelines on Streamlining New Collections
—Guidelines for Estimating the Burden Impacts of Electronic Reporting
—Guidelines for Preparing Sound Burden Estimates

Effort to Increase Electronic Reporting and the Integration of Information

The National Environmental Information Exchange Network (Network) is a partnership program with the states and Tribes aimed at developing an integrated, electronic environmental data exchange. It includes efforts to: build a single point of exchange for electronic reporting through EPA's CDX portal; propose alegal framework for electronic reporting; and apply specific data standards across information systems. CDX currently offers electronic reporting options in four program areas, and is testing two new programs for implementation by the end of fiscal year 2002. As EPA's point of exchange or "Node" on the Network, CDX completed the first Node test with six states in early fiscal year 2002 and plans to expand Node testing this year.

STANDARDIZING DATA ELEMENTS

EPA has a very active environmental data standards program and has finalized seven standards in cooperation with states and tribes. Three additional standards are near completion and are anticipated to be adopted within fiscal year 2002. Three others are being considered; most of these more fully define program specific information that complements existing standards. One of the benefits of expanding environmental data standards is that programs are better able to compare the content of various information systems, thereby reducing duplicative applications. This, in turn, results in the elimination of some sub-applications and an increase in savings to the states, Tribes, and EPA. Yet another benefit of promoting environmental data standards is the identification of similar data shared by multiple programs. This provides an opportunity to develop registries that contain commonly used data that programs can rely on as an authoritative source, which can result in the removal of duplicative requests for information collection. One example of this is the reliance on facility identification information from the Facility Registry System by OSWER, rather than requesting the collection of this information continually from the facilities.

GRANTS: PROGRAM OFFICES REVIEW OF CURRENT PAPERWORK REQUIREMENTS TO REDUCE BURDEN ON BUSINESSES IN FISCAL YEAR 2002

Question. In fiscal year 2003, how will the program offices, either with or without the help of OEI, review current paperwork requirements to reduce their burden on businesses?

Answer. EPA will reduce burden on businesses in the following ways:

Program Initiated Efforts.—Several programs have taken the initiative to reduce burden by throughly analyzing their collections to identify requirements which can be streamlined. For example, in fiscal year 2003, the Office of Solid Waste (OSW) will publish a final rule that incorporates many burden reduction components into RCRA requirements. OSW initiated a two-phase burden reduction initiative that first examines reporting requirements and then proposed a rule that will streamline the collection. To reduce reporting burdens to facilities, OSW first evaluated all of EPA's current RCRA reporting requirements. As a result, OSW drafted a proposed rule that was published in February 2002 in the Federal Register. OSW estimates that this proposed rule will eliminate nearly 1 million burden hours from the total RCRA paperwork burden (which is currently nearly 8 million hours). This is a 12 percent reduction from current burden hours. The proposed rule is also estimated

to have annual cost savings of $120 million, mostly from the Land Disposal Restrictions changes. In fiscal year 2003, OSW will continue work on a second phase of the Burden Reduction Initiative (BRI), which focuses on the RCRA Biennial Report. Currently, all large quantity generators of hazardous waste and all treatment, storage, and disposal facilities have to complete a Biennial Report. The second phase of the BRI will propose alternatives such as conducting a survey of facilities rather than requiring the completion of a report by every facility. OSW will publish their findings in a Notice of Data Availability in fiscal year 2003.

Supporting Environmental Performance.—The Office of Policy, Economics, and Innovation continues to develop and expand the Performance Track program to motivate and reward facilities that achieve better environmental performance than is required under existing regulations. This program enhances the current regulatory system by offering recognition and other incentives to facilities that have shown a commitment to going beyond basic compliance with environmental regulations. EPA is developing a rule to propose specific regulatory changes as incentives for participation in Performance Track. These incentives would offer a reduction in the reporting and other operating costs of the current regulatory system and would be implemented nationally.

Encouraging Non-Traditional Burden Reduction Efforts.—EPA continues to encourage a number of innovative activities which are not typically counted in burden reduction estimates. These include web-based Compliance Assistance Centers, the promotion of internal facility audit policies to detect violations, and options for regulatory compliance such as emissions trading. EPA continues to implement easier to understand regulatory language and continues providing reporting and compliance assistance to small businesses through the Office of the Small Business Ombudsman.

Supporting Streamlining Collections.—Preparers of new regulations, as well as those involved in the development of Information Collection Requests are required to verify that no other similar collections exist as part of the development process entailed in these activities. OEI will also be working to make the newly developed streamlining guidelines available to the rest of the Agency, which provide step-by-step guidance on how to reduce burden in both new and existing collections, in addition to estimating burden reductions associated with the use of electronic reporting. Finally, OEI held a "Burden Reduction Workshop" in the Fall of 2001, highlighting seven major efforts to decrease burden through streamlining existing collections, consolidating collections, and using innovative technologies. OEI is committed to continuing to recognize and promote these types of program efforts which are aimed at decreasing burden, in both traditional and non-traditional ways.

NPDES PERMITTING: STATUS OF EFFORTS TO REDUCE FEDERAL AND STATE NPDES PERMITS BACKLOG

Question. What is the status of EPA's efforts to reduce the backlog of Federal and State NPDES permits? Provide a breakdown by region and state.

Answer. Although EPA did not meet the 2001 target of 10 percent backlog for major permits, EPA has made substantial progress in reducing the NPDES permit backlog. Currently, EPA's backlog of major permits is 16 percent, down from about 48 percent in January 2000. EPA is continuing its effort to reduce this backlog of major permits, while also focusing on the 2004 goal of 10 percent backlog for all permits. EPA currently has a significant backlog of minor permits (67 percent expired) and is addressing it through a streamlining effort and the release of several permitting tools.

The authorized states, as a whole, have shown improvement in reducing their backlog. Currently, the major permits backlog for authorized states is 19 percent, down from about 26 percent in January 2000. Authorized states are making strides through both permit issuance and data clean-up and are on target to meet the 2004 backlog reduction goal of 10 percent backlog for all permits.

The attached charts provide data on state and Regional progress toward meeting backlog reduction goals.

BACKLOG STATUS REPORT FOR MINORS (INDIVIDUALS PERMITS ONLY)—APRIL 2002

	August 2000			Goal for April 2002	Actual for April 2002			On target to meet December 2004 Goal [2]	Permit Deficit [3]
	Total facilities	Expired [1]	Backlog (percent)		Total facilities	Expired [1]	Backlog (percent)		
EPA Region 1:									
CT	129	98	76.0	50.6	97	43	44.3	YES	0
GB [4]	14	14	100.0	65.4	([5])	([5])	([5])	([5])	([5])
MA [4]	521	423	81.2	53.8	439	357	81.3	Unlikely	120.78
ME	261	182	69.7	46.8	258	140	54.3	Possible	19.36
NH [4]	186	161	86.6	57.1	121	100	82.6	Unlikely	30.89
RI	109	87	79.8	53.0	103	87	84.5	Unlikely	32.45
VT	108	20	18.5	15.2	115	12	10.4	YES	0
EPA Issued	982	780	79.4	52.7	560	457	81.6	Unlikely	161.73
State Issued	346	205	59.2	40.3	573	282	49.2	Possible	51.04
Region Total	1,328	985	74.2	49.5	1,133	739	65.2	Unlikely	178.28
EPA Region 2:									
AT [4]	6	6	100.0	65.4	7	7	100.0	Possible	2.42
NJ	2,664	263	9.9	9.9	2,755	353	12.8	Possible	81.02
NY	1,761	305	17.3	14.5	1,449	61	4.2	YES	0
PR [4]	197	100	50.8	35.1	200	109	54.5	Unlikely	38.83
VI	77	44	57.1	39.0	80	46	57.5	Unlikely	14.79
EPA Issued	203	106	52.2	36.0	207	116	56.0	Unlikely	41.52
State Issued	4,502	612	13.6	12.2	4,284	460	10.7	YES	0
Region Total	4,705	718	15.3	13.2	4,491	576	12.8	YES	0
EPA Region 3:									
DC [4]	12	3	25.0	19.2	12	3	25.0	Possible	0.69
DE	41	2	4.9	4.9	39	3	7.7	YES [6]	0
MD	564	229	40.6	28.8	499	215	43.1	Unlikely	71.13
PA	3,952	508	12.9	11.8	4,008	595	14.8	Possible	123.80
VA	2,835	1,943	68.5	46.0	1,119	61	5.5	YES	0
WV	1,459	647	44.3	31.1	1,189	455	38.3	Possible	84.80

BACKLOG STATUS REPORT FOR MINORS (INDIVIDUALS PERMITS ONLY)—APRIL 2002—Continued

	August 2000			Goal for April 2002	Actual for April 2002			On target to meet December 2004 Goal [2]	Permit Deficit [3]
	Total facilities	Expired [1]	Backlog (percent)		Total facilities	Expired [1]	Backlog (percent)		
EPA Issued	12	3	25.0	19.2	12	3	25.0	Possible	.69
State Issued	8,851	3,329	37.6	27.0	6,854	1,329	19.4	YES	0
Region Total	8,863	3,332	37.6	27.0	6,866	1,332	19.4	YES	0
EPA Region 4:									
AL	1,385	140	10.1	10.1	1,388	61	4.4	YES	0
FL	348	69	19.8	16.0	300	25	8.3	YES	0
GA	784	0	0.0	0.0	658	0	0.0	YES	0
KY	1,860	84	4.5	4.5	1,788	78	4.4	YES	0
MS	1,841	326	17.7	14.7	1,788	404	22.6	Possible	140.39
NC	1,344	192	14.3	12.6	1,237	166	13.4	Possible	9.68
SC	495	73	14.7	12.9	450	71	15.8	Possible	12.85
TN	1,321	224	17.0	14.3	1,295	45	3.5	YES	0
EPA Issued	NA	NA	NA	NA	NA	NA	NA	NA	NA
State Issued	9,378	1,108	11.8	11.1	8,904	850	9.5	YES	0
Region Total	9,378	1,108	11.8	11.1	8,904	850	9.5	YES	0
EPA Region 5:									
IL	1,787	373	20.9	16.7	1,774	460	25.9	Possible	163.90
IN	1,174	150	12.8	11.7	1,140	78	6.8	YES	0
MI	532	57	10.7	10.4	500	53	10.6	YES	0
MN	1,019	509	50.0	34.6	1,010	419	41.5	Possible	69.69
OH	2,571	680	26.4	20.1	2,716	417	15.4	YES	0
WI	859	165	19.2	15.7	798	77	9.6	YES	0
EPA Issued	NA	NA	NA	NA	NA	NA	NA	NA	NA
State Issued	7,942	1,934	24.4	18.8	7,938	1,504	18.9	Possible	9.14
Region Total	7,942	1,934	24.4	18.8	7,938	1,504	18.9	Possible	9.14
EPA Region 6:									
AR	729	56	7.7	7.7	721	31	4.3	YES	0

LA	3,640	2,910	79.9	53.0	3,476	2,507	72.1	Unlikely	663.22
NM [4]	221	203	91.9	60.4	111	44	39.6	YES	0
OK	560	176	31.4	23.2	476	96	20.2	YES	0
TX	2,666	719	27.0	20.4	2,567	400	15.6	YES	0
EPA Issued	221	203	91.9	60.4	111	44	39.6	YES	0
State Issued	7,595	3,861	50.8	35.1	7,240	3,034	41.9	Possible	490.60
Region Total	7,816	4,064	52.0	35.8	7,351	3,078	41.9	Possible	443.13
EPA Region 7:									
IA	1,660	568	34.2	24.9	1,342	199	14.8	YES	0
KS	1,161	753	64.9	43.8	1,171	129	11.0	YES	0
MO	3,015	972	32.2	23.7	3,139	826	26.3	Possible	82.51
NE	1,184	806	68.1	45.7	835	422	50.5	Possible	40.09
EPA Issued	NA	NA	NA	NA	NA	NA	NA	NA	NA
State Issued	7,020	3,099	44.1	31.0	6,487	1,576	24.3	YES	0
Region Total	7,020	3,099	44.1	31.0	6,487	1,576	24.3	YES	0
EPA Region 8:									
CO	418	212	50.7	35.1	378	180	47.6	Unlikely	47.48
MT	147	45	30.6	22.7	149	62	41.6	Unlikely	28.20
ND	127	16	12.6	11.6	116	1	.9	YES	0
SD	380	82	21.6	17.1	377	99	26.3	Possible	34.44
UT	84	4	4.8	4.8	84	3	3.6	YES	0
WY	1,149	87	7.6	7.6	1,325	51	3.8	YES	0
EPA Issued	NA	NA	NA	NA	NA	NA	NA	NA	NA
State Issued	2,305	446	19.3	15.8	2,429	396	16.3	Possible	13.35
Region Total	2,305	446	19.3	15.8	2,429	396	16.3	Possible	13.35
EPA Region 9:									
AS [4]	3	0	0.0	0.0	3	0	0.0	YES	0
AZ [4]	144	49	34.0	24.8	143	29	20.3	YES	0
CA	686	245	35.7	25.8	652	245	37.6	Unlikely	76.63
GU [4]	11	5	45.5	31.8	14	1	7.1	YES	0
HI	40	7	17.5	14.6	42	2	4.8	YES	0

BACKLOG STATUS REPORT FOR MINORS (INDIVIDUALS PERMITS ONLY)—APRIL 2002—Continued

	August 2000			Goal for April 2002	Actual for April 2002			On target to meet December 2004 Goal [2]	Permit Deficit [3]
	Total facilities	Expired [1]	Backlog (percent)		Total facilities	Expired [1]	Backlog (percent)		
JA [4]	1	0	0.0	0.0	1	0	0.0	YES	0
MW [4]	1	1	100.0	65.4	([5])	([5])	([5])	([5])	([5])
NI [4]	3	3	100.0	65.4	([5])	([5])	([5])	([5])	([5])
NV	70	18	25.7	19.7	70	25	35.7	Unlikely	11.23
EPA Issued	163	58	35.6	25.7	161	30	18.6	YES	0
State Issued	796	270	33.9	24.7	764	272	35.6	Unlikely	83.14
Region Total	959	328	34.2	24.9	925	302	32.6	Possible	71.73
EPA Region 10:									
AK [4]	282	262	92.9	61.0	159	143	89.9	Unlikely	45.98
ID [4]	277	262	94.6	62.1	174	138	79.3	Unlikely	30.03
OR	283	180	63.6	43.0	301	219	72.8	Unlikely	89.61
WA	654	519	79.4	52.7	618	476	77.0	Unlikely	150.43
EPA Issued	559	524	93.7	61.5	333	281	84.4	Unlikely	76.10
State Issued	937	699	74.6	49.8	919	695	75.6	Unlikely	237.76
Region Total	1,496	1,223	81.8	54.2	1,252	976	78.0	Unlikely	297.98
All Minors	51,812	17,237	33.3	24.3	47,776	11,329	23.7	YES	0
EPA Issued	2,140	1,674	78.2	52.0	1,384	931	67.3	Unlikely	211.54
State Issued	49,672	15,563	31.3	23.1	46,392	10,398	22.4	YES	0

[1] Includes no date facilities.
[2] Possible indicates that permit deficit is within 10of the monthly target to meet the 2004 goal or is of 5 permits or less.
[3] The number of permits that needed to be issued through the reporting period to remain on target to meet the December 2004 goal.
[4] Indicates EPA is the permitting authority.
[5] Based on 9/30/2000 download, there are no individually permitted facilities in the Midway Islands. Based on 1/31/2001 download, there are no individually permitted minor facilities in the Northern Mariannas. Based on 3/31/2001 download, there are no individually permitted minor facilities in the Georges Banks.
[6] Although the State is below the 10 percent goal, the State's backlog is beginning to trend upwards.

BACKLOG STATUS REPORT FOR MAJORS—APRIL 2002

	Backlog Percent	Actual For April 2002		Backlog Percent	At 10 percent Goal? [2]	3-Month Trend [3]	Permit Deficit [4]
		Total Facilities	Expired [1]				
EPA Region 1:							
CT	10.0	113	14	12.4	NO [6]	+	1.68
MA [5]	10.0	138	33	23.9	NO	+	17.96
ME	10.0	87	23	26.4	NO	+	13.52
NH [5]	10.0	60	8	13.3	NO [6]	–	1.46
RI	10.0	25	2	8.0	YES	0	0.00
VT	10.0	33	0	0.0	YES	–	0.00
EPA Issued	10.0	198	41	20.7	NO	–	19.42
State Issued	10.0	258	39	15.1	NO	+	10.88
Region Total	10.0	456	80	17.5	NO	+	30.30
EPA Region 2:							
NJ	10.0	160	48	30.0	NO	–	30.56
NY	10.0	355	11	3.1	YES	0	0.00
PR [5]	10.0	84	27	32.1	NO	–	17.84
VI	10.0	6	4	66.7	NO	+	3.35
EPA Issued	10.0	84	27	32.1	NO	–	17.84
State Issued	10.0	521	63	12.1	NO [6]	–	6.21
Region Total	10.0	605	90	14.9	NO [6]	–	24.06
EPA Region 3:							
DC [5]	10.0	4	2	50.0	NO	0	1.56
DE	10.0	23	6	26.1	NO	0	3.49
MD	10.0	97	12	12.4	NO [6]	–	1.43
PA	10.0	382	76	19.9	NO	+	34.36
VA	10.0	140	19	13.6	NO [6]	–	3.74
WV	10.0	93	28	30.1	NO	–	17.86
EPA Issued	10.0	4	2	50.0	NO	0	1.56
State Issued	10.0	735	141	19.2	NO	+	60.89

BACKLOG STATUS REPORT FOR MAJORS—APRIL 2002—Continued

	Backlog Percent	Actual For April 2002		Backlog Percent	At 10 percent Goal? [2]	3-Month Trend [3]	Permit Deficit [4]
		Total Facilities	Expired [1]				
Region Total	10.0	739	143	19.4	NO	+	62.45
EPA Region 4:							
AL	10.0	194	6	3.1	YES	–	0.00
FL	10.0	255	28	11.0	YES	+	0.21
GA	10.0	171	1	0.6	YES	–	0.00
KY	10.0	132	2	1.5	YES	+	0.00
MS	10.0	98	10	10.2	YES	+	0.00
NC	10.0	231	68	29.4	NO	+	42.82
SC	10.0	185	45	24.3	NO	+	24.84
TN	10.0	156	9	5.8	YES	–	0.00
EPA Issued		NA	NA	NA	NA	NA	NA
State Issued	10.0	1,422	169	11.9	NO [6]	+	14.00
Region Total	10.0	1,422	169	11.9	NO [6]	+	14.00
EPA Region 5:							
IL	10.0	278	36	12.9	NO [6]	0	5.70
IN	10.0	185	78	42.2	NO	+	57.84
MI	10.0	184	25	13.6	NO [6]	+	4.94
MN	10.0	86	40	46.5	NO	+	30.63
OH	10.0	294	73	24.8	NO	+	40.95
WI	10.0	134	10	7.5	YES	–	0.00
EPA Issued		NA	NA	NA	NA	NA	NA
State Issued	10.0	1,161	262	22.6	NO	+	135.45
Region Total	10.0	1,161	262	22.6	NO	+	135.45
EPA Region 6:							
AR	10.0	109	13	11.9	NO [6]	–	1.12
LA	10.0	250	119	47.6	NO	–	91.75
NM [2]	10.0	35	3	8.6	YES	0	0.00
OK	10.0	95	5	5.3	YES	0	0.00

TX	10.0	565	96	17.0	NO	–	34.42
EPA Issued	10.0	35	3	8.6	YES	0	0.00
State Issued	10.0	1,019	233	22.9	NO	–	121.93
Region Total	10.0	1,054	236	22.4	NO	–	121.11
EPA Region 7:							
IA	10.0	129	18	14.0	NO [6]	+	3.94
KS	10.0	58	0	0.0	YES	–	0.00
MO	10.0	148	40	27.0	NO	+	23.87
NE	10.0	55	30	54.5	NO	+	24.01
EPA Issued		NA	NA	NA	NA	NA	NA
State Issued	10.0	390	88	22.6	NO	+	45.49
Region Total	10.0	390	88	22.6	NO	+	45.49
EPA Region 8:							
CO	10.0	112	33	29.5	NO	+	20.79
MT	10.0	43	16	37.2	NO	+	11.31
ND	10.0	26	0	0.0	YES	0	0.00
SD	10.0	29	4	13.8	YES	+	0.84
UT	10.0	33	0	0.0	YES	0	0.00
WY	10.0	26	0	0.0	YES	–	0.00
EPA Issued		NA	NA	NA	NA	NA	NA
State Issued	10.0	269	53	19.7	NO	+	23.68
Region Total	10.0	269	53	19.7	NO	+	23.68
EPA Region 9:							
AS [5]	10.0	4	0	0.0	YES	0	0.00
AZ [5]	10.0	50	0	0.0	YES	0	0.00
CA	10.0	239	48	20.1	NO	+	21.95
GU [5]	10.0	6	2	33.3	NO	0	1.35
HI	10.0	22	2	9.1	YES	–	0.00
NI [5]	10.0	20	0.0	YES	0	0.00	
NV	10.0	10	2	20.0	YES	–	0.91

BACKLOG STATUS REPORT FOR MAJORS—APRIL 2002—Continued

	Backlog Percent	Actual For April 2002		Backlog Percent	At 10 percent Goal? [2]	3-Month Trend [3]	Permit Deficit [4]
		Total Facilities	Expired [1]				
EPA Issued	10.0	62	2	3.2	YES	0	0.00
State Issued	10.0	271	52	19.2	NO	–	22.46
Region Total	10.0	333	54	16.2	NO	–	17.70
EPA Region 10:							
AK [5]	10.0	75	4	5.3	YES	–	0.00
ID [5]	10.0	57	5	8.8	YES	0	0.00
OR	10.0	78	51	65.4	NO	0	42.50
WA	10.0	86	33	38.4	NO	–	23.63
EPA Issued	10.0	132	9	6.8	YES	–	0.00
State Issued	10.0	164	84	51.2	NO	–	66.12
Region Total	10.0	296	93	31.4	NO	–	60.74
All Majors	10.0	6,725	1,268	18.9	NO	+	534.98
EPA Issued	10.0	515	84	16.3	NO	–	27.87
State Issued	10.0	6,210	1,184	19.1	NO	+	507.11

[1] Includes no data facilities.
[2] YES indicates that the State is meeting or has met the December 31, 2001 backlog reduction goal of 10 OR is within 1 permit.
[3] – indicates that the backlog percent has gone down over the last 3 months (since January 31, 2002) + It has gone up; 0 Stayed the same.
[4] The number of permits that needed to be issued (in addition to ones that will be expiring) to achieve a 10 percent backlog reduction.
[5] Indicates EPA is the permitting authority.
[6] A NO indicates that the State is within 5 percent of the backlog reduction goal.

NPDES PERMITTING: LEVEL OF RESOURCES DEVOTED TO REDUCE NPDES BACKLOG FROM FISCAL YEAR 2002 AND FISCAL YEAR 2003 REQUEST

Question. Provide the level of resources EPA is devoting to reduce the NPDES backlog from fiscal year 2002 and in the fiscal year 2003 request.

Answer. Both EPA and state permitting agencies have developed strategies that affirm permit issuance as a high priority task and in many cases, have reorganized staff to reduce permit backlog.

NPDES permit issuance is a substantial undertaking in EPA Regional Water Divisions and in state water pollution control agencies. To help reverse the trend in rising backlogged permits, EPA is devoting about $300,000 for permit issuance in fiscal year 2002, and we anticipate making the same level of assistance available in fiscal year 2003. Additionally, in fiscal year 2002, EPA is spending approximately $340,000 to help reduce the backlog by tracking the NPDES permit backlog and developing tools, such as an electronic permit application and an electronic water quality based permit writing tool. A similar level of spending is anticipated for fiscal year 2003.

In fiscal year 2002, EPA established Blanket Purchase Agreements (BPAs) under GSA contracts. These agreements will support the permitting efforts of EPA as well as the states, if they so request, through in-kind assistance, as part of their Section 106 grant. A user guidance web page is being developed also. This will assist states with permit issuance, data clean up, and other water program work that will lead to appropriate permits being issued. States have begun to use this support, and EPA anticipates continuing this process in fiscal year 2003.

REINVENTION: STATUS OF REVIEW OF REINVENTION PROGRAMS

Question. What is the status of EPA's review of its reinvention programs?

Answer. On April 10, 2001, Administrator Whitman issued a memorandum charging EPA's Innovation Action Council (IAC) to formulate recommendations for updating EPA's innovation strategy. In considering strategic application of innovation, the IAC looked at both the challenges (environmental, regulatory or programmatic) facing the Agency, and the innovative approaches and tools needed to meet those challenges. The IAC consulted with state environmental commissioners and key stakeholders (e.g., states, industry, and the NGO's) as it developed its recommendations.

On April 24, 2002, Administrator Whitman released EPA's new innovation strategy, Innovating for Better Environmental Results: A Strategy to Guide the Next Generation of Innovation at EPA at the 2002 ECOS meeting. The strategy provides a framework for using innovation to move the Agency toward a system of environmental protection in which we:

—focus on environmental performance and results;
—emphasize comprehensive environmental responsibility, not just pollution control;
—integrate environmental management across facilities, problems and media;
—use market-based incentives and the full range of available tools to achieve ambitious environmental goals; and
—foster partnerships with others who can contribute to environmental solutions.

The strategy presents four ways we plan to move toward results-based environmental protection through innovation: (1) strengthen our innovation partnerships with states and Tribes; (2) focus our innovation efforts on priority environmental problems B reducing greenhouse gases and smog, improving water quality, and reducing the cost of water and wastewater infrastructure; (3) make fuller use of a diverse range of tools such as information and environmental technology, market-based incentives, environmental management systems, and measurable performance goals; and (4) make EPA's culture and management systems more Ainnovation friendly.

We are currently moving into the implementation phase of the strategy, promoting innovation in all parts of EPA. We have drafted an implementation plan that represents an initial set of activities that will support our innovations work through both ongoing projects and some Presidential 2003 budget initiatives. Along with the four mentioned above, these key actions also include:

—expanding Brownfields economic redevelopment,
—forging stronger partnerships with the agriculture community,
—promoting better environmental information,
—promoting innovative technology, using incentives,
—expanding use of environmental management systems,
—testing, evaluating and deploying innovative approaches,
—ensuring support for innovation through planning and budgeting, and
—fostering a more innovation friendly culture within EPA.

A synopsis of these activities are located on our website, http://www.epa.gov/opei/strategy.

REINVENTION: SPREADING THE CULTURE OF REINVENTION BY LIMITING ITS APPLICATION

Question. While EPA states a desire to spread the culture of reinvention efforts to all program areas, the agency is currently limiting reinvention activities to a few specific activities. Please explain how EPA will spread the culture of reinvention by limiting its application?

Answer. EPA's new innovation strategy draws on our experience and the experience of our business, state and NGO partners and numerous policy and academic cementers who have been working together for over a decade to foster innovation in environmental protection. A critical lesson communicated across the spectrum is that one of the keys to unleashing innovation on a broad scale is to set clear and ambitious goals for solving important problems. That is what EPA's new innovation strategy does. By focusing innovation on key problems, we will make the most progress toward the most important goals.

While EPA is focusing its Agency-wide innovation efforts, it is not limiting innovation in other areas. In fact, the Office of Solid Waste and Emergency Response is supporting an intensive focus on innovation in several areas not mentioned in the strategy, but which are important to improving waste management and disposal systems.

While a key to the strategy's effectiveness is its clear focus, EPA will draw on and foster the broadest possible participation in innovating to solve these problems. Within EPA, every program and region will be undertaking significant actions toward these goals. EPA has also made it a top priority to strengthen the burgeoning innovation partnerships with states and tribes by aligning goals and actions through partnership agreements.

EPA's innovation strategy also commits to fostering innovation at the very core of EPA's culture through actions that address both cultural and administrative barriers to innovation.

REINVENTION: EXAMPLES OF DIRECTING PROGRAM OFFICES AND OECA TO REDUCE BARRIERS, TRANSACTION COSTS AND APPROVAL TIME FOR REINVENTION PROJECTS

Question. Provide examples of how EPA is directing the program offices and OECA to reduce barriers, transaction costs and approval time for reinvention projects?

Answer. In the development of regulatory flexibility agreements and supporting legal documents, EPA program offices and OECA provide valuable expertise that ensures the viability of the agreement if challenged. However, EPA is continuing to explore ways to reduce transaction costs and approval time and, in particular, EPA will continue to streamline internal review and decision-making where appropriate.

For its programs that rely on voluntary participation in exchange for flexibility or recognition, EPA has continually worked to reduce the transaction costs. For example, in a mid-course re-engineering, the XL program cut approval and negotiation times significantly. We were able to do so by clarifying program elements, helping sponsors develop better projects and proposals, improving stakeholder involvement processes, and streamlining internal review and decision-making. EPA will continue to place a high priority on reducing transaction costs for participants, co-regulators, stakeholders and itself. Because the innovations agenda may affect some of these programs, specific actions cannot be initiated until the innovations agenda is established.

The program offices and OECA are significantly involved in expanding the application of successful innovations tested under reinvention projects. For example, the Environmental Results Program (ERP) was designed by the Massachusetts Department of Environmental Protection. ERP is a self-certification program that replaces individual facility permits for small sources with a set of multi-media industry-wide performance standards and a facility-derived annual certification of compliance. Using a combination of compliance assurance tools, ERP has improved performance for small business sectors and resulted in savings for these businesses, thereby allowing regulators to focus resources on more pressing environmental problems.

EPA, in partnership with the State of Massachusetts, is working to disseminate the successful elements of ERP to other states facing environmental issues in small business sectors. EPA program offices and OECA are providing technical and financial assistance to identify areas and problems that ERP could solve to the District of Columbia, Florida and Maryland.

REINVENTION: ENVIRONMENTAL BENEFITS OF REGULATORY FLEXIBILITY VS. STATUS QUO REGULATORY SCHEMES

Question. Describe the ways EPA can further articulate the environmental benefits of regulatory flexibility v. status quo regulatory schemes.

Answer. EPA is at an important juncture in the cycle of testing and broadening the application of innovative approaches. EPA has recently issued its first Innovation Strategy, which explicitly charges the Agency to establish a system to move innovative approaches from testing to broader application. Critical to this system is the evaluation of new approaches to establish their effectiveness relative to the status quo regulatory system. EPA recognizes this and has been collecting the data necessary for those analyses as it implements its innovations programs.

EPA routinely measures and makes public the environmental benefits of the regulatory flexibility granted in its innovations programs. In developing the flexibility in a pilot project, EPA establishes the expected environmental performance baseline of the status quo and also characterizes the expected environmental benefits of the new approach. Second, EPA tracks and measures the environmental results of the pilot and reports results against the baseline annually.

The goal of these assessments is to identify new ideas and approaches that work and then put them to use on a broader scale so that the environment, industry, and communities can benefit. As these projects have had time to demonstrate whether the approaches are effective or not, EPA will evaluate their appropriateness for further application. For example, significant data were collected from early tests of the Environmental Results Program, a program developed by the State of Massachusetts and tested by EPA, that clearly demonstrate the environmental benefits of the self-certification approach for small businesses. Based on that information, EPA is working with Massachusetts to demonstrate the value of the approach to other states. This approach has been very successful with several states in the process of adopting the approach.

As part of managing the full cycle of the innovations process, EPA will regularly review innovations being tested for their potential for broader application. Those that are will be evaluated for their environmental benefits relative to the status quo regulatory system.

SMALL BUSINESS: EXAMPLES OF PROGRAM OFFICES TAILORING ANALYSIS AND REGULATORY PROPOSALS TO REALITIES OF GIVEN INDUSTRIAL SECTORS

Question. Provide examples of how incorporation of small business concerns are enabling program offices to more closely tailor their analysis and regulatory proposals to the realties of given industrial sectors?

Answer. The impact of the Small Business Regulatory Enforcement Fairness Act on EPA's regulatory analysis and proposals has been far-reaching, and consideration of small-business concerns is now prominent in many sectoral actions. For example, when regulating engine emissions, the Office of Transportation and Air Quality typically considers modified requirements or even exclusions for certain engine families or a set quantity of units in order to reduce burden on small-quantity manufacturers. When issuing Maximum Attainable Control Technology standards for a given industry under the Clean Air Act, the Office of Air Quality Planning and Standards typically excludes area sources or low-capacity sources defined otherwise to reduce the number of small businesses likely to be subject to technology requirements. Likewise, the Office of Science and Technology in the Office of Water typically writes Effluent Limitation Guidelines by excluding low-flow systems in order to avoid regulatory costs for small businesses that typically operate under low-flow conditions. By its nature, the Safe Drinking Water Act governs the water-supply sector, and EPA typically accommodates small systems by granting delayed implementation schedules, reduced monitoring requirements, and alternative technologies. We are also investing in alternatives to regulations, such as Environmental Management Systems and the Environmental Results Program. Mechanisms such as these hold high promise of relieving small businesses of costly requirements.

SMALL BUSINESS: INCREASE KNOWLEDGE OF IMPACT OF REGULATORY REQUIREMENTS IN FISCAL YEAR 2003

Question. In fiscal year 2003, how will EPA further increase its knowledge of the impacts of its regulatory requirements on small business?

Answer. It continues the Agency's policy that program offices should assess the direct impact of every rule on small entities and minimize any impact to the extent feasible, regardless of the magnitude of the impact or number of small entities affected. This "any-any" policy, which goes beyond the requirements of the Regulatory

Flexibility Act, has been the Agency's policy since before the inception of the Small Business Regulatory Enforcement Fairness Act and will continue to be so in the future. To build upon this important policy, the Agency will increase its knowledge of its regulatory requirements on small business by:

Greater Utilization of the Small Business Division (SBD).—EPA's SBD assists the program offices by helping identify and characterize small businesses affected by Agency actions, sharing insights on regulatory impacts, and encouraging innovative approaches to regulatory development. In fiscal year 2003, the SBD will enhance its outreach efforts with the program offices by recommending small businesses for consultation activities, participating on workgroups to provide early guidance on rules, and developing training materials to promote better understanding of small business issues during the rulemaking process.

Training.—The Agency's Regulatory Steering Committee (RSC) is currently developing a training curriculum to implement the Agency's 2001 EPA Task Force on Regulatory Development recommendations. The initial training will be for Assistant Administrators; however, the goal is to eventually provide training for all decisionmakers and rule writers. The initial training for Assistant Administrators will include an overview of the importance and necessity of small business outreach to understand and mitigate adverse impacts. The training will include guidance on how to address this important responsibility.

Guidance.—The RSC is also revising its "Analytical Blueprint" (Blueprint) guidance. The Blueprint is a planning document that is developed early in the process to guide the analytic support developed for priority regulations. The guidance will include small business considerations so that potential impacts may be analyzed, as appropriate.

Outreach.—Program offices are encouraged to attend briefings, interact with stakeholders, and participate in conferences and other events to help increase knowledge of the impacts of its regulatory requirements on small businesses. One such example is the annual Small Business Ombudsman (SBO)/Small Business Assistance Program (SBAP) National Conference. This year's conference is hosted by the Illinois Department of Commerce and Community Affairs and will be held in Chicago on June 29–July 3. These conferences provide an opportunity for the state small business programs and EPA to share information about small business needs across the country. The conference provides training and interactive opportunities for all that attend. Each year, representatives from EPA program offices and regions participate and learn about small business characteristics, impacts, and needs. In addition, the Agency will continue to facilitate meetings between the Deputy Administrator and small business groups to ensure that small businesses have an opportunity to share their issues and concerns with the Agency's senior management. Finally, the Agency's Small Business Advocacy Chair will continue to work with the Small Business Administration, the Office of Management and Budget, and small business stakeholders, as appropriate.

Improved Access.—The Agency is providing better ways for small businesses to share their views on proposed regulations and policies. The Agency has created EDOCKET, an electronic public docket and on-line comment system designed to expand access to documents in EPA's major dockets. EDOCKET will enable small businesses to participate in the rule-making process and access electronic docket materials more easily and more efficiently by using the Internet. This system was developed to process and manage public information, including rule making documents, supporting documentation, and Federal Register notices. It will also help small businesses view, retrieve, and submit comments online. Such improved access will help the Agency increase its knowledge of the impacts of its regulatory requirements on small businesses.

Innovative Approaches.—In April, the Agency released its Innovation Strategy. This strategy reflects EPA's commitment to explore new and creative ways of achieving cleaner air, purer water, and better protected land. The strategy provides the Agency with a practical framework for encouraging innovative solutions to environmental challenges. Key actions in this framework include strengthening environmental partnerships, targeting priorities, expanding the current collection of tools, and creating a more innovative culture to effectively address challenging problems. Small businesses will be an integral component of the Agency's innovative approach.

SMALL BUSINESS: INCREASE KNOWLEDGE OF IMPACT OF RULEMAKING IN FISCAL YEAR 2003

Question. In fiscal year 2003, how will EPA increase its knowledge of the impacts on small business of rulemakings under consideration?

Answer. Understanding the impacts on small business is a critical component of the Agency's rulemaking process. In fiscal year 2003, the Agency will continue to implement recommendations from the Task Force on Regulatory Development to strengthen the analysis of policy issues, including the impact on small businesses. Small business considerations will be specifically addressed in the Analytic Blueprints for priority actions. In addition, the Agency will continue to solicit the input of small businesses during public comment periods for proposed rules, as well as outreach to small business stakeholders under the Agency's "any/any" policy. Finally, the Agency's Small Business Advocacy Chair will continue to work with the Small Business Administration, the Office of Management and Budget, and small business stakeholders, as appropriate.

In fiscal year 2003, the Agency's Small Business Division will continue to work with the program offices to ensure that rulemakings that are under consideration adequately address small business issues. Such activities include participating on current workgroups, as well as helping program offices identify and consult with affected small business sectors. The Agency will increase its knowledge of impacts on small business by:

Greater Utilization of the Small Business Division (SBD).—EPA's SBD assists the program offices by helping identify and characterize small businesses affected by Agency actions, sharing insights on regulatory impacts, and encouraging innovative approaches to regulatory development. In fiscal year 2003, the SBD will enhance its outreach efforts with the program offices by recommending small businesses for consultation activities, participating on workgroups to provide early guidance on rules, and developing training materials to promote better understanding of small business issues during the rulemaking process.

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achieving cleaner air, purer water, and better protected land. The strategy provides the Agency with a practical framework for encouraging innovative solutions to environmental challenges. Key actions in this framework include strengthening environmental partnerships, targeting priorities, expanding the current collection of tools, and creating a more innovative culture to effectively address challenging problems. Small businesses will be an integral component of the Agency's innovative approach.

SMALL BUSINESS: INCREASE KNOWLEDGE OF DELIVERY OF INFORMATION ABOUT REGULATORY REQUIREMENTS IN FISCAL YEAR 2003

Question. In fiscal year 2003, how will EPA increase delivery of information about its regulatory requirements to small businesses?

Answer. The Agency is committed to working with small businesses to ensure that they are aware of, and understand, their environmental regulatory responsibilities. While the Agency has made great strides to reach out to small businesses, it continues to look for new opportunities to address this key component of the regulatory system. In fiscal year 2003, the Agency will build upon its progress by:

Greater Utilization of the Small Business Division (SBD).—The SBD hosts a toll-free hotline to answer small businesses' questions about environmental regulations. The hotline receives over 1,000 calls a month. The hotline will continue to be promoted as it provides one-stop' assistance to help America's small businesses find answers to their environmental questions. In addition, program offices will continue to use the SBD's vast network of small business contacts to distribute notices, announcements and other relevant compliance information to small business groups. The SBD will continue to publish a newsletter twice a year that reports on important Agency activities. In addition, the new Small Business Environmental Assistance Providers Directory will be distributed to small business groups. The directory is an easy-to-use quick reference of the key Federal, State and private programs that can address small business environmental compliance, pollution prevention and other related questions and concerns. It provides all of the relevant environmental contacts a small business needs in one convenient location. The SBD will continue to keep the small business community updated on Agency regulatory activities by distributing EPA's weekly press releases and the Small Business Quarterly Alert to its comprehensive e-mail network.

Outreach.—The Agency will continue to support access to regulatory assistance via comprehensive websites. These resources include the EPA websites targeting small businesses (www.epa.gov/smallbusiness; www.epa/sbrefa; the small business regulatory library (http://yosemite1.epa.gov/OPEI/smallbus/nsf)) and EPA-supported sites such as one dedicated to small business issues (www.smallbiz-enviroweb.org). In addition, the Agency has initiated over 100 activities designed to help small businesses fulfill their environmental responsibilities.

In fiscal year 2003, the Agency will continue to build upon these activities, including promoting the successful compliance assistance centers (http://www.epa.gov/compliance/assistance/centers/index.html) and sector resources, developing expert systems to help specific industries address compliance questions, holding workshops in the regions to educate small businesses on new rules, and developing fact sheets to help simplify small business obligations. Lastly, the Agency will continue to work with small business stakeholders throughout the rulemaking process to identify effective approaches to deliver information to small businesses. Specific examples include Small Business Advisory Chair outreach, early consultation with small business representatives, Small Business Regulatory Enforcement Fairness Act (SBREFA) panels, and SBREFA Compliance Guides, as appropriate.

Partnerships.—The Agency will continue to work with the regions, states, and compliance assistance providers such as the State Small Business Assistance Program to deliver information to small businesses. Partnering with these stakeholders will help amplify EPA's message and ensure that information is reaching the small business community.

SMALL BUSINESS: PROGRAM OFFICES CONSIDERING RULEMAKINGS DETERMINING IMPACT ON POTENTIAL SMALL BUSINESS IN FISCAL YEAR 2003

Question. In fiscal year 2003, how will EPA further ensure that program offices considering rulemakings determine potential small business impacts in areas which they may not already be aware?

Answer. For Agency rules to be effective, the rule writers must understand the industry being regulated. EPA's current regulatory process requires rule writers to identify rules that will affect small businesses and investigate options that could minimize adverse burden. EPA will continue to support this important step in the regulatory process. In fiscal year 2003, the program offices will continue to work

with the Small Business Advocacy Chair, the Small Business Regulatory Enforcement Fairness Act (SBREFA) Team, and the Small Business Division to identify and consult with affected small business entities. With additional emphasis on Analytic Blueprints and on early planning, consideration of small business issues should improve. To further support these efforts, EPA is improving the guidance and training associated with its Action Development Process, as well as maintaining information on its SBREFA website (www.epa.gov/sbrefa).

Furthermore, the Agency will complete the revision to its Small Business Strategy in fiscal year 2003. Significant research has been conducted to investigate what is working at the Agency and what activities need to amended to effectively address small business issues. The intent of the strategy will be to better integrate Agency activities that support small businesses, including technical assistance and outreach, regulations that minimize burden, and participation in EPA's voluntary programs. A primary goal of the strategy will be to ensure that program offices have the tools and information needed to understand the small business sector and, thus, appropriately regulate the selected industry. The Agency will determine potential small business impacts by:

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SMALL BUSINESS: ENSURE PROGRAM OFFICES' ECONOMIC ANALYSIS OF SMALL BUSINESS IMPACTS DO NOT OMIT SMALL BUSINESS OR INDUSTRY SECTORS IN FISCAL YEAR 2003

Question. In fiscal year 2003, how will EPA further ensure that program office economic analysis of small business impacts do not omit small businesses or industry sectors it believes may be impacted by the rulemaking but on which the agency does not currently possess impact information?

Answer. The Agency will continue to stress the importance of outreach to small business sectors to ensure that its rules accurately represent the industry that is being regulated. Mechanisms for ensuring consideration of small business issues include: attention during the analytic blueprint development stage; continued implementation of the Agency's "any/any" policy; RFA/SBREFA guidance, including assistance to rule writers on completing Initial Regulatory Flexibility Analysis (IRFA) and Final Regulatory Flexibility Analysis (FRFA); and implementation of the Agency's Guidelines for Preparing Economic Analyses, which includes a section on addressing small businesses.

In fiscal year 2003, the Agency will also continue to improve communications with small business groups and trade associations by preparing newsletters for small business stakeholders and holding meetings with trade association representatives. Such activity will help educate the small business community about upcoming regulations and provide opportunities for small businesses to participate in the process.

Furthermore, EPA will continue to publish and distribute, via mechanisms including the Small Business Division (SBD), the semi-annual Regulatory Agenda to small business contacts, which serves as an effective alert on upcoming regulatory actions. The SBD will continue to be the lead conduit to receive information from small business groups on upcoming rules, and is charged with alerting the program offices accordingly.

NEW SOURCE REVIEW

Question. There are roughly 20,000 sources in this country subject to the Clean Air Act, and EPA may take the position that any repair or replacement work at these sources (other than minor maintenance that occurs frequently at an individual facility) triggers an analysis under the new sources review (NSR) modification rule. How many NSR applicability determinations do you estimate will be required annually for those 20,000 sources? Has this question been part of your review of NSR?

Answer. The impact of EPA's "routine maintenance" policies is a question that we examined during the NSR review. Many commenters expressed concern about the potential impact of EPA's policy. Commenters did not provide sufficient data to estimate the number of NSR applicability determinations undertaken annually. EPA does not consider routine maintenance, repair or replacement work to trigger NSR rules.

Question. A nationwide census of coal-fired boilers indicates that each existing coal-fired boiler, on average, repairs or replaces the types of equipment that EPA has identified in its NSR enforcement actions at least once per year. Assuming that this is correct, how many additional NSR permits would such repair and replacement activity entail each year?

Answer. EPA's enforcement records do not support the assumption presented by this question. If a utility undertakes non-routine types of changes on an annual basis, which would be uncommon, only those changes that result in significant net emissions increases would trigger NSR. Simply performing a non-routine repair or replacement does not necessarily lead to NSR.

As to the number of NSR permits needed, EPA's records indicate that utility companies have about 1,100 coal-fired boilers currently in use, but we would need more specific information about the types of changes and their effect on emissions increases before determining which ones may require permits.

Question. An EPA NSR expert has testified that, if a motor in a factory broke down and had to be replaced, the factory could not reopen for up to 2 years while the company processed paperwork and obtained an NSR permit. Even then, the facility could not resume operations until it retrofit new sources control technologies. Is this correct? Have you performed an analysis of what this means for the nation's energy supply?

Answer. We are unable to ascertain whether this is a correct interpretation of testimony provided by an EPA expert. It is important to note that only non-routine changes that significantly increase emissions are required to undergo major NSR permitting. The determination of whether a change is routine, and if not, its effect on emissions, are based on case-specific facts, and the question does not provide enough information to draw a conclusion for the case described. In cases where unexpected equipment failure has occurred in the past, the Agency has consistently worked with industry and state and local permitting authorities to allow the facility to get the unit back in operation quickly. Moreover, it is unlikely that the replacement of a minor factory component would require major NSR permitting.

EPA reviewed the impacts of NSR on investment in new utility and refinery generation capacity, energy efficiency, and environmental protection, as recommended in the National Energy Policy. The report examined among other things, the impact of delays associated with NSR. We reported to the President on our findings on June 13, 2002.

Question. Over the last 30 years, EPA's regulations and practices have excluded from NSR all "routine maintenance, repair and replacement" and that EPA's regulations specifically exclude any increases in emissions associated with operating a facility more hours, unless such an increase is prohibited by a federally enforceable permit condition. So if all of this is correct, then how can it be explained that emissions are down under the CAA?

Answer. Under the Clean Air Act, NSR is only one tool to manage and reduce emissions. In addition, there are several other significant Clean Air Act programs working to provide substantial emissions reductions. For example, the Title IV Acid Rain Program has reduced SO_2 emissions from the electric utility industry by more than 7 million tons per year. The Tier 2 motor vehicle emissions standards and gasoline sulfur control requirements will ultimately achieve NO_X reductions of 2.8 million tons per year. Standards for highway heavy-duty vehicles and engines will reduce NO_X emissions by 2.6 million tons per year. Standards for non-road diesel engines are anticipated to reduce NO_X emissions by about 1.5 million tons per year. The NO_X "SIP Call" will reduce NO_X emissions by over 1 million tons per year. These reductions, together with NSR's minimization of increases from new sources and modifications that increase emissions, have worked together to ensure that emissions have continued to decrease as the economy has grown.

Question. Owners of electric generating units may be able to avoid NSR by surrendering voluntarily available capacity through "minor source" permit proceedings. Under these procedures capacity, whose construction states have authorized and which ratepayers have paid for, could not be used. What are the potential impacts on the national and state economies of this potential loss of generation capacity?

Answer. The NSR program does not require a utility making a change that results in an emissions increase potentially subject to NSR to surrender generation capacity in order to avoid major NSR permitting. In the limited cases where NSR potentially applies, the source has options for how to assure that its emissions do not increase as a result of the change. While some options may involve limiting operation to historic levels, others include reducing the emissions rate at the unit or at other units at the plant. Nevertheless, the EPA examined the extent to which generation capacity may be affected by NSR as part of its review and reported to the President on June 13, 2002.

Question. As the summer electric peak season draws near, the operators of our nation's electric generating fleet are still waiting for published guidelines on how your agency will view maintenance and repair under the NSR program. These guidelines have been promised for months. Without these EPA guidelines for plant operators to follow, this reliability and the ability to meet the summer peak demands could be threatened. When will these guidelines be published?

Answer. As noted previously, the EPA has been looking closely at this question as part of its review of NSR and is proceeding as expeditiously as possible to determine how best to respond to concerns raised by operators of electric generators and other stakeholders. We reported to the President on June 13, 2002 on our review of the NSR program. In that report, EPA proposed to initiate a rulemaking and public comment process on routine maintenance, repair and replacement. As has been done in the past, EPA will continue to work closely with generators and regulators alike to ensure that electric generation needs are met in harmony with the nation's clean air goals.

TOXICS RELEASE INVENTORY (TRI) PROGRAM AND THE TRI LEAD RULE

Question. The newly enacted Information Quality Act requires agencies to ensure and maximize the quality, objectivity, utility, and integrity of data disseminated by

the agencies. How does EPA plan to meet these goals with regard to the reporting data generated under the TRI lead rule?

Answer. Section 313 of the Emergency Planning and Community Right-to-Know Act (EPCRA) of 1986 and section 6607 of the Pollution Prevention Act (PPA) of 1990 requires EPA to annually collect releases and other waste management quantities of listed toxic chemicals from covered facilities. EPCRA section 313 also requires EPA to make this information available to the Federal, State, and local governments, researchers, and the public. EPCRA section 313 is very clear that EPA should not require facilities to conduct any additional monitoring or testing to comply, but that facilities should use readily available information, such as monitoring data collected pursuant to other laws, or make a reasonable estimate of their release information. Therefore, the quality of the TRI data is dependent upon the information submitted by each facility.

To assist facilities in developing their release and other waste management estimates, the TRI Program provides extensive compliance assistance, such as:

—industry-specific or chemical-specific guidance documents;

—annual industry training workshops;

—user-friendly software such as the TRI Made Easy (TRI–ME). TRI–ME is an interactive, intelligent software tool that guides facilities through the TRI reporting experience;

—annual updates of the Reporting Forms and Instructions;

—TRI User Support: a mechanism by which individuals with questions or need assistance can contact EPA's TRI Program directly to the EPA headquarters TRI staff;

—EPCRA Call Center is a toll free number industry may call to obtain answers and guidance to questions about completing the TRI (EPCRA section 313) forms. The EPCRA Call Center number is (800) 424–9346. For callers in the Washington, DC area the number is (703) 412–9810. The TDD is (800) 553–7672; and

—facilities are also encouraged to write to the TRI Program directly, asking site specific questions relating to TRI reporting requirements. The TRI program will respond directly to the facility in writing.

In addition to the above compliance assistance activities, the TRI Program has a number of procedures in place to ensure the quality of the data. Below are some examples of the types of procedures implemented by the program:

EPA's Data Entry Process is virtually (99.9 percent) error free. A key component of this process is double key entry.

Once a facility's data is entered into the EPA database, EPA prints out the entered data in a "facility data profile" (FDP) that is sent back to the facility to check. The FDP automatically checks for data errors and notes those on the FDP that is sent back to the facility. Facilities can then make revisions to their data if needed.

Independent of the "FDP process," EPA has a process for facilities to revise or withdraw their chemical reports if they discover they have made an error in reporting. For the 2000 reporting year, EPA evaluated approximately 350 such requests from facilities to withdraw reported data from the TRI database and about 10,000 requests for revisions to data.

EPA sends each state a list of all the facilities that submitted a TRI report to EPA and all the chemicals that they reported so that the states can check this against the TRI reports they directly receive.

EPA sends each state a list of the 100 facilities with the largest releases in that state. EPA asks the state to make sure that there are no facilities included or excluded that should not be. EPA follows up with telephone calls to the states.

Once all the data has been entered into the TRI database, EPA calls facilities that may have an error in reporting, e.g., those facilities that reported very large increases or decreases in their releases from 1 year to the next and facilities with very large quantities of releases and total production-related waste. EPA called more than 200 facilities this year that met that criteria. Approximately 27 of the facilities called had significant errors that needed to be corrected.

This year, for the newly-reported persistent bioaccumulative and toxic (PBT) data, EPA identified 560 facilities to be called regarding their PBT chemical reports. As a result of these calls, approximately 130 facilities revised their reported release and other waste management data for PBT chemicals. For example, facilities revised their total release quantity of dioxin and dioxin-like compounds to 95,910 grams from the 750,226 grams originally reported.

Lastly, with regard to the Information Quality Guidelines, EPA is developing Information Quality Guidelines to be issued by October 1, 2002, as specified in the guidelines published by the Office of Management and Budget (OMB). EPA's guidelines will build upon ongoing efforts to improve the quality of the information used

to support Agency policy and regulatory decisions. Given existing Agency-wide systems and procedures and the TRI Program methods, EPA is confident that the TRI Program will be consistent with OMB's Information Quality Guidelines.

AGENCY'S RESPONSE TO INCORRECT DATA IN TRI DATABASE

Question. How does EPA plan to identify information contained in the database that does not meet the data quality standards, to correct or remove it, and educate citizens that the TRI database contains such information?

Answer. EPA currently provides information to the public on its website that explains the benefits and limitations of the TRI data. In a document called "The Toxics Release Inventory (TRI) and Factors to Consider When Using the TRI Data" EPA explains that facilities may report estimated data to the TRI Program and that the program does not require them to conduct additional monitoring. This document also explains that various estimation techniques may be used by facilities when monitoring data are not available. EPA intends to continue to make this type of information available to TRI data users and provide context about the TRI data.

EPA is currently in the process of drafting its Information Quality Guidelines. As part of this effort, EPA is reviewing its existing procedures for correcting information the Agency disseminates to the public. EPA's guidelines, which are due to be issued October 1, 2002, will address the identification and correction of information that does not comply with the guidelines.

TRI LEAD RULE DATA QUALITY

Question. What measures has EPA instituted to ensure that data collected under the rule requiring TRI reporting for lead and lead compounds are of high quality?

Answer. EPA does not require facilities to conduct any monitoring or testing solely for the purpose of TRI reporting. The TRI data reported by facilities represent facility estimates based on monitoring data required by other provisions of law, or if not available, on the best available information. Therefore, the quality of the TRI data is dependent upon each facility.

The Agency has been very active in publicizing the new EPCRA section 313 reporting requirements for lead and lead compounds, and in providing compliance assistance. A primary purpose of EPA's compliance assistance is to help those facilities that may need to comply with the new TRI reporting requirements make more accurate threshold determinations and more accurate estimates of releases and other waste management quantities of lead and lead compounds.

SMALL BUSINESS CONCERNS WITH DATA TRI DATA QUALITY

Question. In view of concerns raised by small business associations in their February 21, 2002, letter to EPA Administrator Whitman about implementation problems with this rule, how confident is the Agency in the quality of the data that it will receive in the first reporting cycle under the lowered thresholds for lead and lead compounds?

Answer. The Agency has been very active in publicizing the new EPCRA section 313 reporting requirements for lead and lead compounds, and in providing compliance assistance. A primary purpose of EPA's compliance assistance is to help those facilities that may need to comply with the new TRI reporting requirements make more accurate threshold determinations and more accurate estimates of releases and other waste management quantities of lead and lead compounds. The TRI Program has a number of procedures in place to improve the quality of the data. The TRI Program believes that, collectively, these practices plus the compliance assistance activities help to ensure the quality of the TRI data. The Agency recognizes that the first year data is inevitably for many a trial year and, therefore, not as reliable as subsequent years. However, it believes that the data will not be any worse than would normally be expected in a first reporting year.

IDENTIFICATION OF BUSINESS REQUIRED TO REPORT UNDER TRI LEAD RULE

Question. How will EPA identify the businesses required to report under the TRI lead rule, especially the numerous small businesses that are newly subject to TRI reporting requirements under the rule? What outreach efforts has EPA made to ensure that each of them is aware of the new reporting requirements?

Answer. EPA has been very active with outreach efforts during the entire development of the lead rule. This includes three public meetings that EPA conducted with special emphasis on potential small business impacts of the lead rule in Los Angeles, Chicago, and Washington, DC. The notices announcing the meeting were reviewed by the Small Business Association (SBA). The meeting was also announced

in a targeted mailing. EPA has been very active in announcing the final TRI lead rule, and informing those who may have to comply with the new reporting requirements for lead and lead compounds. In addition to the Federal Register notice (April 17, 2002) and subsequent press releases, and extensive media coverage announcing the final lead rule, EPA's TRI Program has conducted extensive outreach efforts to inform those who may need to comply with the TRI lead rule of the new reporting requirements, and to provide compliance assistance, especially to those who are not familiar with TRI reporting. These outreach efforts are described briefly below.

Fact Sheet.—In August of 2001, the TRI Program developed a "Fact Sheet" that announces: 1) the new TRI lead rule; 2) the development of a guidance document to provide technical assistance for complying with the lead rule; and 3) compliance assistance workshops. This Fact Sheet was distributed electronically by EPA's Small Business Office to many individuals and organizations (i.e., businesses, including small businesses and trade associations) that may be affected by the new rule.

Guidance Document.—The TRI Program developed a technical guidance document through a public notice and comment process. A draft version was released on September 10, 2001, within 5 months after the lead rule became effective. A public (stakeholder) meeting was held on September 24, 2001, to discuss the draft version. A final version was released at the beginning of January 2002.

Lead Rule Training Workshops.—The TRI Program conducted nine lead rule workshops that were held throughout the various regions of the country in the fall of 2001. Approximately 730 people registered for the fall 2001 workshops. In general, the feedback received by the TRI Program from the participants was positive.

EPA's Small Business Ombudsman Office sent out e-mail announcements to trade organizations and interested parties, including the SBA, announcing the lead rule workshops.

EPA published a Federal Register notice announcing the lead rule workshops and sent flyers directly to interested parties via e-mail.

EPA spoke at conferences, attended meetings, and assisted in the development of outreach materials for trade associations upon the request.

EPA posted announcements of all of these efforts on the TRI Program's internet homepage, and EPA Regional offices sent out mass mailing announcements to regulated entities and states.

In addition to the above-mentioned special assistance for the lead rule, the TRI Program has established an extensive compliance assistance program to all those who need to comply with TRI reporting requirements (including the lead rule), including those in small businesses. The TRI Program provides this assistance through the:

—TRI hotline;

—*TRI Industry Workshops.*—TRI Program sponsors compliance assistance workshops which are offered every spring in each EPA Region (approximately 3,000 attendees for the spring 2001 workshops). Currently, the TRI Program is conducting forty-two workshops across the country. These workshops cover the new reporting requirements for lead and lead compounds (the training materials for the 2002 spring workshops are available from the TRI Program's internet homepage);

—*TRI User Support.*—A mechanism by which individuals with questions who need assistance can contact EPA's TRI Program; and

—TRI–ME: TRI–ME is an interactive, intelligent, user-friendly software tool that guides facilities through the TRI reporting requirements.

EPA believes that its outreach efforts to reach small businesses have been effective; this is supported by the fact that every year TRI-training workshops are well attended, and that the Agency has received many compliance-related questions from individuals from different types of facilities, sizes, and industry sectors. Also, during the public comment period of the proposed lead rule (published August 3, 1999), the Agency received many comments from small and large businesses and trade associations that represent diverse industry sectors. In addition, since promulgation of the final rule, the Agency has received many inquiries from: trade associations that represent small businesses and large businesses; the SBA; and individuals (e.g., presidents, CEOs) from businesses.

SMALL BUSINESS UNAWARE OF REPORTING REQUIREMENTS

Question. Are there still small businesses that are unaware of their reporting requirements, and if so, how will EPA educate them and require them to submit reports?

Answer. EPA does not have a listing of the number of small businesses that are unaware of and not in compliance with the new reporting requirements. EPA will

continue with its compliance assistance and outreach efforts and work with trade associations to assist businesses in complying with the TRI lead rule.

GENERAL AWARENESS OF REPORTING REQUIREMENTS AMONG THOSE REQUIRED TO REPORT

Question. How confident is EPA that the entire population of those required to report under the new TRI lead rule are aware that they must report? What steps is EPA taking to ensure that all those who must report have received reporting forms, including those who will be reporting for the first time?

Answer. EPA is confident that those facilities who may have to comply with the new TRI lead should be aware of it by now. This confidence is based on: (1) the attention that this rule has drawn from businesses and other entities during the public comment period of the proposed rule, and after the rule became final; (2) the mass announcements of the rule and new reporting requirements, training workshops, and a technical guidance document made by EPA via Federal Register notices, electronic mailings, flyers, and postings on the TRI Program's internet site; (3) notifications sent to the trade associations of activities related to the workshops and guidance documents; (4) attendance at the fall and spring training workshops; and (5) the many inquiries received by EPA from small and large businesses; trade associations; the SBA; and others regarding the new rule.

EPA announces the availability and how to obtain the TRI reporting forms and instructions through a variety of mechanisms. These include: the TRI internet home page, the technical guidance manual for lead and lead compounds; the training workshops and the materials distributed at the workshops; TRI User Support (a mechanism by which individuals with questions or need assistance can contact EPA's TRI Program; and the TRI Hotline. Businesses may also obtain details regarding TRI Reporting forms from their trade associations.

PRESIDENT'S DIRECTIVE FOR TECHNICAL ASSISTANCE TO SMALL BUSINESS REGARDING TRI LEAD RULE

Question. In his press release dated April 17, 2001, the President asked Administrator Whitman to provide technical assistance to affected small businesses to help them prepare their first reports under the TRI lead rule. What has been done to meet the President's directive? Have these efforts been adequate to ensure that these small businesses can provide high quality data?

Answer. Subsequent to the decision to move forward with the final lead rule, the President specifically directed the EPA to provide compliance assistance to affected businesses, especially small businesses, to help them prepare their first release reports which are due by July 1, 2002.

EPA has worked hard to provide this assistance. The Agency issued a technical guidance document on how to comply with the new lead rule and held nine workshops throughout the country last fall on the new rule. More than 700 individuals attended the workshops. These workshops and the availability of the draft and final versions of the guidance document were extensively publicized. This information was made available through announcements and notices published in the Federal Register, the Agency's TRI web page, and e-mail announcements sent out by EPA's Small Business Ombudsman Office to trade organizations and interested parties, including the SBA. In addition, TRI user support and access to TRI experts have been available through the TRI web page and interactive software link, as well as through the Agency's TRI telephone hotline.

The Agency continues to work hard to provide compliance assistance. More than forty EPA workshops on compliance with the TRI reporting requirements are being held this spring in various areas of the country, and these workshops will be especially helpful to those who will be responsible for reporting lead and lead compounds for the first time. Also, the training materials used at these workshops are available on the Internet through the TRI web page.

EPA's outreach to the small business community and compliance assistance efforts to help small businesses comply with the new lead reporting requirements have been unusually extensive and robust. The Agency will continue to be diligent in its contacts with affected businesses to give them the assistance necessary to comply with the new regulation.

While EPA has been diligent in providing assistance to small businesses, the quality of the data is dependent on facilities because they have the best knowledge of their processes and the quantities of the chemicals that they use or manufacture.

ASSISTANCE TO SMALL BUSINESS WITH COMPLIANCE TO TRI LEAD RULE

Question. In my March 7, 2002 letter to Administrator Whitman, I raised concerns over EPA's failure to assist small businesses with compliance on the TRI lead rule. Does EPA plan to enforce the reporting requirements of the TRI lead rule during this first year when small businesses still have not received adequate guidance to assist in their compliance?

Answer. As with any new TRI rule, EPA emphasizes compliance assistance during the first year of implementation rather than enforcement. In fact, the compliance assistance provided by the TRI Program regarding the new reporting requirements for lead and lead compounds has been unusually extensive and robust, and we believe sufficient to achieve compliance for the 2001 reporting year. EPA intends to continue promoting compliance by providing assistance with lead and lead compound reporting to TRI. Should a small business discover a violation after taking advantage of compliance assistance, either that provided by EPA or by another compliance assistance provider, it may be eligible for the Agency's Small Business Compliance Policy. This policy provides for the elimination or significant reduction of penalties for small businesses (those with 100 or fewer employees) if the company discovers, discloses, and promptly corrects the violations. Those businesses with greater than 100 employees may be eligible for similar penalty elimination or reduction through the Agency's Incentives for Self-Policing: Discovery, Disclosure, Correction and Prevention of Violations.

SMALL BUSINESS TRI REPORTING

Question. What materials are EPA making available to educate small businesses on how to report accurately under the TRI lead rule?

Answer. The Agency's outreach to the small business community and compliance assistance efforts to help small businesses comply with the new lead reporting requirements have been unusually extensive and robust. A primary purpose of EPA's compliance assistance is to help those facilities that may need to comply with the new TRI reporting requirements make more accurate threshold determinations and estimates of releases and other waste management quantities for lead and lead compounds. One example of a product the Agency has made available to educate small businesses on how to report accurately is the lead guidance document, which is a technical document that offers assistance in complying with the new rule. In addition, TRI user support (a mechanism by which individuals with questions or need assistance can contact EPA's TRI Program and access to TRI experts are available through the TRI web page and interactive software link, as well as through the Agency's TRI telephone hotline). The training materials used at the spring 2002 training workshops are available on the Internet through the TRI web page. The TRI Program has recently developed TRI–ME: TRI–ME is an interactive, intelligent, user-friendly software tool that guides facilities through the TRI reporting requirements.

SMALL BUSINESS TRI REPORTING WITHOUT COMPUTERS

Question. How does EPA intend to educate small businesses required to report under the rule that do not have access to a computer or the Internet?

Answer. There are many means (other than the internet) by which anyone can obtain information on how to comply with any TRI-related regulation, including the lead rule. One example includes the TRI Program's annual training workshops. These workshops are publicized in several different ways, such as through mailing announcements and Federal Register Notices. EPA has also established various other mechanisms for facilities to receive information or assistance. For example, facilities can contact the TRI Program directly by submitting written questions about site specific questions, and the TRI Program will respond in writing. Also, questions about the implementation of the TRI reporting requirements may be directed to the TRI User Support telephone line at 202–566–0250. Calls received will be forwarded directly to TRI Program staff. Upon request, the TRI Program will send out hard copies of the lead rule guidance document. The TRI Program has also established a hotline, the EPCRA Call Center, which is a toll-free number facilities may call to obtain answers and guidance to questions about completing the TRI Form R reporting form. The EPCRA Call Center number is (800) 424–9346. Callers in the Washington, DC area should call (703) 412–9810. The TDD is (800) 553–7672. This contact information is available through a variety of EPA publications. In addition, many trade associations have this information. EPA plans to continue these and other outreach and assistance efforts.

TRI: HOW HAS THE GUIDANCE DOCUMENT RECEIVED BY THE SMALL BUSINESS COMMUNITY

Question. How has the guidance document for the rule, which is over 200 pages and was not finalized until after the first reporting period was complete, been received by the small business community? To the extent concerns have been raised, how does EPA plan to address them?

Answer. The TRI Program developed the guidance document through a public notice and comment process. A draft version was released on September 10, 2001 (which is within 5 months after the lead rule became effective). A public (stakeholder) meeting was held on September 24, 2001. This meeting provided the TRI Program with the opportunity to discuss the draft version with stakeholders, and listen to comments offered by stakeholders. The final version of the document was developed from consideration of the comments submitted to EPA in writing during the public comment period, and comments raised at the public meeting. The final version was released at the beginning of January 2002: nearly 7 months before the deadline for submitting the first year release reports.

The actual body of the lead rule guidance document is only 65 pages long. The remaining sections are appendices. The appendices contain extensive and valuable information such as emission factors, thereby minimizing the time for facilities to search for this information elsewhere (e.g., saves facilities time from having to search for the factors on the Internet or elsewhere). The guidance document is well organized and easy to use: it contains a table of contents, a list of figures, a list of tables, and an index. The guidance document contains many real-world examples of scenarios likely to be encountered at facilities. Detailed explanations are provided on how facilities should deal with these scenarios with regard to the new reporting requirements for lead and lead compounds. In addition, Appendix B of the document "Selected Questions and Answers," provides EPA's answers to commonly asked questions regarding the new reporting requirements for lead and lead compounds.

The TRI Program has a policy for revising its guidance documents. Guidance documents will be revised as appropriate, based on changes in information, rules, or TRI Program policies and practices. The TRI Program always welcomes comments and additional information for all of its guidance documents, from all stakeholders. The Agency may choose to revise the lead guidance document at a future date if the Agency believes that such revision is needed based on constructive comments received.

TRI: UNUSUAL ASPECTS OF THE TRI LEAD RULE

Question. Because the TRI lead rule has aspects that are unique or unusual, such as the retroactive reporting obligation and the elimination of the de minimis reporting exemption, what specific guidance has the Agency developed to address these issues?

Answer. The TRI lead rule does not impose a retroactive reporting obligation because it does not alter the past legal consequences of past actions. This rule does not affect a facility's liability for past conduct.

In addition, no reporting obligation was placed on affected facilities prior to the rule's effective date. Reports are not required to be filed until July 1, 2002. Nor does the rule require facilities to have developed or kept records for any period predating the effective date of the rule; facilities are not required to conduct any testing or monitoring in order to report. EPCRA section 313(g)(2) only requires facilities to use "readily available data" or to make reasonable estimates based on whatever information they have, to develop their report.

EPA's 1999 persistent, PBT chemicals rule eliminated the de minimis exemption for TRI reporting of PBT chemicals. In the TRI lead rule, EPA determined that lead and lead compounds are PBT chemicals. EPA has provided facilities with guidance in the lead guidance document, as well as in the training workshops, to aid facilities in meeting their reporting obligations in the absence of the de minimis exemption.

TRI: ASSISTANCE TO SMALL COMPANIES

Question. Will EPA assist small companies in dealing with the retroactive effect of the rule by allowing them to estimate their lead usage during the months of January through April by extrapolating from data concerning their lead usage after the rule was made effective?

Answer. EPCRA only requires facilities to use "readily available data (including monitoring data) collected pursuant to other provisions of law, or, where such data are not readily available, reasonable estimates of the amounts involved." The lead rule does not alter this requirement. Thus, if facilities only have information con-

cerning their lead use and/or "releases" after April 17, 2001 (the date the rule became effective) they may extrapolate from that to make reasonable estimates of the amount of lead "released" during the reporting year. However, to the extent that facilities have records of their use and releases of lead and lead compounds for other reasons, such as to demonstrate compliance with air or water permits, or for tax purposes, they would be required to consider that information in developing their threshold and release calculations.

TRI: SMALL BUSINESS AND THE 100-POUND THRESHOLD

Question. With regard to the deletion of the de minimis exemption, how are small businesses to determine if they meet the 100-pound threshold for reporting under the rule?

Answer. EPCRA section 313 is very clear that EPA should not require facilities to conduct any additional monitoring or testing to comply, but that facilities should use readily available information, such as monitoring data collected pursuant to other laws, or make a reasonable estimate of their release information. Guidance for determining whether a facility exceeds the 100-pound threshold for manufacturing, processing, or otherwise using lead or lead compounds is presented: in the lead guidance document; at the training workshops; in materials distributed at the workshops and currently available from the TRI Program's internet home page (http://www.epa.gov/tri/report/training/index.htm); and directly from the TRI Program.

TRI: SMALL BUSINESS REPORTING RESPONSIBILITY IN THE CASE OF "NO KNOWLEDGE"

Question. What responsibility does a small business have for reporting under the TRI lead rule if it has no knowledge that it manufactures, processes, or otherwise uses lead above 100 pounds per year?

Answer. If a small business has no actual or constructive knowledge that it manufacturers, processes, or otherwise uses lead above the threshold (100 pounds per year), then it has no reporting responsibility for lead under the TRI lead rule.

TRI: KNOWLEDGE IN THE CONTEXT OF TRI REPORTING

Question. What constitutes knowledge in the context of TRI reporting?

Answer. In this context, knowledge concerns both knowledge of the facts at a facility and knowledge of the law. It has been EPA's experience that facilities have knowledge, at a minimum, of the following: the facility's processes, EPA reporting instructions, EPA guidance documents, supplier notifications, trade association documents, the facility's air and water permits, and hazardous waste manifests. Regarding the issue of what constitutes a business' knowledge of the law, courts have long held that everyone possesses constructive knowledge of the laws passed by Congress and implementing rules and regulations published in the Federal Register.[1]

However, EPA has engaged in outreach efforts to promote awareness among those required to report, including a robust compliance assistance program. These efforts include: a technical guidance document devoted specifically to assisting businesses to comply with the lead rule (developed through public notice and comment), and nine lead rule workshops that were held throughout the various regions of the country in the fall of 2001. EPA estimates that more than 700 individuals participated in the fall 2001 workshops. The Agency announced these workshops through several channels, including: e-mail announcements to trade organizations and interested parties, including the SBA; a Federal Register notice; flyers sent directly to interested parties via e-mail; announcements posted on the TRI Program's internet homepage; and mass mailings conducted to states and regulated entities.

In addition to this special assistance for the lead rule, EPA has an extensive compliance assistance program for all those subject to basic TRI reporting requirements. The TRI Program provides ongoing assistance through: a toll-free hotline staffed with individuals trained to answer TRI-related questions; workshops which are offered every spring in each EPA Region (approximately 3000 attendees for the spring 2001 workshops); TRI User Support, which is a mechanism by which individuals can directly contact EPA headquarters TRI staff; and TRI–ME, an interactive, intelligent, user-friendly software tool that guides facilities through the TRI reporting requirements.

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[1] See, e.g., U.S.C. 41507; *Federal Crop Ins. Corp.* v. *Merrill,* 332 U.S. 380 (1947).

DISTINCTION BETWEEN "HAVING NO KNOWLEDGE" AND "NOT REPORTING" UNDER TRI LEAD RULE

Question. What is the difference between "having no knowledge" and "not reporting" under the TRI Lead rule?

Answer. Knowledge raises the issue of whether an entity has an obligation to report. "Reporting" or "not reporting" is a solely an issue of whether an entity subject to the requirements has submitted reports or not. An entity "having no knowledge" would not report, but "not reporting" does not imply that a TRI reporting threshold has not been exceeded.

TRI: KNOWLEDGE IN AN ENFORCEMENT CONTEXT

Question. What is the difference in an enforcement context?

Answer. The extent of an entity's knowledge about a regulatory obligation is one factor in determining the level and type of enforcement response.

TRI: BURDEN OF PROOF IN AN ENFORCEMENT CONTEXT

Question. Who has the burden of proof in an enforcement context?

Answer. In enforcement proceedings, the EPA has the burden of proof that the violation occurred as set forth in a complaint. Following EPA's presentation of a prima facie case, a respondent has the burden of proof as to any defenses.

IRIS/RESIDUAL RISK RULEMAKING

Question. In fiscal year 2002, the Committee provided an additional $5,000,000 above the budgeted request to accelerate the development of new and update current Integrated Risk Information System (IRIS) values. The Committee continues to be concerned that EPA is not meeting its goals and, more importantly, is not making the systemic improvements in its IRIS program to achieve the primary goals of A) updating existing risk values to reflect the current best available science and B) generating new values to meet growing demands by state, Federal, and even international users of IRIS. What plan is ORD following in spending the $5M?

Answer. The new funds are available for extramural support to EPA's program offices through the Environmental Program Management (EPM) account. This support will be directed towards the scientific development and peer review of IRIS assessments. The Administrator has stated that developing options for the updating and improvement of IRIS is a key function of ORD's Assistant Administrator in his new capacity as EPA Science Advisor. ORD has convened an intra-Agency group and is coordinating development of a plan among the program offices for spending the $5M designated by Congress in fiscal year 2002 for updating and adding assessments to IRIS.

Question. What systemic improvements will ORD achieve through its expenditures that will (A) lead to a steady, sustainable update of existing IRIS values, and (B) lead to a quicker rate of throughput for new IRIS risk values?

Answer. EPA has a system in place for the generation and review of IRIS assessments across the Agency. ORD is coordinating a plan by which EPA program offices will expend the fiscal year 2002 additional funds. The new extramural funds will help in the scientific development and peer review of IRIS assessments during fiscal year 2002–2003, thereby increasing both the number of existing IRIS values that are up-to-date and the number of new assessments added to the database.

Question. How is ORD working with external experts toward achieving the primary IRIS improvement goals for which the Committee provided additional funding?

Answer. ORD recognizes that significant expertise exists outside of EPA that can assist in developing and peer reviewing IRIS assessments. This expertise can contribute to the primary improvement goals of updating IRIS and adding new assessments. ORD is coordinating a plan by which EPA program offices will expend the fiscal year 2002 additional funds by engaging external experts in IRIS improvement through contractual mechanisms. The funds will be used to access EPA contractors to help with the scientific development and peer review of IRIS assessments.

Question. The Agency is now facing a series of deadlines to promulgate residual risk standards under Section 112(f) of the Clean Air Act. An important element of this process is the selection of health benchmark values that represent for each major air toxic the best available, updated information on potential health effects. Unfortunately, IRIS includes many values for which new, more accurate data is available. How many IRIS updates does the Agency expect to complete in fiscal year 2002? How many do you plan to complete in fiscal year 2003?

Answer. EPA is aware of the requirements to promulgate residual risk standards under the Clean Air Act. The Agency has identified 53 air toxics that are important to early residual risk assessments. Twenty-seven of these air toxics were determined to be highest priority for assessment or reassessment and are in progress in the IRIS program. Four assessments of the high priority air toxic chemicals will be completed in fiscal year 2002 and seventeen are scheduled for completion in fiscal year 2003.

Question. What criteria did the Agency use to determine the values that would be updated in fiscal year 2002 and fiscal year 2003?

Answer. For fiscal year 2002, EPA's approach to developing the annual IRIS agenda was to compile nominations for priority chemicals for new assessments and reassessments, and to apply a general set of criteria to determine which to undertake. The criteria were, (1) Agency statutory, regulatory, or program implementation need; (2) the availability of new scientific information or methodology that might significantly change current IRIS information; (3) interest to other levels of government or the public; (4) completion of most of the scientific assessment work while meeting other Agency requirements such that only a modest additional effort is needed to complete the review and documentation for IRIS. The priorities that emerged from the application of these criteria were then considered in light of available Agency staff to manage assessments and available extramural resources. Application of these criteria are standard practice for the IRIS program. Similar or identical criteria will be applied to develop the agenda for fiscal year 2003.

Question. What is the process for incorporating the 2002 and 2003 updates into the 112(f) rules, which are due beginning in 2003, or alternatively, what process will be employed to incorporate these values into the residual risk rule if IRIS updates are not completed?

Answer. OAR has identified those substances which it believes will play a significant role in the early 112(f) assessments and thus require updated assessments via the IRIS process. These are under development for completion in 2002 and 2003. As these IRIS assessments are available, they will be relied upon in risk assessments completed under 112(f). As information is available regarding pending changes to IRIS assessments, it will be used to supplement 112(f) risk assessments and to inform 112(f) rule development as feasible and where scientifically appropriate. Our general policy is that any dose-response (or health) assessment that would significantly affect a regulatory decision should be peer reviewed prior to finalization of that decision.

Question. In response to questions submitted last year on your fiscal year 2002 budget proposal, EPA stated that the primary determinant of how many new assessments can be undertaken in fiscal year 2002 is the "availability of scientific staff to lead or oversee the work." Please provide the number of scientific staff EPA dedicated to IRIS updates over the past four fiscal years and the Agency's plans for fiscal year 2003.

Answer. Availability of scientific staff to lead or oversee assessment development and review is key to the IRIS process of generating Agency consensus documents. Over the past 4 years, an average of 40 "IRIS chemical managers" have been involved across the Agency. In addition, 16 "consensus reviewers" and many other internal peer reviewers have contributed to the scientific process. Most have multiple responsibilities in addition to participating in the IRIS program. A central IRIS staff also contributes to scientific quality assurance. In fiscal year 2003, EPA staffing is likely to continue at approximately the same level.

Question. One way to accelerate IRIS updates is to make greater use of external entities in helping to conduct risk assessments, subject to EPA review and approval. In response to questions on your fiscal year 2002 budget submittal, your Agency stated that it has 6 pilot assessments underway which involve collaborative efforts to develop assessments with other Agencies and the private sector, and "that the Agency will have sufficient experience with these efforts to evaluate them in terms of quality and timeliness of products in fiscal year 2002." What were the results of this review and what are the Agency's plans to expand the use of outside entities?

Answer. EPA has been interested in the possibilities for accelerating IRIS updates by making greater use of health assessments generated by external entities. The Agency undertook six pilot assessments in fiscal year 2000 whereby EPA could engage in a dialogue with and provide feedback to external parties developing health assessments which could then be used as supporting documents for EPA's IRIS assessments. Other IRIS assessments in progress also engage external entities in various aspects of data or model development and review, but the aforementioned pilots test whether a full health assessment generated externally can be useful for EPA. Two of these pilots have since been discontinued, and the remaining four are still in progress. The need for sustained engagement of EPA chemical managers to inter-

act with external entities is one important aspect of ensuring usable, timely products. Expansion of this effort to engage external entities in the development of assessments useful to EPA for IRIS will depend in part on availability of staff and evaluation of the four remaining pilot assessments when they are completed.

Question. As noted in previous correspondence to the Agency, EPA committed in an August 26, 1994, Air Office Guidance on the Use of integrated Risk Information System to incorporate new toxicological information during rulemakings. This commitment was repeated by Administrator Whitman on September 7, 2001 (66 FR 46929) when she stated that "IRIS values are not legally binding and are not entitled to conclusive weight in any rulemaking." To make this commitment a reality during the development of residual risk standards, how many FTEs with scientific background does the air program office have to evaluate new toxicological data?

Answer. Different program offices within EPA participate in the IRIS process in different ways. Some program offices have an in depth expertise in toxicology and thus update and/or develop most of their IRIS assessments. OAR has limited expertise in this area and thus has relied to a large extent on the Agency's Office of Research and Development (ORD)/National Center for Environmental Assessment (NCEA) offices to update reference concentrations (RfCs) for priority chemicals. This support is critical to our regulatory program. ORD assists OAR in the air toxics residual risk program by reviewing toxicological data and in the consultative review of other residual risk assessments. ORD devotes approximately 9 FTE per year to assist OAR with IRIS. In addition, OAR has 2 FTEs with the requisite scientific knowledge to evaluate new toxicological data. The air program currently has 0.2 FTE of these FTEs available in OAR to do this kind of work. Discussions are currently in progress to determine how OAR can begin to develop IRIS files for chemicals that are not high priorities for other program offices and to help the Agency speed up the process of evaluating new toxicological data.

Question. If EPA expects ORD to conduct any review, please describe the process by which this data will be reviewed to ensure a timely evaluation, especially in instances where there is inadequate time for a full fledged IRIS value review and update? How many FTEs in ORD will be devoted to reviewing toxicological data submitted during or in anticipation of rulemakings?

Answer. ORD will continue to assist the Office of Air and Radiation (OAR) in the air toxics residual risk program. ORD reviews toxicological data in the standard process for developing air toxics assessments for IRIS. Where there is inadequate time or priority for developing an IRIS assessment, ORD recommends other sources for dose-response values. ORD also assists in the consultative review of other residual risk assessments for OAR. ORD devotes approximately 8 FTE per year to the development of assessments for chemicals of priority to the residual risk program, and less than 1 FTE per year for consultative review.

MACT STANDARD SETTING

Question. How many MACT standards have yet to be promulgated? Please provide an updated list of the remaining MACT source categories and the Agency's current schedule for when the Agency will promulgate standards for these source categories.

Answer. There are 36 10-year Maximum Achievable Control Technology (MACT) standards that are yet to be promulgated; three of the promulgations represent a combination of 2 standards from the original list of categories subject to MACT. These were efficiently combined because they addressed the same industry. The updated list of remaining MACT standards and the draft schedule for completion are:

Signature by June 30, 2002

Large Appliances
Polyvinyl Chloride & Co-polymer Production

Signature by November 30, 2002

Municipal Solid Waste Landfills
Friction
Paper & Other Web Coating

Signature by February 28, 2003

Flexible Polyurethane Foam Fabrication Operations
Coke Ovens; pushing, quenching & battery stacks
Reinforced Plastics
Semiconductors
Miscellaneous Metal Parts & Products (Surface Coating) (&Asphalt/Coal Tar Application on Metal Pipes)
Refractories Manufacturing

Brick, Structural Clay Products & Clay Ceramics Manufacturing [1]
Asphalt Roofing/Asphalt Processing
Integrated Iron & Steel
Hydrochloric Acid Production Industry/Fumed Silica [1]
Engine Test Cells/Stands
Metal Furniture
Fabric Printing, Coating & Dyeing

Signature by August 30, 2003

Combustion Turbines
Wood Building Products
Lime Manufacturing
Site Remediation
Iron Foundries
Taconite
Miscellaneous Organic Chemical Products & Processes (MON)
Organic Liquids Distribution
Primary Magnesium
Metal Can
Plastic Parts (Surface Coating)

Bin 5 Signature by February 28, 2004

Industrial, Commercial & Institutional Boilers & Process Heaters [1]
Plywood & Composite Wood Products
Reciprocating Internal Combustion Engines (RICE)
Auto & Light Duty Truck Manufacturing (Surface Coating)

MACT STANDARD SETTING

Question. Under the Section 112(j) of the Clean Air Act, if the Administration fails to promulgate a MACT standard within 18 months of the statutory deadline—May 15, 2001—owners and operators must file a permit application with their state and local permitting authorities that includes a source-specific MACT determination—a very burdensome requirement on sources. Part I of this application is due on May 15, 2001. How many individual sources does EPA estimate will have to submit Part I applications? When will the Part II applications be required?

Answer. As of May 15, 2002, the Part I permit application deadline, we had not promulgated 36 MACT standards covering 62 source categories. We roughly estimate that there are over 84,000 emitting facilities located at major sources subject to the Part 1 submittal requirements. The actual number of Part 1 applications will be significantly less because many major sources contain multiple emitting facilities contained in the source categories. However, each application will cover as many of the emitting facilities as are located at that source.

In the recent rule amendments which created the two-part application process, we made it clear that the Part 2 application must include certain source-specific information needed to make a MACT determination, but the application itself need not include a "source-specific MACT determination." Although the current regulation specifies that sources have 24 months to submit the Part 2 application after submitting the Part 1 application, a national environmental group has filed a petition for judicial review to challenge this provision. We are currently engaged in settlement discussions in that case, and these discussions will most likely lead to a proposed change in this timetable. If we fail to reach a settlement an adverse judicial determination in that case could also change the timetable.

Question. If EPA has yet to promulgate standards by this date, what additional information will have to be included in the Part II permit application?

Answer. Part 2 of the permit application requires:

—The anticipated date of startup of operation of any new affected source.

—The hazardous air pollutants emitted by each affected source in the relevant source category and an estimated total uncontrolled and controlled emission rate for hazardous air pollutants from the affected source.

—Any existing Federal, State, or local limitations or requirements applicable to the affected source.

—For each affected emission point or group of affected emission points, an identification of control technology in place.

—Information relevant to establishing the MACT floor.

[1] These promulgations represent a combination of 2 standards from the original list of categories subject to MACT. These were combined because they addressed the same industry.

—Any other information reasonably needed by the permitting authority including at the discretion of the permitting authority, information required pursuant to Subpart A [the general provisions] of this part.

Question. How many individual sources does EPA anticipate under best and worst case scenarios will have to submit a Part II application?

Answer. We estimate that anywhere from 0 to over 84,000 emitting facilities at major sources could be subject to the Part 2 application requirements. We are currently engaged in settlement discussions with an environmental group to establish a fairly tight schedule to promulgate the remaining MACT standards. Under the 24 month timetable in the current promulgated section 112(j) rule, we would expect to promulgate all MACT standards before any Part 2 applications are due, so that no sources would be affected. However, if the timetable is changed as a result of the legal challenge to the rule that has been filed, a significant number of Part 2 applications could be required. The number of affected facilities is greatest for the MACT standards that we expect to promulgate last. Of the 84,000 facilities, approximately 79,000 are in source categories for which we expect to issue a final standard more than 1 year after the submission of Part 1 applications.

Question. EPA's current failure to meet the May 15, 2002 "hammer" deadline is perplexing to the Committee given the Agency's previous public comments that assured state regulators and sources that the deadlines would be met. For instance in a May 19, 1999 letter, Ms. Sally L. Shaver, Director of the Emission Standards Division, wrote a letter to STAPPA and ALAPCO stating that "EPA intends to promulgate all standards by the hammer date." Why now, less than 2 years later, is EPA saying that it will miss the hammer date for many source categories? What has happened to change this picture so dramatically that was not foreseen in May 1999?

Answer. In May 1999, when the letter was written, the Agency was being realistic about the completion of the 10-year MACT standards. We did intend to promulgate all standards by the "hammer date." We continued reinvention approaches such as consolidating rules, partnerships with states in making presumptive MACT determinations, generic MACT approach where rulemakings for source categories with four or fewer major facilities would be developed as a broad-based rule, and working with partners to reduce cost of rules to help with our goal to meet the "hammer date." We had less information on the 10-yr MACT sources categories than we had on earlier MACT source categories, therefore we needed information from industry as we developed the standards. We did not anticipate the amount of information we received on these source categories, and in some cases the information was not received in a timely manner, so additional time was required to analyze the information. There were also procedural changes in our review process for the standards.

Question. Even as recent as last year, the Agency's budget justification for fiscal year 2002 stated that: "EPA plans to have all the 10-year MACT standards proposed and completed in fiscal year 2002." Will EPA meet even this deadline and, if not, why not?

Answer. No, but we plan to have all the 10-year MACT proposed by November 2002. We fully intended to have the 10-year MACT standards completed by the "hammer date," but due to reasons mentioned in the previous response, we will still have 36 standards to promulgate.

EPA's failure to meet the hammer date is all the more troubling when considering EPA's repeated decisions to "retarget" resources away from MACT standard setting activities. For instance:

Fiscal year 2000 budget justification.—"(+$6,600,000) The Agency proposes to retarget resources from setting MACT and residual risk standards to better characterize total environmental toxic risk, particularly in urban areas." (Page I–47)

Fiscal year 2001 budget justification.—(+$10,600,000) The Agency continues to retarget resources from setting MACT and residual risk standards to better characterize the total environmental toxic risk, particularly in urban areas." (Page I–52)

Fiscal year 2002 budget justification.—(−$2,030,300) This reduction reflects that resources have been decreased for MACT standard development since EPA plans to have all the 10-year standards proposed and completed in fiscal year 2002. Some resources have been reprogrammed from MACT development for modeling and emission inventory efforts to characterize air toxics risk and exposure and for residual risk assessments on implemented MACT standards. In addition, resources were reduced for the one year effort to ensure all stakeholders have the latest information about air pollution control technologies and full access to RACT/BACT/LEAR Clearinghouse for Control Technologies." (Page I–62)

Question. Why did the EPA repeatedly propose to redirect resources away from MACT standard setting given the costly and onerous consequences for states and sources if the Agency fails to meet the statutory deadlines?

Answer. Section 112 of the Clean Air Act has many requirements. Title III of the Amendments, which contains major stationary and area source requirements, lists 188 HAPs and requires EPA to develop standards for major stationary sources of these pollutants. Within 8 years after promulgating these MACT standards, EPA must evaluate the residual risk posed by these sources and promulgate risk-based standards, if needed, to provide an ample margin of safety to protect public health or the environment.

As part of its ongoing efforts to protect public health in urban areas, and in response to the requirements of sections 112(c)(3), (k) and 202(l), EPA released the Integrated Urban Air Toxics Strategy which builds on the substantial emission reductions already achieved from the larger industrial stationary sources. While the Strategy is not a rule, additional regulations are required to establish emission standards for additional categories of area sources, and may be needed to fully address remaining risks posed by the combination of emissions from mobile, major stationary, and area sources. The goals of the Strategy are to reduce by 75 percent the risk of cancer associated with air toxics from large and small industrial/commercial sources, to substantially reduce noncancer health risks (such as birth defects and reproductive effects) from small industrial/commercial sources known as areas sources, and to address disproportionate impacts such as those in "hot spots," highly exposed population subgroups such as children and the elderly, and predominately minority and low income communities.

Because of these requirements, we started retargeting resources to meet these goals. In addition, some of the MACT resources were allocated to address litigation on the 2-, 4-, and 7-year MACT standards, which we continue to be sued on. Our focus continues to be the completion of the 10-year MACT standards, but because of new industry information, procedural changes and other issues mentioned in previous responses, we did not meet the MACT standard deadlines.

Question. Why did the Agency believe that other activities, such as obtaining more information on the nature of the air toxics problem, was more important than assuring that Congressional deadlines are met?

Answer. As mentioned in prior response, EPA was trying to meet the many requirements of Section 112 of the Clean Air Act. We intended to meet the goal of completing the 10-year MACT standards and started shifting resources into risk-based activities and balance funding between residual risk and national, urban, and community assessment activities. Also, inventories are an integral part of the risk-based program and are needed to meet the residual risk requirements with technically-credible assessments.

Question. What is the Agency doing now to avoid the mistakes of the past and assure that sufficient resources are now being dedicated to assure that all of the MACT standards will be issued before the Part II applications are due?

Answer. We are doing our best to develop and promulgate the remaining MACT standards. We believe that the resources are adequate, but the critical resource is time. Many of these standards are very involved and cannot be sped up, while adhering to the Agency's internal review process and quality control procedures and allowing for appropriate stakeholder involvement as the standards are developed. We cannot assure with certainty that all remaining MACT standards will be promulgated before the Part 2 applications are due, especially if litigation settlement discussions result in a change in the timetable for submitting Part 2 applications.

Question. Please provide the Committee with yearly estimates of the number of FTEs and budget resources that have been dedicated to MACT standard development for fiscal years 1999 to 2002 and your current proposal for fiscal year 2003.

Answer. The following are the yearly estimates of the FTEs and budget resources that have been dedicated to MACT standard development:

	1999	2000	2001	2002	2003 request
FTE	102.1	92.8	88.4	63.7	61.4
Contract	$10,890.0	$8,286.0	$10,700.0	$8,237.0	$8,162.0

Question. The existing 112(j) MACT rule states that the Part 1 application must include an identification of the "types of sources" that belong to the source category. Please explain to the Committee whether this requires sources to identify and list specific equipment or emission points at the source.

Answer. The Part 1 application is designed to be relatively general in nature and not require specific information. The more detailed, specific information is intended to be supplied in Part 2 of the application. We do not intend sources to identify and list specific equipment or emission points when identifying the "types of sources" that belong in a source category. Instead, the source should generally describe what

types of emission points are included by the source category at the source. For example, an asphalt processing facility (covered under the asphalt processing source category) would be composed of asphalt flux storage tanks, oxidized asphalt storage tanks, one or more blowing stills, and oxidized asphalt loading racks.

HYDRAULIC FRACTURING: TIMETABLE

Question. Provide a timetable describing EPA's review of questions surrounding hydraulic fracturing and study to review this issue.

Answer. EPA's coalbed methane hydraulic fracturing study grows out of issues concerning the scope of EPA's Underground Injection Control authorities. In August 1997, the 11th Circuit Court of Appeals (the Court) ruled that either Alabama must regulate hydraulic fracturing in coalbed methane wells or EPA must take over Alabama's program and regulate the process under the SDWA as underground injection (LEAF v. EPA, 118 F. 3d 1467). In 1998, the Court issued a writ of mandamus ordering EPA to withdraw Alabama's UIC program or approve a revised program by December 1999.

EPA worked with Alabama to modify the state's program consistent with the Court's decision, and published approval to a revised UIC program for Alabama in January 2000. Concurrent with the Agency's efforts to modify the state's program, members of Congress began to contact the Agency in March 1999 to recommend that EPA collect more information on the possible contamination of aquifers, and the Administrator responded within weeks to inform the Congress of the Agency's intentions to conduct a study. In April 2000, EPA launched a process to develop a study to evaluate the impacts to underground sources of drinking water (USDWs) from hydraulic fracturing of coalbed methane wells.

In addition to requesting written comments on its draft study design, in August 2000 EPA held a public meeting in Washington, DC to receive stakeholder input on the scope of the study and the process EPA would follow in completing the study. After considering the extensive written and oral comments from a wide variety of stakeholders, including industry, state oil and gas agencies, public interest groups, and concerned citizens, EPA proposed its final design in the Federal Register in July 2001.

Question. Why has the study taken so long to complete and why it is so far behind the original schedule?

Answer. The study was designed to have three possible phases, and at the completion of each phase, EPA must determine whether the findings to-date warrant continuation into the next phase. The Agency is currently engaged in Phase I, a limited assessment designed to enable the Agency to determine whether hydraulic fracturing of coalbed methane wells clearly poses a threat to USDWs. If EPA decides further investigation is warranted, the study will continue into Phase II. Phase II would consist of additional data collection and the completion of a risk assessment. Phase III would be a review of existing regulations and a regulatory determination.

Early in the implementation of Phase I of the study, EPA proposed the initial schedule with the expectation that we would find no hazardous constituents in the fracturing fluids. We have identified several constituents of concern, however, including diesel fuel. Further, the Agency intends to thoroughly investigate the economic as well as environmental implications identified in the process of implementing the study.

EPA is taking the time necessary to ensure that the study is thorough and accurate before publishing a draft for stakeholder comment. And because the study results could have a great impact on many stakeholders, including states, industry, and other Federal agencies, the Agency is attempting to engage all affected interests at an appropriate level to collaborate on the data collection.

HYDRAULIC FRACTURING: PEER REVIEW PROCESS

Question. Could you please explain the peer review process for this study?

Answer. The hydraulic fracturing study is carefully designed to ensure extensive peer review by experts in industry, academia, and state and Federal agencies of the study's data sources, analytical approaches, and conclusions. The peer review process has been conducted in four stages: (1) internal Agency review by headquarters offices and EPA Regions; (2) inter-agency review by the U.S. Department of Energy, U.S. Geological Survey, and state agencies dealing with ongoing hydraulic fracturing issues; (3) independent peer review by an EPA-convened scientific panel of experts from industry, academia, and state and Federal agencies; and (4) stakeholder review.

All supporting documentation and data from the study are part of the project files, and all reviewer comments are preserved as a part of the public record.

HYDRAULIC FRACTURING: PEER REVIEW PANEL

Question. In correspondence with members of the peer review panel on the study, EPA apparently indicated that the panel would have a final review prior to the public release of the study. More recent correspondence with the peer review panel has indicated that the panel will not see the study again until it is released publicly, at which time the panel would be invited to comment as part of the public comment process. This seems to violate the Agency's commitment to peer review studies to produce the best possible science. Why was the peer review panel denied the opportunity to again review the study prior to its public release and doesn't this weaken the study and throw into question its scientific validity?

Answer. EPA's Peer Review Policy establishes the criteria and requirements for independent evaluation of scientific and technical studies and documents. The Agency has conducted the peer review for the hydraulic fracturing study consistent with that policy, and assembled an expert panel with representation from industry, academia, and State and Federal agencies. The charge to the peer review committee was to review the report to determine if (1) the report is complete, thorough, and accurate and (2) the scientific/technical studies reviewed are applied in a sound, unbiased manner. The peer review panel has provided extensive and useful comments. After addressing the panel's comments, EPA determined that no additional review was necessary from the panel. The peer review panel members will have additional opportunities to comment once the study is released.

HYDRAULIC FRACTURING: STATE OIL AND GAS AGENCIES

Question. States in the United States have for decades regulated hydraulic fracturing in the United States. Were State Oil and Gas agencies contacted directly by the authors of the study to determine if and how states regulate hydraulic fracturing? If so, please document those contacts. If not, why not?

Answer. An initial investigation by the Ground Water Protection Council (GWPC) into state regulation of hydraulic fracturing raised questions about whether technical requirements regulating the practice of hydraulic fracturing exist. In its investigation, GWPC contacted state oil and gas agencies for information related to complaints on the impacts of hydraulic fracturing.

EPA did contact state oil and gas agency officials during Phase I to determine how they were responding to citizen complaints, to understand states' unique geologic conditions, and to learn more about hydraulic fracturing industry practices in individual states. The Agency is close to completing the final draft report for Phase I of the study; if it necessary to continue on to Phase III of the study, EPA will contact state oil and gas agencies again specifically to determine how states regulate hydraulic fracturing.

HYDRAULIC FRACTURING: LANDOWNERS

Question. Were landowners contacted directly by the authors of the study in an attempt to determine if any landowner's wells were damaged by hydraulic fracturing? If so, please document those contacts. If not, why not?

Answer. In the implementation of Phase I of the study, landowners contacted EPA, concerned that coalbed methane development had impacted their drinking water wells. Landowners voiced their concerns to EPA through electronic mail, letters, telephone interviews, and local meetings. The Agency responded to these concerns by conducting follow-up phone interviews with nine individuals. Through these conversations, EPA has heard from citizens in all of the most active coalbed methane production basins: Black Warrior (Alabama), San Juan (Colorado and New Mexico), Powder River (Montana and Wyoming), and the Central Appalachian (Virginia). In response, the Agency contacted more than 30 employees at state and local agencies to better understand ground water issues, investigations, and any actions taken in response to citizens' concerns.

A few citizens reported that they believed their drinking water wells were impacted from hydraulic fracturing of coalbed methane wells; others expressed concern about the risks associated with hydraulic fracturing. Most of the citizens reporting problems did not specify hydraulic fracturing, but noticed that their problems started after coalbed methane production began. Citizens and county agency employees also reported that the "dewatering" of coal seams that occurs during production creates several environmental problems, such as: (1) contamination of wells with methane, hydrogen sulfide, and bacteria; (2) explosive levels of methane and toxic levels of hydrogen sulfide accumulating under buildings and in living spaces; (3) spontaneous combustion and continued burning of completely dewatered coalbeds; and, (4) flooding from water pumped to the surface.

Based on its discussions with landowners, coalbed methane production may be negatively impacting drinking water wells. In two of the most active basins (San Juan and Powder River), drinking water wells appear to have been negatively impacted because large amounts of ground water are removed from coalbed formations in order to release the methane in coal seams. The hydraulic fracturing study conducted by EPA's UIC Program, however, is narrowly focused on hydraulic fracturing in coalbed methane wells, and does not address the potential impacts of ground water removal and subsequent discharge.

Subsequent to these conversations, in July 2001 EPA published a notice in the Federal Register requesting further information from the general public. The Agency then sent copies of the notice to nearly 500 local agencies to ensure that communities with aquifers that may have been impacted by coalbed methane development would contact EPA. EPA received four responses from counties it had not heard from previously, but none of these contacts produced information confirming that drinking water wells had been impacted from hydraulic fracturing activities. EPA heard from only two county agencies representing citizens that had contacted EPA to express concern that coalbed methane development had impacted their drinking water. This low response rate was not unexpected, however, since each of the Federal Register notices was accompanied by a cover note explaining our project and a request that agencies not contact EPA if they had already provided information to the Agency.

LEAD: BIO-AVAILABILITY OF LEAD SULFIDES VS LEAD OXIDES

Question. What is the bioavailability of lead sulfides as opposed to lead oxides?

Answer. "Bioavailability" is a simple term used to describe a complex concept. Aside from chemical influences, bioavailability is also very dependent on particle matrix (micro structure of the particles) and particle diameter (particle size) as well as physiological status (pregnancy, age, nutritional status, etc) of the receptor. It is dependent upon the solubility/availability (both intensity and capacity) of the compound in an exposure matrix and its transport (active and passive) across a biological barrier. One suggested definition is "that fraction of the total amount of material in contact with a body portal-of-entry (lung, gut, skin) that enters the central compartment (blood)." This is the definition used in the comparison described below.

EPA Region 8 has evaluated in vivo (swine) bioavailability for a number of lead contaminated soils as well as soil spiked with lead minerals. Additionally, the soils have been evaluated by in vitro bioavailability techniques. Both techniques have illustrated that lead mineralogy influences bioavailability. Galena (lead sulfide) has low bioavailability (0–5 percent in vivo Relative Bioavailability) whereas litharge (lead oxide) has high bioavailability (80–100 percent in vivo Relative Bioavailability). The Agency considers these bioavailability factors and other factors, such as particle size and timing of soil/dust ingestion relative to meals, in making adjustments to the IEUBK model default value.

LEAD: LEAD SULFIDE IN GALENA FORM VS LEAD IN OXIDE FORM AFFECT ON HUMAN BODY

Question. Does lead sulfide, as it is found in its natural state of galena and mined to obtain lead, taken up and affect the human body differently than lead in the oxide form as found in lead-based paint or emissions from smelting?

Answer. It is reasonable to assume that, all other factors being the same, lead oxide would dissolve more quickly than equal amounts of lead sulfide, in an acidic environment. However, small amounts of either form of lead might completely dissolve, or nearly so, in the stomach environment over a period of hours. The total amount of dust and the residence time in the stomach are key factors in this. The combination of the warm, chemically acidic environment, the constant agitation, and the 2–3 hour time period virtually assures the dissolution of the 80–130 mg of small particles ingested per day, which is the default range of age-related ingestion rates in the Integrated Exposure Uptake Biokinetic (IEUBK) model (discussed in the following question). However, as this gastric solution is passed into the duodenum, a sudden change to a basic pH occurs which, in the presence of normal amounts of phosphate, causes a precipitation of all lead to the highly insoluble form of lead pyrophosphate. From this point on, only about 1 percent of the pyrophosphate lead is available for absorption in the small intestine at any given time. If larger particles were ingested that didn't totally dissolve in the stomach, some of this lead, whether in the sulfide or oxide form, would continue to be slowly dissolved in the small intestine at different rates and made available for absorption at different times from ingestion. As the small amount of soluble lead from both the pyrophosphate and the partially dissolved particles is absorbed, more lead is dis-

solved, and during the total residence time in the small intestine, about eight hours, about 30 percent of the total amount of lead would be absorbed. In the IEUBK model, the default absorption percentage is 30 percent (regardless if ingested as lead sulfide or lead oxide) for lead in both soil and dust, based on the assumptions discussed here.

LEAD: POTENTIAL RISK OF DIFFERENT FORMS OF LEAD TO REGULATORY DECISIONS

Question. What information does EPA have on this issue and how does it analyze and apply the varying potential risk of different forms of lead to its regulatory decisions?

Answer. EPA has access to the published literature on the topic as well as knowledge of ongoing work and unpublished data. In performing risk assessments for childhood exposure to lead (Pb) in support of regulatory decisions, U.S. EPA routinely uses the Integrated Exposure Uptake Biokinetic (IEUBK) Model for Lead in children. This model developed by U.S. EPA's National Center for Environmental Assessment (NCEA), considers all normal sources of lead in its various chemical forms. Under current guidance, "total" contaminant concentration in soils is used to establish risk based clean-up levels. In the case of Pb, the IEUBK model is used to establish acceptable levels of soil Pb. The IEUBK is designed to predict the probable blood Pb concentration (PbB) for children between 6 months and 7 years of age who are exposed to Pb through multiple environmental media (e.g., air, water, soil, dust, and diet). Using an assumed (30 percent) absolute bioavailability of soil Pb, the PbB level is estimated by the model.

In the case where there is evidence for a percentage other than the default 30 percent absorption, the model permits the risk assessor to make such an adjustment to this parameter, either more or less than the default 30 percent. Risk assessors are always encouraged to use non-default parameters in the IEUBK model whenever they can present scientific evidence to support their use.

EPA Region 8 has encouraged exposure-based monitoring aimed at quantitative evaluation of site-specific risk. The use of an immature swine model to estimate site-specific oral Pb bioavailability in children who are exposed to Pb has been used. Approximately 20 different Pb contaminated soils on 10 different hazardous waste sites have been analyzed. Preliminary site-specific estimates of relative soil Pb absorption (relative bioavailability) range from 6 percent to greater than 85 percent when compared to soluble Pb acetate. These values translate to 3 percent to 42.5 percent absolute bioavailability, as used in the IEUBK model. The use of these values in the IEUBK model rather than the 30 percent default value results in different cleanup values. For example, a site-specific bioavailability study of Bingham Creek Utah (costing approximately $100K) provided a bioavailability factor of 19 percent. The use of the site-specific bioavailability of 19 percent rather than the assumed default value (30 percent) resulted in reductions in estimated remedial costs on the order of $4 million.

WATER INFRASTRUCTURE FUNDING: REASONABLE LEVEL OF FUNDING TO PRESERVE EXISTING INFRASTRUCTURE

I consider the status of our Nation's water infrastructure as the most pressing issue facing the EPA, and one of the most important issues for the Nation, both for quality of life and public health. In particular, while I support the funding of $850 million for the Drinking Water State Revolving Fund, I am extremely disappointed that EPA has requested only $1.212 billion for the Clean Water State Revolving Fund, a reduction of $138 million from the fiscal year 2002 level.

This is especially troubling since the next EPA Gap Analysis is expected to confirm the need for some $350 billion in water infrastructure needs over the next 2 decades. Moreover, outside groups have indicated that the need could be as high as some $740 billion over the next 20 years, with $200 billion more in financing and another $980 billion for local governments to maintain and operate this infrastructure. These additional costs are intended to include the cost to replace aging and failing infrastructure, activities which are not currently eligible.

Question. These funding estimates are far in excess of any current level of funding and likely far in excess of any funding proposed at least in the foreseeable future. What is a reasonable level of funding needed to preserve the existing infrastructure?

Answer. The financial demands that communities face in providing clean and safe water to all Americans are substantial, and the Administration is committed to helping find ways to meet those demands. The Federal government has provided more than $80 billion in wastewater assistance since passage of the Clean Water Act, which has dramatically increased the number of Americans enjoying better water quality. This includes replacement of aging and failing infrastructure, which

is certainly an eligible use of the Clean Water State Revolving Fund (CWSRF) under Section 212 of the Clean Water Act in fact, the CWSRF has provided some $5.8 billion to repair aging and failing wastewater collection systems alone.

For fiscal year 2003, the President's requests of $850,000,000 for the Drinking Water State Revolving Fund and $1,212,000,000 for the Clean Water State Revolving Fund, for a total of $2,062,000,000, is the largest-ever combined request for the State Revolving Funds.

EPA's most recent Drinking Water and Clean Water Needs Surveys have identified $150.9 billion and $150.5 billion, respectively (both in 1999 dollars), in documented needs eligible for SRF assistance in the coming decades. More recent estimates associated with correcting sanitary sewer overflows may increase the estimated total Clean Water needs, and the Agency expects to release a new Clean Water Needs Survey in August 2002.

Over the past year or so, several stakeholder groups have issued reports estimating water infrastructure needs that are substantially higher, based on different methodologies and definitions. With that in mind, the Agency is actively working to improve information about long-term infrastructure needs, assess different analytical approaches to estimating those needs, and estimate the gap between needs and spending. We expect to release the Agency's Gap Analysis this summer.

While the Agency's Gap Analysis can help quantify the Nation's infrastructure challenges, the numbers themselves do not take into consideration how the various roles of Federal, State and local governments should be balanced. For the last 30 years, Federal, State and local governments have shared responsibility for infrastructure financing. Under any funding arrangement, therefore, the vast majority of future funds likely will come from local sources. It is also important to reduce capital, operation and maintenance costs through better management and more efficient service delivery, and by capturing productivity gains through innovations.

WATER INFRASTRUCTURE FUNDING: PRIORITIZING FUNDING NEEDS

Question. How should we prioritize the funding needs in the Nation? For example, what do we do about the aging and obsolete water infrastructure which is the concern of many cities and communities in the East and Midwest? How do prioritize these funding needs with new infrastructure requirements which have been created by the new arsenic standards?

Answer. EPA recognizes the challenges facing America's communities. The Agency believes that the touchstone of our strategy to meet these challenges should be building fiscal sustainability. In particular, several basic principles should guide our pursuit of clean and safe water through fiscal sustainability:

Utilizing the private sector and existing programs.—Fostering greater private sector involvement and encouraging integrated use of all local, State, and Federal sources for infrastructure financing.

Promoting sustainable systems.—Ensuring the technical, financial, and managerial capacity of water and wastewater systems, and creating incentives for service providers to avoid future gaps by adopting best management practices to improve efficiency and economies of scale, and reducing the average cost of service for providers.

Encouraging cost-based and affordable rates.—Encouraging rate structures that cover costs and more fully reflect the cost of service, while fostering affordable water and wastewater service for low-income families.

Promoting technology innovation.—Creating incentives to support research, development, and the use of innovative technologies for improved services at lower life-cycle costs.

Promoting smart water use.—Encouraging states and service providers to adopt holistic strategies to manage water on a sustainable basis, including a greater emphasis on options for reuse and conservation, efficient nonstructural approaches, and coordination with state, regional, and local planning.

Promoting watershed-based decision-making.—Encouraging states and local communities to look at water quality problems and drinking water source water protection on a watershed scale and to direct funding to the highest priority projects needed to protect public health and the environment.

The Agency has developed a comprehensive strategy to help drinking water systems that are affected by the new arsenic in drinking water standard. As described in its Report to Congress entitled "Small System Arsenic Implementation Issues," beginning in fiscal year 2002 the Agency will engage in three major activities: (1) a review EPA's small system affordability criteria to address affordability concerns raised by stakeholders and small communities; (2) develop and implement a small community drinking water assistance plan, which will enhance small systems' ac-

cess to financial assistance and expand technical assistance and training; and (3) spend $20 million over fiscal year 2002 and fiscal year 2003 for research, development, testing and implementation of effective, practical, and affordable treatment technologies to reduce compliance costs for drinking water systems affected by the new arsenic in drinking water standard.

In addition, the Agency will continue its ongoing work with states to take full advantage of the suite of tools the SDWA provides to help small systems achieve compliance not only with the arsenic standard, but with other drinking water standards, including those for microbial contaminants, disinfectants, and disinfection byproducts, and for radon and radionuclides. A key component of this work is to maximize the availability of financial assistance to small systems under the Drinking Water State Revolving Fund (DWSRF). Finally, EPA and the U.S. Department of Agriculture (USDA) have signed a Memorandum of Agreement (MOA), under which USDA's Rural Utilities Service (RUS) commits to assigning high funding priority to projects that assist small communities in complying with the new arsenic in drinking water standard. The Agency further commits to enhance coordination of EPA and USDA programs to ensure that the maximum possible assistance is available to small communities for compliance with the new arsenic in drinking water standard.

SUPERFUND CLEANUP: PACE OF SUPERFUND CLEANUP

Question. What is the pace of Superfund cleanup compared to recent years and what can we do to ensure that the cleanup of SF sites are expedited to the extent possible?

Answer. Conducting cleanups and achieving construction completions are Agency priorities. The amount of cleanup work the Agency has been performing during the last few years has been relatively stable. However, with nearly two thirds of the sites on the NPL cleaned, the remaining sites are lager and more difficult. (We are enclosing below a chart that explains Superfund cleanup compared to recent years).

To make sure Agency resources are properly focused to achieve maximum results, we have initiated a Pipeline Management Review of Superfund sites that will result in a multi-year, site-specific strategy to ensure construction progress. Additionally, we are working to further enhance the "enforcement first" approach to increase early Potentially Responsible Party (PRP) involvement and maximize our use of PRP-funded special cleanup accounts.

Question. I understand that some states are pushing for greater control over the SF program. To what extent do you support this approach and what are the pluses and minuses to greater state control?

Answer. The Superfund program over the past several years has sought to ensure greater State involvement in the program. We have worked with states to support the development of State programs, such as voluntary cleanup programs, with a goal of getting more sites cleaned up by more people. The maturing of State programs, coupled with personnel and funding ceilings at the State level, in most cases has led to mutually agreed upon worksharing, where states and EPA strive to do the work each is best suited for. Let me provide a few examples.

Since 1996, Superfund has followed a State concurrence policy that requests State or governor concurrence in decisions to place sites on the National Priorities List. This builds on fiscal year 1995 and 1996 appropriations language. There has only been one exception to this policy since 1996. That site remains proposed to the NPL and EPA is working with the State (Wisconsin) in an effort to address the site without the need to finalize. Further, states frequently work with EPA in workshare arrangements where sites are assigned to EPA or the State for study and possible cleanup.

In March 1998 Superfund published a Plan to Enhance the Role of States and Tribes in the Superfund Program. This allowed states to pilot activities that would establish new areas of involvement in the Superfund program. There were eight State pilots, most centering on the cleanup part of the process. As a result of the plan, Superfund developed an internal workgroup to continually explore ways of enhancing State and tribal roles, and is working with the Association of State and Territorial Solid Waste Management Officials towards this end.

Both Superfund and RCRA management are working with State managers on the Senior Cleanup Council to increase understanding and cooperation across waste remediation programs. This is an issue that has long been of concern to states. Finally, the recently-signed Brownfields legislation requires extensive interaction between EPA and States in an effort to develop guidance and criteria for implementing the legislation. States are on a number of workgroups related to Brownfields legislation needs, limited by the requirements of the Federal Advisory

Committee Act. We anticipate that the opportunity for states to continue to build and expand their own programs will continue to have Federal and State programs complement each other.

EPA has been and will continue to be supportive of greater State involvement because it reduces duplication of effort and makes better use of resources.

Number of Superfund sites cleaned up each year, 1990 to present

Year	*Number of sites cleaned up*
1990	8
1991	12
1992	88
1993	68
1994	61
1995	68
1996	64
1997	88
1998	87
1999	85
2000	87
2001	47
2002 target	40
2003 target	40

SUPERFUND CLEANUP: ADEQUATE FUNDS TO CONTINUE SUPERFUND CLEANUPS

Question. How do we ensure there are adequate funds in the future to continue Superfund cleanups?

Answer. For fiscal year 2002, the President requested $1.3 billion for the Superfund program, excluding post 9/11 supplemental resource requests, consistent with the previous year's budget. For fiscal year 2003, the Administration requested a similar budget to enable a comparable level of activity, while increasing the request for homeland security resources. The fiscal year 2003 budget will allow Superfund to continue to make cleanup progress at sites. We are currently considering what level of funding to request for fiscal year 2004 to ensure maximum Superfund performance and balance with other Administration priorities.

CLIMATE CHANGE KYOTO ACCORD

Question. The United States has made it clear that it would not be bound to the Kyoto Protocol until developing nations are subject to binding emission targets. This is a key economic concern as well as a fairness issue. Nevertheless, sound science on global climate change issues also is key to both the United States domestic policy decisions on climate change and international agreements. While the EPA is not the primary Federal agency with regard to U.S. policy on international climate change issues, the EPA is an important partner in developing the environmental modeling and scientific research that will be critical to the continued evolution of U.S. policy. From your perspective as Administrator of EPA, what is the current status of the United States' international policy on climate change issues and what are the key issues and challenges facing the United States?

Answer. Climate change is a complex, long-term challenge that will require a sustained effort over the long term. The Administration is opposed to the Kyoto Protocol because it exempts many countries from its requirements and could cause serious harm to the U.S. economy. However, America is committed to the United Nations Framework Convention and its central goal to stabilize atmospheric greenhouse gas concentrations at a level that will prevent dangerous human interference with the climate, though, as the President has noted, we do not yet know what that level is.

The Administration's immediate goal, announced by President Bush on February 14, is to reduce the greenhouse gas intensity of the U.S. economy by 18 percent in the next 10 years, thereby slowing the growth of net emissions as they relate to economic output. While we have yet to determine what level of ghg concentrations would be dangerous, the Administration recognizes that achieving long-term stabilization of atmospheric greenhouse gas concentrations will require as the science justifies stopping and reversing greenhouse gas emissions growth. Slowing the growth of these emissions through expanded use of voluntary initiatives and proposed tax incentives will enable the development of technology to substantially reduce greenhouse gas emissions in the long term without the risk of harming the

economy in the short term. The President has also committed that if progress is not sufficient by 2012 and sound science justifies further action, the United States will respond with additional measures that may include a broad, market-based program, as well as additional incentives and voluntary measures designed to accelerate technology development and deployment.

EPA is working to accomplish the President's commitment though reducing greenhouse gas emissions in partnership with businesses and consumers through our voluntary programs. We have found that these programs, such as Energy Star and Natural Gas STAR, can be incredibly effective, and we have every confidence that they will be able to lead us toward our goals for emissions reductions. We have also launched new programs such as Climate Leaders, which enables companies to voluntarily evaluate their impact on the environment and then act to change for the better in order to build on the successes of these voluntary programs.

We are also looking beyond our borders to address this challenge. The United States has recently reached agreements with Australia and Canada which will focus on practical and economically efficient solutions to the climate issue, such as common approaches for emissions measurement, climate change science, technology development, and market-based approaches. We have also identified similar areas for cooperation with Japan and Italy specifically on the development of climate science and technology. Finally, we have formed Working Groups on climate change with China and India. The struggle to halt the effects of climate change does not recognize political boundaries, and we must work together with interested partners from around the world if we are going to effectively to address this long term, global issue.

GLOBAL AND CROSS-BORDER ENVIRONMENTAL RISKS

Question. What is EPA doing to minimize pollution in the United States from pollution hazards originating outside the United States, such as from Mexico or Canada?

Answer. EPA is actively engaged in a range of activities intended to reduce, prevent or otherwise minimize the impacts on the U.S. environment and public health from sources of pollution originating outside of our borders. The broad responses address a wide range of the contaminants of concern, a diversity of pollution source types and media transport mechanisms. EPA's activities include working along our borders with Canada and Mexico and cooperation with a substantial number of other countries across a wide area of the globe, for example by participating in multi-lateral agreements to address identified regional and global transboundary pollution threats. Many of EPA's major program offices, regional offices and laboratories are involved in these efforts, and in many of its endeavors the Agency also cooperates with other Federal and State agencies, non-governmental organizations and multilateral/international bodies.

EPA's international efforts include environmental protection capacity building, technical assistance, technical information exchange, international monitoring and assessment, cooperative research and development, and negotiation of international agreements. However, the specific responses are a function of the particular pollutant's chemical behavior, media transport mode, nature of the source types and circumstances of the foreign involvement.

The Agency is also concerned with conducting research and assessments of new or unaddressed risks, and improving the scientific basis of our general understanding of the known transboundary environmental threats, such as the global flows of mercury. EPA has both internal and international cooperative efforts aimed at improving our understanding of the problems, including research into the chemical and physical processes involved in long-range transport and transformation of pollutants, such as the global flows of mercury. The Agency also engages in technology development addressing the international problems.

EPA's major efforts in addressing transboundary pollution impacting the U.S. mostly fall into the following four broad categories:

—the U.S. border areas with Mexico and Canada and general cooperation with these immediate U.S. neighbors on transboundary contamination problems,

—efforts addressing regional Arctic contamination and threats to Alaska and indigenous populations, mostly from pollution sources in Russia,

—international cooperation and agreements addressing global sources of persistent organic pollutants (POPs) and other toxic substances, and

—very long-range air transport of a variety of pollutants and the problem of global cycling of mercury

PROGRAM SPECIFICS

U.S. border Areas with Mexico and Canada and General Transboundary Contamination Cooperation with these Immediate U.S. Neighbors:

U.S.-Mexico

The U.S. and Mexico cooperate on a number of programs to protect the U.S. from transboundary pollution. Formal cooperation dates back to 1983, when the U.S. and Mexico signed the La Paz Agreement to promote cooperation for the protection and improvement of the environment in the border region. This agreement serves as the basis for joint activities to protect public health and the environment in both the U.S. and Mexico. Two formal "environmental plans" have been implemented by EPA and its Mexican counterpart, SEMARNAT, and we are currently working on a plan that will cover the next 10 years. Detailed information on these activities is available in the U.S.-Mexico Border XXI Program: Framework Document and the U.S.-Mexico Border XXI Program-Progress Report 1996–2000. Examples have some of these activities are provided below:

Air

Binational air quality planning and management activities have been conducted in the sister cities of San Diego-Tijuana; Imperial Valley-Mexicali; Nogales-Nogales; and Douglas-Agua Prieta. Recent efforts have concentrated on establishing and operating air quality monitoring networks in Tijuana and Mexicali, similar to those operating in San Diego and Imperial Valley.

A Joint Advisory Council for the Improvement of Air Quality in the Ciudad Juárez/El Paso/Doã Ana County Air Basin (JAC) was created to provide locally-based recommendations to the Air Workgroup on how to manage air quality in the region. The JAC, completed a strategic plan in May 1999 that includes 26 priorities for improving air quality.

Hazardous Wastes.—The EPA and Mexico's National Ecology Institute (Instituto Nacional deEcologRa, or INE) have operated the Hazardous Waste Tracking System (Haztraks) for several years. In 1998, Haztraks was replaced in Mexico with INE's version of a hazardous waste tracking system, known as SIRREP (Sistema de Rastreo de Residuos Peligrosos). The use of both systems has considerably improved the ability to monitor transboundary hazardous waste shipments in the U.S.-Mexico border region. It is worth noting that a 1999 study carried by the Texas Natural Resources Conservation Commission (TNRCC) determined that the operation of SIRREP and the Haztraks systems is the most effective way of tracking the movement of hazardous wastes between the two countries.

A Consultative Mechanism for the Exchange of Information on New and Existing Facilities for the Management of Hazardous and Radioactive Waste within 100 Kilometers of the U.S.-Mexico Border has been developed. This mechanism serves to address public concern on both sides of the border as it relates to the siting and operation of hazardous and radioactive waste facilities in the border region. The agreement will allow for both countries to exchange data and other information on new and existing treatment, storage, and disposal facilities for these types of waste in the border region.

In addition to the activities under the border plan, two binational institutions were set up between the U.S. and Mexico under a supplemental agreement to the North American Free Trade Agreement (NAFTA). These institutions are the North American Development Bank (NADB) and the Border Environment Cooperation Commission (BECC), which were established to develop and finance solid waste, waste water and drinking water infrastructure in the border area to reduce the possibility of cross border pollution. To date, 55 projects have been certified and more than 30 are either operational or under construction. When all 55 projects are completed they will serve more than 9 million people. In Juarez, Mexico a city of over 1 million, the first wastewater treatment systems are now operational.

The EPA Office of Pesticides Programs (OPP) has a number of programs and activities concerned with the transport of agricultural products across the border. These actions have contributed to the reduction of pesticide residues on the imported agricultural products.

U.S.-Canada

The U.S. and Canada cooperate extensively on monitoring, assessment, reporting and control and prevention of chemical, physical, and biological pollution, including increasing their focus and cooperation on biological pollution (e.g., invasive species of concern). A great deal of this cooperation includes overarching goals to better protect many, diverse, shared ecosystems and the public health of populations (including indigenous peoples) particularly along the shared extensive border areas, but

also in the inland areas of both countries. In addition, binational cooperation has been underway since the early 1990s to better protect U.S.-Canada marine regions such as the Gulf of Maine.

The U.S. and Canada have a long history of working together to control, reduce, and prevent cross border pollution. The Boundary Water Treaty of 1909 , which applies along the entire 5,500-mile inland border area, was in part designed to protect transboundary waters and U.S.-Canada watersheds, including protecting the public health of populations in both countries from the adverse effects of water pollution. Many major projects and activities addressing actual or potential pollution of transboundary waters continue to be conducted under the water pollution control and prevention requirements of the 1909 treaty.

Specifically, binational cooperation is underway to fulfill the treaty requirements for binational surface waters: e.g., St. Croix River, Lake Champlain, Great Lakes Basin including the Upper St. Lawrence River, Rainy River, Red and Souris Rivers system, Poplar River, Flathead River, Columbia River, Puget Sound-Georgia Basin, Taku River, and the Yukon River. The U.S.-Canada International Joint Commission (IJC) assists both countries with boundary waters management and protection for a number of the listed watersheds. 1909 Treaty cooperative efforts protect the U.S. portions of many shared U.S.-Canada watersheds.

Since the 1970's up to the present, the U.S. and Canada have steadily increased their binational cooperative frameworks and attendant activities along the common border area.. These activities concerned with improved management and prevention of transboundary pollution, have been conducted between Federal, provincial, state, tribal, and some local governments, and frequently include involvement of the NGO community, the private sector and the general public as well.

Cooperation with Canada under the Great Lakes Water Quality Agreement, beginning in 1972, has resulted in substantial progress in restoring the quality of these important natural resources. Lake Erie, once considered an ecological wasteland, is now substantially restored, with fish eating birds, like eagles and ospreys, having made strong recoveries. DDT and PCB contamination has been reduced by 80 or 90 percent. U.S.-Canada cooperation to protect and restore the Great Lakes Basin ecosystem includes many goals that serve to better protect U.S. public health and the U.S. parts of the shared aquatic ecosystems.

EPA Region 5 has the lead on Great Lakes water quality issues, with many activities conducted or coordinated by the Great Lakes National Program Office (GLNPO). In addition, Regions 2 and 3, the Office of Water (OW), the Office of Prevention, Pesticides and Toxic Substances (OPPTS), as well as the Offices of Research and International Affairs (ORD and OIA) have all been active in these activities.

Unfortunately, although a lot of progress has occurred, many large Great Lakes fish are still unsafe to eat due to their accumulating burden of toxic pollutants. Also, the Great Lakes basin ecosystem is being subjected to harmful changes due to the effects of a substantial number of foreign alien invasive species, so that the two countries continue to address new challenges.

Under the 1991 U.S.-Canada Air Quality Agreement, emissions of sulphur dioxide and nitrogen oxides (key contributors to acid rain) have been substantially reduced, benefitting the Northeastern United States. A recently negotiated annex to the Agreement, signed in December 2000, will lead to reductions in ground level ozone pollution. Priority cooperation under the Agreement also covers particulate matter, ensuring certain existing or proposed point sources of air pollution along the common area do not cause significant transboundary air pollution which can harm one side or the other. Efforts are also underway to protect visibility in natural areas along the border. On air quality activities, EPA's Office of Air and Radiation (OAR) leads; other EPA offices involved include ORD and EPA Regions 1,2, 5, 8 and 10.

EPA also is furthering the existing bilateral agreements concerning mercury and other toxic substances, such as the1997 Great Lakes Binational Strategy, with the goal of 50 percent reduction in use and emissions of mercury by 2006. The Northeast Mercury Study of the U.S. Northeast States and Eastern Canadian Provinces, has focused on reduction of uses and emissions of mercury and safe management of the mercury life cycle. In 1997, Canada and the United States signed an agreement for the Virtual Elimination of Persistent Toxic Substances (PBTs) in the Great Lakes. The strategy sets long-term goals to promote emissions reductions of these toxic substances. EPA coordinates the U.S. activities by engaging all relevant stakeholders, developing action plans, coordinating reduction activities and reporting on progress. OPPTS and OSWER in EPA have major involvement in matters concerning PBTs and other hazardous substances.

The two national governments have established three binational agreements that cover preparedness and response to pollution release accidents/emergencies which

could arise along the border. These agreements could also be used by one country, in certain emergency instances, to call upon the other country to assist with a response to an emergency which may occur inland away from the binational border. One of the three agreements covers the four U.S.-Canada marine water regions and Great Lakes waters for oil and hazardous materials. Another one covers the rest of the inland border for oil and hazardous materials. The more recent third one covers radiological emergencies. Since September 11 , 2001, the two national governments are also carrying out special cooperation on security issues along the border and on related domestic issues of common concern related to homeland security.

North American Trilateral Cooperation between the U.S., Mexico and Canada

In the 1990s, co-led by the U.S. and Canadian Federal governments, the U.S. and Canada developed new trilateral cooperation with Mexico to increase multilateral cooperation on major issues such as persistent bioaccumulative toxic (PBT) pollutants, their sources, air transport, fate and deposition. Long-standing shared goals by the U.S. and Canada under their Great Lakes Water Quality Agreement on PBTs helped catalyze and focus larger trilateral efforts. The three countries are focusing together on PBTs and other pollutants, their environmental transport and other pathways. The U.S. , Canada and Mexico have increased their consultations and cooperation on the northward migration, or introduction, of animals, plants, and pathogens not native to North America (i.e., invasive species), with the shared goal of improving protection of the biological integrity of many North American ecosystems, and in the case of some invasive species, to protect the public health of populations of North America.

In 1993, Canada, Mexico, and the United States established the Commission for Environmental Cooperation (CEC) under the North American Agreement on Environmental Cooperation (the NAAEC) to address regional environmental concerns. The NAAEC complements the environmental provisions of the North American Free Trade Agreement (NAFTA). The CEC is facilitating tri-national coordination and cooperation on matters of cross-border flows of air pollutants, as well as invasive biological species. Capacity building, public participation, and facilitation of risk management actions through pollution prevention, market-based incentives, and technological controls are priorities.

In 2001, two meetings of air quality experts were sponsored by the CEC to address the exchange of emissions information for criteria air pollutants and greenhouse gases and to address air quality impacts of transboundary trade and transport corridors. To support environmental capacity building, a Mexican association of air quality experts has been established and a newsletter has been created to inform stakeholders in Mexico about the air quality program. The CEC is also providing funding for Mexican participation in the meetings of North American air quality experts addressing problems common to the three countries.

Under the auspices of the NAAEC, in 1995, Mexico, Canada and the United States have developed a regional initiative on the sound management of chemicals. Under this initiative, CEC has already established regional action plans for PCBs, DDT, and chlordane and is developing an action plan for dioxins, furans and hexachlorobenzene. U.S.EPA provides technical input to these plans and coordinates relevant capacity building activities, such as providing support for dioxin measurements, and assisting Mexico with obtaining international funding to address DDT stockpiles.

In 2001, the CEC air program collaborated with the Sound Management of Chemicals (SMOC) program and developed a national mercury air emissions inventory in Mexico. It is being combined with the national inventories in Canada and the United States to give a continental perspective for the globally cycling pollutant. Data comparability and information access are key to its success.

In addition to mercury, air quality experts in the three countries are developing inventories for sulfur dioxide, nitrogen oxides, carbon monoxide, volatile organic compounds, particulate aerosols, and greenhouse gases. They are also developing plans to obtain the needed information through monitoring and other implementation tools for any significant data gaps that may be identified.

Under SMOC, the North American Regional Action Plan (NARAP) on monitoring and assessment of persistent toxic substances, with a leading effort addressing mercury, is being carried out through a tri-national task force of experts, with peer reviewed and published results. The monitoring effort is being coordinated with the development of EPA's routine monitoring strategy, and another important component is focusing on family and child environmental health indicators and monitoring parameters for mercury and other PBTs. Workshops facilitate the progress in the assessments and capacity building, and a leveraging of funds supports the implementation for phase 2 of the mercury NARAP, and those for DDT and PCBs,

dioxins, furans and hexachlorobenzene. These are all being examined to ensure that objectives are met.

Consideration also is being given to how the CEC, and particularly SMOC, could facilitate the regional implementation by the Parties to the 2001 Stockholm Convention on Persistent Organic Pollutants. The effects of persistent toxics on wildlife are being monitored as well as human health endpoints. A North American Pollutant Release and Transfer Register project addresses the sources, handling and stewardship of toxic chemicals from industrial activities in North America, and allows for better management of these transboundary pollutants.

EPA's Office of International Affairs has the overall Agency lead on environmental issues concerning the U.S.-Mexico border. There is also major participation by EPA's Office of Water (OW), OPPTs and most EPA Regions. Other EPA program offices are also involved to varying degrees.

Regional Cooperation Addressing Contamination Threats to Alaska and the Arctic, Including Indigenous Populations:

The fragile Arctic environment and ecosystems, Alaska and indigenous populations are threatened by transboundary contamination mostly from sources in Russia. Transboundary transport mechanisms include atmospheric and ocean circulation and biological transmission through the Arctic food chain. The Russian contaminant sources are largely a legacy of the Soviet Union's armaments and military activities in the far North, the Cold War era industrial/agricultural infrastructure and practices, and related un-managed waste. The principal contaminant sources of concern include radioactive waste and spent nuclear fuel, PCBs mostly from the power grid system, dioxins/furans from incinerators and industrial sources, obsolete pesticides from huge collective farm era stockpiles, and heavy metals such as lead and mercury from industrial activities.

In the 1990's Russia had the highest concentrations of unsecured Cold War legacy radioactive waste in the world, and very little waste management infrastructure to address the deteriorating situation. The problems mounted rapidly as the nuclear submarine dismantlement program obligatory under the START treaty continued to generate large amounts of radioactive waste and unsecured spent nuclear fuel. Russia dumped the low-level liquid radioactive waste produced in the submarine decommissioning and dismantlement process in the Arctic, while the spent nuclear fuel accumulated in unsecured circumstance at Arctic coastal sites in Northwest Russia.

Under an EPA initiative responding to a Russian request for assistance, the U.S. (EPA, DOS/AID, DOD, and DOE) undertook in 1994 a multilateral project with Russia and Norway to upgrade and expand Russia's only operational radioactive liquid waste processing facility (originally developed for the Russian nuclear icebreaker fleet) to process the low-level liquid waste from the nuclear submarine disarmament program. The facility is now undergoing final operational testing and Russia terminated all ocean dumping of radioactive liquid waste since the start of the project.

The unsecured spent nuclear fuel in the Russian Northwest constitutes 95 percent of the high level radioactive waste threat to the Arctic environment. EPA proposed the development of a prototype transportable spent nuclear fuel dry storage cask as a means of securing Russia's inventory of spent nuclear fuel arising from the decommissioning and dismantlement of large portions of their strategic submarine fleet under START. The U.S. nuclear power industry had pioneered dry cask storage, and the EPA proposal was to develop a low-cost prototype transportable storage cask for use in Russia, based on a unique Russian concrete-metal cask concept.

The Transportable Spent Nuclear Fuel Storage Cask Project was organized as a trilateral effort between the U.S., Russia and Norway under a military environmental cooperation declaration involving the three countries and lead by their respective defense establishments. For the U.S., the effort has involved cooperation among DOD, EPA, DOE and DOS. The successful testing of the prototype cask has caused serial production to start under separate programs within Russia and, bilaterally, as part of the cooperative threat reduction efforts between Russia and the U.S. A prototype concrete storage pad was proposed by EPA to hold the loaded casks. This portion of the cooperative program is also nearing completion.

Since 1998, the EPA multilateral strategy on Arctic contamination has been shifting emphasis to the problem of non-radioactive chemical threats to the Arctic environment and Alaska emanating from Russia's Cold war era legacy. The U.S. proposed a three phased project to the Arctic Council to assist Russia in addressing its PCB problems: (1) development of a PCB inventory for the Russian Federation, with emphasis on sources potentially impacting the Arctic, (2) assessment/feasibility of available technologies to address the particular major source problems identified by Russia, (3) selection and demonstration of at least one technology addressing one or more major source categories.

The Russian PCB Project was endorsed as an official project of the Council's new Arctic Council Action Plan and EPA was asked to provide the project technical lead. The project has received funding from EPA and DOS plus all other Arctic nations and the Netherlands. The first (inventory) phase is now completed and the second phase is nearing completion, with the focus on PCB destruction technologies and alternative dielectric fluids. The project model is being applied under the Arctic Council to "Russian Sources of Dioxin/Furans" under Swedish project lead and U.S./EPA co-lead and to "Obsolete Pesticides in Russia" under U.S./EPA project lead.

International Cooperation and Agreements Addressing Global Sources of Persistent Organic Pollutants (POPs) and Other Toxic Substances:

Many Persistent Organic Pollutants (POPs) are subject to long-range transport processes, and consequently pose a common threat to human health and the environment (particularly sensitive ecosystems), all over the world. The United States has taken a leading role to reduce and/or eliminate POPs and their releases on a regional and global basis. In 2001, the U.S. signed the Stockholm Convention on POPs and is working to ratify the treaty. The 1997 Canada-U.S. agreement for the Virtual Elimination of Persistent Toxic Substances in the Great Lakes and the and the 1993 tri-national NAAEC agreement between the U.S., Mexico and Canada and establishment of the CEC have all been discussed previously.

Since the early 1990's, EPA has been involved with activities concerned with identifying and quantifying sources of contamination impacting the Arctic environment, ecosystems and populations under the Arctic Environmental Protection Strategy (AEPS). Subsequently, the AEPS was subsumed under the Arctic Council, a consultative mechanism whereby the eight Arctic nations collaborate and, for example, provide assistance to Russia in meeting environmental goals.

In 1998, the United States signed the legally binding regional protocol with other members nations of the United Nations Economic commission for Europe (UNECE) on POPs under the Convention on Long-Range Transboundary Air Pollution. This agreement seeks to eliminate production and reduce emissions of POPs in the UNECE region and addresses the 12 Stockholm Convention POPs and 4 additional chemicals (hexachlorocyclohexanes, hexabromobiphenyl, chlordecone, and polycyclic aromatic hydrocarbons). U.S. EPA is involved in ensuring the U.S. meets the obligations of the protocol and is actively engaged in the scientific assessment of potential additional chemicals. The EPA also continues activities under the Convention on Long-Range Transboundary Air Pollutants (LRTAP Convention) Heavy Metals Protocol, signed by the U.S. in June 1998 and ratified in January 2001, whereby nations of the UN Economic Commission for Europe agree to control emissions of mercury, lead and cadmium.

EPA has initiated activities (previously described) under the Arctic Council/Arctic Council Action Plan (ACAP) intended to assist Russia in accepting and implementing the LRTAP protocols, as well as the Stockholm Convention. Russia has now signed the Stockholm Convention. The United States has also provided technical and financial assistance for POPs-related activities to a variety of countries besides Russia and regions other than the Arctic, including Mexico, Central and South America, Asia, and Africa. Examples of this assistance include projects led by the U.S.EPA on the development of dioxin and furan release inventories in Russia and Asia, the Chemicals Information Exchange and Networking Project for chemical managers in targeted countries in Africa and Central America, the destruction of pesticide stockpiles in Africa and Russia, and the reduction of PCB sources in Russia and the Philippines.

Other international work has addressed trade in hazardous substances, some of which are POPs. The United States, along with 71 other countries and the European Community, have signed the Rotterdam Convention on the Prior Informed Consent (PIC) Procedure for Certain Hazardous Chemicals and Pesticides in International Trade, building on a 10-year-old voluntary program. The PIC Convention identifies pesticides and industrial chemicals of concern, facilitates information sharing about their risks, and provides countries with an opportunity to make informed decisions about whether they should be imported. U.S. EPA has been actively involved in the voluntary program by engaging in the development and implementation of the PIC procedure.

The following two successful projects, are examples of efforts involving EPA that the U.S. has supported within a regional context, in cooperation with other organizations and countries:

Connecting POPs Managers Via the Internet: the Chemicals Information Exchange Network (CIEN)

In a partnership with the United Nations Environment Programme (UNEP), and funding from the U.S. State Department, U.S.EPA is providing Internet access and

training to chemical management officials and other stakeholders in Africa. Africa was chosen for initial focus because it is the continent with the lowest Internet connectivity and the greatest need. It is planned that the project will be expanded to Central America in the near future, and beyond that as resources become available. Internet access will assist implementation of the Stockholm Convention by providing POPs chemical information to decision-makers. Internet access also will enable chemical and pesticide regulators, as well as health and safety ministries, to access information on best practices and funding opportunities, and will allow them to promote regional cooperation and action plan development. EPA is also participating in the information Exchange Network on Capacity Building for Sound Management of Chemicals (INFOCAP) under the auspices of the Intergovernmental Forum on Chemical Safety.

PCBs in Russia

The U.S. State Department has funded and U.S.EPA is implementing a project in Russia to address environmental problems resulting from the manufacture and industrial use of PCBs. Partners in this effort include Norway, Denmark, Sweden, the United Nations Environment Programme (UNEP), and the Arctic Council. The project aims to reduce emissions of PCBs and enable Russia to meet the requirements of both the Stockholm Convention and the LRTAP POPs Protocol. The project involved conducting a PCB inventory, the results of which were presented at an official ceremony at the Norwegian Embassy in Moscow in September 2000. It will also entail a demonstration project to evaluate and showcase a selected PCB destruction technology.

Very Long-Range Air Transport of Pollutants and Global Cycling of Mercury:

Very long-range air transport of pollutants and the global cycling of mercury is a rapidly growing area of attention for the U.S. and other countries. At the present time these matters, are heavily concerned with research, monitoring and development. EPA has taken many steps to better understand the sources and mechanisms of long-range transport of persistent bioaccumulative toxic (PBT) substances and other air pollutants, as well as undertaking some initial steps in developing co-benefit technologies for emissions control, promoting pollution prevention.

In May 2000, the EPA Office of International Affairs (OIA) and the Office of Air (OAR) initiated an agency-wide workgroup on the International Transport of Air Pollutants (ITAP). The first year was devoted to developing an appreciation for all the activities ongoing within the Agency related to long-range transboundary transport, including monitoring, modeling, emissions inventory development, control technology development, technology and information transfer, and analysis related to international policy development.

In July 2000, OIA, with support funding from OAR and the Office of Research and Development (ORD), co-sponsored the First International Conference on Trans-Pacific Transport of Atmospheric Contaminants, involving scientists from both sides of the Pacific Basin, including China, Japan, Russia, South Korea, Canada, and the U.S. The conference discussed the state of science on long-range atmospheric transport in the North Pacific region, identified uncertainties and gaps in our knowledge, and promoted a network of individuals and organizations interested in these issues to further international collaboration.

In June 2001, OAR co-sponsored a workshop with Environment Canada entitled "Photo-oxidants, Particles, and Haze Across the Arctic and North Atlantic: Transport Observations and Models." This conference was conducted as part of the U.S. participation in the Convention on Long Range Transboundary Air Pollution (LRTAP Convention) and the Arctic Monitoring and Assessment Program (AMAP) under the Arctic Council. The meeting focused on identifying the research needed to quantify the sources-receptor relationships for ozone and fine particle transport across the North Atlantic and Arctic.

EPA is currently shaping a PBT routine monitoring strategy, coordinating with other agencies, states, tribes, intergovernmental organizations and the private sector, which will incorporate the international dimension. Such a strategy will help establish trends for long-range transport, and also help us evaluate effectiveness of our risk management actions.

For mercury specifically, the Agency priority pollutant which cycles globally, ORD was instrumental in developing new methods for measuring the various species to assess long-range transport mechanisms. EPA is developing state-of-the-art knowledge about transformation of mercury into various species in the atmosphere and the transport consequences. The species determines distance traveled and ultimate fate. Research utilizing these new analytical methods has been ongoing in South Florida, Cheeka Peak, Washington; Barrow, Alaska; and Mauna Loa, Hawaii to dis-

tinguish local sources of mercury from external sources. These studies have involved the first aerial measurements and studies at elevation as well as at ground level.

In regard to pollution emissions minimization abroad, OIA is sponsoring a mercury-SO_2 co-benefit demonstration project at a small coal-fired facility in Russia, in order to evaluate the effectiveness of emissions reduction using an electrostatic precipitator (ESP) add-on system. If the expected minimum of 50 percent reduction in mercury is achieved, it will be possible to utilize this low-technology approach in many countries where similar Russian ESP systems are in place. Additionally, a higher technology, although higher cost, approach has also been identified which is expected to reduce mercury by 99 percent in conjunction with SO_2 reduction, is being considered for application in China.

In conjunction with the Department of State Cooperative Threat Reduction Program, OIA has initiated development of a proposal for mercury bioremediation at a former chloralkali facility in Kazakhstan, and in preparation for this project, sponsored a meeting in May 2002 of all scientists engaged in mercury research and pollution prevention in Kazakhstan and the neighboring countries of Kyrgystan, Azerbaijan, and Russia.

The Office of International Affairs also played an instrumental role with Department of State during the UNEP Governing Council session in February 2002, at which UNEP launched a global mercury assessment, with a technical report and set of alternatives for decisions to be presented to the February 2003 UNEP Governing Council.

PESTICIDES

Question. The administration is again proposing to replace appropriations to fund the pesticides reregistration program with a fee-based system. Many small businesses believe that a fee registration program would hurt their economic viability and place them at an unfair business disadvantage to larger businesses. How would the EPA address these concerns?

Answer. There are a few different fee programs in the pesticide program. All of the programs have provisions for reduced fees or waivers for companies that are small businesses or can demonstrate economic hardship. The various fees are discussed below.

Registration Fees.—These fees were originally enacted in 1988 and immediately suspended by amendments to the Federal Insecticide, Fungicide and Rodenticide Act (FIFRA) in 1988. However, that prohibition expired in September 2001 and was renewed for 1 year by the Congress. These fees could not be used for pesticide reregistration, since they are based on recovering costs of the registration program. The fees are currently set up to go directly into the Environmental Services account at Treasury. While the receipts could be separately appropriated to the Agency, generally such fees are deposited to Treasury and are not available to the Agency. When last in effect, the registration fee rule provided for fee waivers or refunds in whole or in part for minor uses, if the action was in the public interest, or upon request by the applicant if they can demonstrate severe economic impact.

Reregistration/Maintenance Fee.—Reregistration/maintenance fees were first introduced in FIFRA 1988 and re-authorized in Food Quality Protection Act (FQPA). This fee will expire on September 30, 2002. The maintenance fee addresses small business concerns in two ways. First, the per product fee for each registrant's first product is discounted by 50 percent. In fiscal year 2002, the fee structure was $1,225 for the first product and $2,550 for each subsequent product. Second, the fee structure includes caps. No registrant pays more than $55,000 for their first 50 products and $95,000 total. For small businesses these caps are set at $38,500 for the first 50 products and $66,500 total. Although all companies not paying at one of the caps benefit from this discount, it especially helps the nearly 800 companies that pay for only one product.

Tolerance Fees.—The proposed fee is authorized by FQPA 1996 amendments to FIFRA and Federal Food, Drug and Cosmetic Act (FFDCA). The proposed rule essentially updates the existing tolerance fees. This fee is intended to recover all costs for processing tolerance actions, including petitions and reassessed tolerances. The fee is structured so that the first tolerance of an active ingredient (a single ingredient may have many tolerances) would be assessed the highest fee, then quickly diminish per each successive tolerance relating to the active ingredient. The proposed rule was published in the Federal Register on June 6, 1999 (OPP–30115), however in 2000, 2001 and 2002, Congress prohibited EPA from promulgating a final tolerance fee rule.

The proposed rule provides that the Administrator may grant a waiver on a case by case basis when requested in writing by the petitioner or registrant, for an appli-

cation for a tolerance or a tolerance reassessment action that meet the criteria for safer products, products that are in the public interest, and registrants who can demonstrate an economic hardship. The concerns of small business would be one of the Agency's priorities in reviewing the requests.

QUESTIONS SUBMITTED BY SENATOR PETE V. DOMENICI

ENVIRONMENTAL AIR QUALITY: CONTRIBUTION TO PUBLIC HEALTH BURDEN

Question. In the environmental air quality arena, most of the Agency's research effort is being directed toward understanding the health effects of fine particles. This effort responds to congressional direction and current public concerns, and is based on the epidemiological evidence that airborne particles are statistically associated with death and illness. Yet, all recent studies that examine the effects of multiple air pollutants indicate that not only particles, but also other air pollutants are associated with death and illness. Is it not true that many air pollutants are likely to contribute to the public health burden?

Answer. We agree that many air pollutants are likely to contribute to the public health burden of air pollution. For example, recent National Scale Assessment of air toxics based on 1996 data revealed several pollutants with health risks to the American population. The third external review draft of the Air Quality Criteria Document for Particulate Matter summarizes the body of science associating fine particles (and other air pollutants) with death and illness. This draft has recently been released and will be undergoing review by the EPA's Science Advisory Boards CASAC Committee. The document evaluates the strength and coherence of the statistical associations between health effects and particulate matter (PM). The extent that the associations with PM also apply or are confounded by other pollutants is a matter of much debate and continued research. In general, associations of health effects with air pollutants seem to be dominated by PM, with occasional emergence of other pollutants as co-factors or appearing as an equal determinant. These co-pollutants have ranged from nitrogen dioxide to sulfur dioxide to carbon monoxide depending on study venue. But these co-pollutants have been of inconsistent importance, suggesting that they may indeed be important considerations but are likely of secondary contribution. The extent to which toxicological evidence has provided biological plausibility to the findings regarding PM supports this contention.

ENVIRONMENTAL AIR QUALITY: EFFECT OF AIR POLLUTANTS AND CONTAMINANTS

Question. What is the Agency doing to determine how the mixtures of air pollutants that people actually breathe affect health, and which of the hundreds of air contaminants are most important?

Answer. Several of the Agency's current research efforts relate to understanding how complex air pollutant mixtures affect health. Particulate matter (PM) is itself a complex mixture of components contributed by various air shed sources and secondary transformations. The health effects research under EPA's PM research program will help our understanding of the observed excess mortality and morbidity associated with particulate air pollution. This research is evaluating the contributions of individual constituents as well source-attributed mixtures in both epidemiological and toxicological studies. Results from these studies will help: (1) determine the biological mechanisms underlying PM-related effects; (2) identify which PM components (or sources) are most responsible for health effects; and (3) quantify the factors affecting susceptibility in the population. In addition, research to elucidate whether, and to what extent, the effects attributed to PM exposures are confounded by other commonly occurring pollutants such as SO_2 and ozone will be performed to improve interpretation of the epidemiological studies on which the NAAQS are based.

The Agency also has additional efforts underway to understand and quantify air pollution risks in the air toxics program. Air toxics research covered by the draft Air Toxics Research Strategy (ATRS) and the draft Air Toxics Multi-Year Plan (MYP) have grouped and prioritized air toxics to aid in determining risk across multiple scales and from stationary (residual risk), mobile, and indoor air sources. The ATRS also identifies key research directions for mixtures including identification of those not following the default assumption of additive toxicity and identification of the constituent interactions of mixtures.

ENVIRONMENTAL AIR QUALITY: INCORPORATING NATIONAL ENVIRONMENTAL RESPIRATORY CENTER RESEARCH STRATEGY INTO AGENCY'S ASSESSMENT OF PUBLIC HEALTH BURDEN AND FUTURE REGULATORY STRATEGIES

Question. In New Mexico, the National Environmental Respiratory Center (NERC) is pursuing a strong research strategy aimed at dissecting the contributions of many different classes of air pollutants to the death and illness associated statistically with airborne particles and the few other pollutants that are measured routinely. How does the Agency plan to incorporate this program into its assessment of the public health burden from air pollution, and the future regulatory strategies that may be required to address multi-pollutant effects?

Answer. EPA believes the research approach taken by the NERC will eventually provide important insights into appropriate approaches to addressing multiple air pollutants. One way we are involved in NERC is our active representation on the Scientific Advisory Committee of the NERC, which meets twice a year to advise the program on its strategic plan as well as to review program progress. This involvement incorporates the Agency view and communicates program status back to the Agency.

As the NERC recognizes, the assessment of the health effects of air pollution is complicated by its complex nature. The regulatory approaches taken by EPA have focused both on single pollutant classes as in the National Ambient Air Quality Standards (NAAQS; e.g., ozone, lead, SO_2, etc.) as well as control of complex mixtures that are emitted from a number of regulated source categories. Even the NAAQS regulations often result in multiple pollutant control, and at least one NAAQS pollutant, particulate matter, is itself a complex mixture. Reductions of multiple pollutants in these programs has undoubtedly benefitted public health, but we need more information on pollutant and source combinations to improve both the effectiveness and efficiency of such programs. As the approach of the NERC to the study of air pollutants, which is inclusive of the complex emissions of sources, is complicated by design, analyses of the findings is also complicated. However, there is growing interest in the integrated control of air pollution by source,' and when paired with new statistical applications (e.g., principal component analyses) to both epidemiological and toxicological studies of complex mixture exposures, we anticipated that the more complete understanding of source contributions to health rather than individual pollutants will lead to significant advances in public health protection.

EPA is paying close attention to how these research developments can inform and improve air quality management. At present there is no clear best method' for incorporating the health impacts of complex source emissions, since often multiple sources emit the same pollutants in varying quantities and under various conditions of operation. Appreciating how source emissions affects health is also complicated by factors such as aging of the atmosphere, photochemical processes, and multiple source contributions. Yet, it is clear that health will be better protected if the entire matrix of a polluted air shed can be considered in developing control strategies and our understanding of source-based health impacts will allow the Agency to target pollutant control with greater efficacy and reduced overall cost to governments and the economy.

One non-regulatory area in which we would like to consider multiple pollutants is the system for providing air quality information to the public. Currently, public notices on daily air quality are usually driven by an individual pollutants, reported to the media as an Air Quality Index that can be better appreciated by the lay community. We are currently examining research from NERC, EPA's internal research program and other programs to determine whether and how the current index might be modified to differentiate the message when multiple as opposed to single pollutants are elevated. This examination will help us formulate additional research questions for NERC and others to facilitate improved public health communication in the future.

ENVIRONMENTAL AIR QUALITY: RESEARCH TO UNDERSTAND HEALTH EFFECTS

Question. The Agency's air pollution research tends to focus on a few classes of pollutants, such as particles, that are reviewed, debated, and regulated one-at-a-time. Although the single-pollutant approach stems from the language of the Clean Air Act, which has certainly helped to clean up the air, epidemiological studies have now made it clear that all routinely measured air pollutants are associated to some degree with death and illness. These are signals that the single-pollutant approach may not continue to serve us well in the future. What research is the Agency supporting to understand the health effects of the much larger number of air pollutants that people actually breathe every day?

Answer. The Agency supports both single pollutant and multiple pollutant research. Epidemiology studies, by their very nature, include multiple pollutants in their analyses of health outcomes. By and large, a single pollutant (usually PM or ozone) dominate the responses, but other pollutants also have an impact on the outcomes and the importance of these multiple factors is widely appreciated and considered in the risk assessments. Additionally, both panel/field (human) and laboratory toxicological studies (both human and animal) that incorporate mixture approaches are supported with the view that complex air pollution exposure scenarios are the reality. The Agency's involvement with the National Environmental Respiratory Center in New Mexico provides one example where this "top-down" approach to the study of emission mixtures is currently be employed. Analogous and complementary studies with fuel oil and coal emissions are being studied intramurally by EPA. There is growing appreciation of the potential for source-based analyses of exposures in the field and the laboratory (e.g., concentrated air particulate exposure units) to improve understanding of health effects and control opportunities. These analyses are gaining in importance in study design and assessments.

In addition the draft Air Toxics Research Strategy and draft Multi-Year Plan have grouped and prioritized the 188 air toxics listed in the Clean Air Act Amendments of 1990 as a way that allows health effects research to focus on those associated with the likely worst health effects. For example, research in the areas of mode of action, shape of dose response curves, irritancy of the respiratory system, and physiologically-based pharmacokinetic models have potentially broad application across several air pollutants.

ENVIRONMENTAL AIR QUALITY: NATIONAL ENVIRONMENTAL RESPIRATORY CENTER INCORPORATED INTO AGENCY'S STRATEGY FOR UNDERSTANDING EFFECTS OF COMPLEX AIR POLLUTANT MIXTURES

Question. How does the Agency propose to incorporate the forward-looking multi-pollutant research of the National Environmental Respiratory Center in New Mexico into its strategy for understanding the effects of complex air pollution mixtures?—And evaluating how regulatory strategies may need to evolve in the future?

Answer. The NERC recognizes that the assessment of the health effects of air pollution is complicated by its complex nature. As stated in Question 3 above, EPA believes the research approach taken by the NERC will yield insights into appropriate approaches to managing multiple air pollutants as well as information on pollutant and source combinations that can improve both the effectiveness and efficiency of our regulatory programs. There is growing interest in the integrated control of air pollution by source', and when paired with new statistical applications (e.g., principal component analyses) to both epidemiological and toxicological studies of complex mixture exposures, we anticipate that a more complete understanding of source contributions to health rather than individual pollutants will lead to significant advances in public health protection.

EPA is paying close attention to how these research developments can inform and improve air quality management. At present there is no clear best method' for incorporating the health impacts of complex source emissions, since often multiple sources emit the same pollutants in varying quantities and under various conditions of operation. Understanding how source emissions affect health is also complicated by factors such as aging of the atmosphere, photochemical processes, and multiple source contributions. Yet, it is clear that health will be better protected if the entire matrix of a polluted air shed can be considered in developing control strategies, and our understanding of source-based health impacts will allow the Agency to target pollutant control with greater efficacy and reduced overall cost to governments and the economy.

QUESTIONS SUBMITTED BY SENATOR PATTY MURRAY

COEUR D'ALENE BASIN: FINAL RECORD OF DECISION (ROD)

Question. Is the EPA still planning to issue the final Record of Decision (ROD) for the Coeur d'Alene Basin this summer? Has EPA responded to the Idaho delegation's request for an NAS study on EPA's proposed ROD and for a delay in the final ROD? If not, when does EPA expect to respond? If so, what was EPA's response?

Answer. EPA Region 10 still intends to issue the Record of Decision (ROD) for the Coeur d'Alene Basin this summer. In letters dated April 15, 2002, Regional Administrator John Iani replied to the Idaho congressional delegation's requests for a ROD delay and an NAS study. The reply assured the delegation that EPA is working closely with the State of Idaho regarding their concerns on the ROD, and is also

supportive of the State's recently formed Coeur d'Alene Basin Improvement Environmental Project Commission. EPA welcomes an independent review by the NAS but would like to move forward with the ROD with a commitment to modify the ROD in the future based on any new information or findings.

In addition, EPA is working with the Federal trustees, tribes, local communities, the State of Washington and other stakeholders.

SUPERFUND TAX: ADMINISTRATION'S OPPOSITION TO TAX CHEMICAL AND PETROLEUM INDUSTRIES

Question. Is the Administration still opposed to reinstating the Superfund tax on the chemical and petroleum industries?

Answer. A number of years have passed since the Superfund taxes expired. Although the Superfund taxes expired, the annual appropriations for the program have remained relatively steady. It is important to note, that the expiration of the taxes has not affected the appropriated funding for the Superfund program. I am confident that Congress and the Administration will continue to work together to provide appropriate funding for the Superfund program.

The Administration continues its strong commitment to the polluter pays principle. In fiscal year 2001 EPA successfully managed the Superfund enforcement program whereby 70 percent of Superfund long-term cleanups at non-Federal facility sites are performed or paid for by parties responsible for the contamination (PRPs). Last year (fiscal year 2001), EPA produced a near record amount in private party cleanup commitments for cleanup and cost recovery—$1.7 billion—an increase from the previous year of almost $300 million. Of the $1.7 billion, EPA obtained commitments from PRPs to reimburse EPA $413 million in past cleanup costs—a large increase from the $145 million achieved in the previous year.

SUPERFUND CLEANUP: ADEQUATE FUNDING IN FISCAL YEAR 2003 FOR WASHINGTON STATE SUPERFUND CLEANUPS

Question. I am concerned that the Administration has not requested enough funding for Superfund to keep cleanups in Washington state (and throughout the nation) on schedule—I am especially concerned about potential slowdowns at the Asarco site in Tacoma, Washington, and the Midnight Mine site on the Spokane Reservation. Will the Administration's request of $1.29 billion for Superfund in fiscal year 2003 provide enough additional funds to ensure that Superfund cleanups in Washington state are not delayed because of insufficient funding?

Answer. *Status of Asarco.*—Based on the current schedule, approximately $60 million in work is scheduled in the next 3 years. This includes completion of excavation and filling the onsite landfill, armoring the shoreline, completion of cleanup of approximately 500 yards, and beginning offshore sediment remediation. Asarco has been identified as the Potentially Responsible Party (PRP), and the Agency is working to have Asarco as the fund lead for this site. However, Asarco currently does not have funds to do more than a fraction of the work. Due to the financial situation of the PRP, the burden of completing the cleanup may, at some point in the future, fall on the Superfund program.

Status of Midnight Mine.—Contaminated water emerging from the Midnight mine is currently captured for treatment in an on-site treatment system; however, a long-term solution is needed to address the site as a whole. Data evaluation, hydrologic modeling and preparation of the remedial investigation report are currently underway. Human and ecological risk assessments and a feasibility study of cleanup alternatives will be initiated in fiscal year 2003. The schedule for completion of the study and selection of a remedy will be based on EPA regional funding allocations and priorities for fiscal year 2003 and beyond. EPA continues to work with the Spokane Tribe on the issues surrounding this complex site. The Agency is also attempting identify PRPs to conduct the cleanup.

ASBESTOS: LIBBY, MONTANA ASBESTOS CLEAN-UP

Question. What is the Administration's request for funding in fiscal year 2003 to clean up contaminant asbestos from Libby, Montana? What is the Administration's request to address broader issues surrounding asbestos, such as implementing recommendations from the EPA's Inspector General (for example, creating the Blue Ribbon Panel on Asbestos, updating EPA's IRIS for asbestos, developing a NESHAP for contaminant asbestos etc.).

Answer. EPA has committed more than $60 million in fiscal years 2000 through 2002 for environmental investigations, cleanup actions and medical investigations in Libby. Current estimates place fiscal year 2003 needs at approximately $21 million. These projections include many assumptions about the number of homes or addi-

tional properties which may require clean up, and may be subject to significant revision as field work progresses.

In addition to the Administration's request for funding in fiscal year 2003 to clean up contaminant asbestos from Libby, Montana, EPA's fiscal year 2003 request also addresses the broader issues surrounding asbestos, which includes funding for implementing recommendations from the EPA Inspector General's report and recommendations to be developed in 2002 by a Blue Ribbon Panel, and funding for other actions to reduce potential asbestos risks, such as lung cancer, asbestosis, and mesothelioma.

EPA recently signed a cooperative agreement with former EPA Deputy Administrator Hank Habicht and the Global Environment Technology Foundation to convene a Blue Ribbon Panel (formerly the Asbestos Focus Group) of national experts to provide the Agency with guidance on how best to respond . Discussions are currently underway to identify the team of national experts that will comprise the Panel. The panel is expected to meet several times over the course of the next several months.

In response to the Inspector General's report EPA also created an Asbestos Coordination Team (ACT) to facilitate internal and external communications and information sharing on asbestos issues. EPA is also a member of the OMNE committee (consisting of the Occupational Safe and Health Agency [OSHA], the Mine Safety and Health Administraion [MSHA], the National Institute for Occupational Safety and Health [NIOSH] and the Environmental Protection Agency [EPA]) within the Department of Labor to coordinate on asbestos and other worker chemical safety issues.

Other actions EPA has already taken or will take in 2002 and 2003 to reduce asbestos risks include updating lists of producers and processors of vermiculite, reviewing and updating other pertinent documents and studies, and developing a product sampling and analysis plan for gardening products and home attic insulation. EPA published its horticultural study of vermiculite products in August, 2000. The results indicated that, in general, the use of these products poses minimal risk to recreational gardeners, but there may be cause for concern for occupational exposures. EPA's study of asbestos contaminated vermiculite home attic insulation began in January 2001, is being peer reviewed in July and August 2002, and is expected to be published in September 2002.

ASBESTOS: BROADENING AND CHANGING THE DEFINITION OF ASBESTOS

Question. Does EPA have any plans at this time to look into broadening and/or changing the definition of asbestos to include nonasbestiform varieties and/or additional minerals which may pose health threats?

Answer. EPA's Office of Research and Development is updating the Agency's Integrated Risk Information System (IRIS) file on asbestos, which may address expanding the definition of asbestos, but the Agency is awaiting the deliberations of the Asbestos Focus Group (formally called the asbestos Blue Ribbon Panel) before coming to any conclusions regarding future actions on this issue. The Asbestos Focus Group assists the Agency with recommendations on how best to use its resources for the oversight of Asbestos in use in products and in buildings and its manufacture, processing and distribution in commerce. Final recommendations will be provided to the Agency in early 2003.

SUBCOMMITTEE RECESS

Senator LEAHY. With that, let us have a recess.

[Whereupon, at 11:30 a.m., Wednesday, March 20, the subcommittee was recessed, to reconvene subject to the call of the Chair.]

DEPARTMENTS OF VETERANS AFFAIRS AND HOUSING AND URBAN DEVELOPMENT, AND INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2003

WEDNESDAY, APRIL 17, 2002

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

The subcommittee met at 9:30 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Barbara A. Mikulski (chairman) presiding.

Present: Senators Mikulski, Johnson, Bond, and Domenici.

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

STATEMENT OF LESLIE LENKOWSKY, CHIEF EXECUTIVE OFFICER

OPENING STATEMENT OF SENATOR BARBARA A. MIKULSKI

Senator MIKULSKI. Good morning. The Subcommittee on VA–HUD appropriations will come to order. This hearing will focus on the appropriations request for the Corporation for National and Community Service. I want to warmly welcome the National Service CEO, Dr. Leslie Lenkowsky.

I was pleased to hear from him last week at the Health Committee, where we were authorizing the service and working with the President of the United States in his review, and invigorated call for service. I'm glad to have you here today before this subcommittee, because this is where the so-called rubber meets the road here. We operationalized those good intentions that are envisioned in authorizing with, of course, our own perspective.

Dr. Lenkowsky comes to us with a great deal of experience. His long history of national service is going to make him, I believe, the right man at the right time. Appointed by President Bush I to serve on the original commission to establish the Commission on National Service, National and Community Service, but when it was meant to be a demonstration project, then President Clinton as part of a bipartisan effort appointed him as one of the founding Directors of the corporation.

So he knows the whole history, he knows the story, he knows the intent, so as well as coming with an incredible background from the academic community, where really his career has been focused on the role of philanthropy and its intersection with public policy,

but how to stimulate innovation, creativity, accountability without big bureaucracy, so you are the kind of guy this committee likes.

So we look forward to working with you and to bringing all of this experience to bear, because National Service is in a new century, and we need to meet the new challenges of our country while at the same time retaining that very important value base of neighbor helping neighbor.

Last week, the President released his principles for National Service reauthorization. We are pleased the President has embraced National Service, and look forward to working with him in a bipartisan way to foster those objectives.

Some of my goals in this hearing are going to be twofold, one a continuation of last week's hearings to have a better opportunity to look at the President's principles, and then how that would be put into the appropriations. Second, how to work with this Director as a part of our appropriations to see how we can take National Service into the new century, continuing to create the habits of the heart that make our Nation great, but at the same time providing qualitative and quantifiable service to the communities, reducing student debt, and maintaining proper fiscal management.

Volunteerism is our Nation's trademark. It highlights what is best about America. It is the backbone of our communities. Preserving safety nets for seniors, keeping communities safe, and getting kids ready to learn. The idea behind National Service was to link values to public policy, and to help young people with an opportunity to serve their communities while helping to pay for higher education, either to reduce their debt or to have like a nugget, particularly for poor kids to be able to go on to higher education.

It was also to link responsibility to opportunity, and we must remember that, so that for every opportunity there is an obligation, whether it is a legal one, or one that you feel in your heart for being a citizen of the greatest Nation in the world.

But while we're looking at the noble aspects of community service, we really have to be accountable to the taxpayer and financial management, which has not been one of the National Corporation's strong suits. We want to commend the corporation for a clean audit two years in a row, with no material weaknesses and only one reportable condition, and we will be discussing that with you.

We have come a long way since 1996, when accountants were unable to audit the corporation's financial statements because they were in such a mess. The reportable condition is in grants management, which is crucial, but we have every faith, Doctor, in your ability, both your programmatic ability as well as your management ability. This is not about how do we get the accounting right. It's how do we get the corporation right.

In the budget review, the President asked for $638 million. This is the biggest request that we've gotten in a long time. It is in addition to $397 million requested under Labor-HHS, and also in addition to what is asked for in FEMA. The 2003 request asked for $403 million for AmeriCorps State and national programs, $162 million more than last year. The President wants to add 25,000 new AmeriCorps volunteers for a total of 75,000 volunteers. Twenty-three thousand of these would be AmeriCorps State and national programs.

Second, the request would be to expand the National Civilian Conservation Corps $10 million over last year for 35, opening two new campuses and adding 500 members responding primarily to public safety. Also, $57 million for the National Service Trust to pay for AmeriCorps education awards. In 2002 we did not appropriate into the trust because there simply was not enough funding. This year, we want to make sure we have the figure right.

The budget eliminates $11.5 million designated by this subcommittee for national organizations, and as I have discussed with you privately, and I want to say publicly, we've got to look at how we support those national programs.

Those large corporations are like large caps. They are the blue chips of volunteerism in our country. We know what dividends they can pay, and we have to see how we are going to be a public investor as a part of their efforts.

The Challenge Grants offer an opportunity to discuss this. We look forward to working with the President in his reauthorization, his new ideas for the Freedom Corps, and we are pleased that at this juncture, both a new century and after September 11 a new call to duty, that we work with him. We believe that this President himself is a duty-driven kind of guy, and he wants the rest of America to embrace those values of honor and duty and a call to citizenship.

So we look forward to working with you, and I would turn to my colleague, Senator Kit Bond, who as the chairman of the subcommittee over the years has played an absolutely critical role in sustaining National Service when those in the other body wanted to terminate it.

Senator Bond.

STATEMENT OF SENATOR CHRISTOPHER S. BOND

Senator BOND. Thank you, Madam Chair. It is a pleasure to join you in welcoming Dr. Les Lenkowsky as Chief Executive Officer of CNCS.

Les, my sincere thanks to you and the Director of USA Freedom Corps, Josh Bridgeland, for a very constructive meeting on Monday, and as I told you then, not only is our chair really the godmother of AmeriCorps and National Service, she has been the greatest champion, and it is with great excitement that together we look at the new reinvigorated budget request, the spirit that the CNCS has, because really—I guess it was de Tocqueville who said that the real spirit of America comes from the volunteer sector, that great fire that burns in the churches and the voluntary organizations.

We look to you to nurture that fire and to provide the fuel, because along with—and I stop to compliment you on the progress you have made on turning the corner on the management problems and now we can start addressing the performance of the corporation's program, because along with the Peace Corps, the CNCS does play a unique and leading role in volunteer activities.

We saw out of the tragedy of the terrorist attacks on September 11 a public cry for citizens to become more involved in public service and help communities respond to the new threats. As I told you, I have never seen more people in my home State wanting to volun-

teer. As I travel across Missouri, people from all walks of life, college graduates, high school students, senior citizens have all come up and said they want to help.

Retired health care professionals want to be able to participate if there is another tragedy. I have had World War II veterans who want to sign up and go back to war, and I said, maybe we can use your enthusiasm and your training, but probably we are not going to send you to the mountains of Afghanistan.

Really, the events of September 11 reinvigorated our spirit of public service and compassion and responsibility, and I think we now have the unique opportunity to capture and harness this spirit to improve our communities. We won this spirit out of the great tragedy of September 11. It came at a great cost. We cannot afford to lose that which was so expensively won for us, but I am concerned the current structure of the programs, the corps may not essentially meet effectively and efficiently the volunteer needs of Americans, and I question whether the corporation is getting the biggest bang for its buck, and I think we need to work together on fundamental reforms.

My view is very strongly that the corporation ought to be focusing less on retail activities and more on wholesale activities. That means we need to focus the funds, the training, the work of the CNCS on training the volunteers to mobilize other volunteers. In other words, the corporation should train the trainers, because there is a much broader reach of people with volunteer time and talents that I believe that the members of the organization can mobilize.

As the chair said, she and I both sit on the authorizing committee as well as the appropriating committee, and so you will get your fill of us this year, and we look forward to working on the reauthorization programs. I think we can truly make volunteerism more meaningful and accountable.

There have been, as we have discussed, inadequate management systems and oversight practices have been lacking, and a lack of performance outcome data, and these have made it a little bit more difficult to get the budget through in the Congress, and it has made it an easy target of criticism, and I think we are all best served if we can avoid that, those openings for attack up front.

You have received a clean opinion with only one general question, and this is the second year in a row. We do know that the President has released his principles and reform for a Citizens Service Act, and one of the noteworthy items is improving the accountability of the corporation's grantees.

I like the fact that he has called for clearly defined performance goals that are measurable. One of my first stints in public office was as a State auditor, and we did performance audits and asked people, what is it you are trying to provide, and how do you know you are doing it? Do not just give us the inputs, how much you spend on it, what good comes out of it, and I think the corporation needs to be taking a much harder look to see those grantees that get the job done, and more money, and those who do not, move them out the door.

I think this kind of strong tough love is going to be important. As we work, we hope to expand the budget and the responsibilities

of the corporation, but management and accountability are our top priorities.

One other issue is the National Service Trust Fund. Last year, the chair and I requested the CNCS Inspector General to review the financial condition of the corporation's trust fund. I'm not going to go into details here, but there is a major discrepancy between what the corporation is requesting, and what the OIG is estimating for the trust fund. It just does not compute. Maybe we do not know how to figure, but there is some major disconnect there.

Finally, I will focus in the Q&A on the issue of sustainability. By law, Congress envisioned the corporation would consider the grantees' reliance on Federal funding. In reviewing the application it expected some grantees would eventually operate without Federal funding, but in practice the corporation continues to fund the same grants. It is a problem we see throughout Government. The rich get richer. Whoever got last year gets this year.

The corporation provided funding year after year for really good organizations, and I have no complaint about the organizations—Habitat for Humanity—these are worthwhile organizations and perform valuable service, but should the corporation be looking for new areas to encourage and enhance and support with the programs that have not had the benefit of Federal assistance?

With that, Madam Chair, I look forward to the questions and answers, and we will see how much we can do before they ring the bell for us.

Senator MIKULSKI. Thank you very much. Senator Johnson, do you have an opening statement?

Senator JOHNSON. No, Madam Chairwoman. I would simply submit a statement of welcome to Dr. Lenkowsky. The AmeriCorps and National Service Corps are obviously very important to my State of South Dakota, and I am pleased you are holding this hearing and look forward to working to provide an adequate budget.

Senator MIKULSKI. Thank you very much.

With that, we would ask you to proceed, Doctor.

Dr. LENKOWSKY Thank you very much, Madam Chair, Senator Bond, Senator Johnson. I greatly appreciate having the opportunity to appear before you this morning. As a former board member, I am most grateful for the efforts you have put into making the Corporation for National and Community Service what it is today, and laying the groundwork for what it can become in the future.

Senator MIKULSKI. Doctor, this is your oral statement, is that correct?

Dr. LENKOWSKY. That is correct. I have both an oral and a written statement.

Senator MIKULSKI. I did not mean to interrupt.

Dr. LENKOWSKY. Again, thank you for all you have done to lay the groundwork for what this corporation can become in the future. This is an extraordinary moment in the history of our country, and for the agency I head. Since the terrible events of September 11, we have seen expressions of patriotism in the United States unlike any I can remember in my lifetime, and at a tragically high price. All of us have again realized how precious our freedoms are and why it is important for all of us to accept the responsibilities of being citizens.

A survey taken in January by a research center at the University of Maryland found that 81 percent of young adults between the ages of 15 and 25, cutting across all demographic groups and political affiliations, favor a year of voluntary national or community service to earn money towards college or advanced training. Applications to AmeriCorps and SeniorCorps are up substantially over what they were a year ago, and a blue ribbon committee chaired by former Senator John Glenn has just called upon the Nation's schools to invest more heavily in service learning.

Despite all of the renewed interest in serving, however, what Americans have been doing lately tells a different story. The University of Maryland survey, for example, reported that 37 percent of those young adults never volunteer, up from 27 percent in 2000. Fewer people volunteer occasionally as well in that 2-year period.

To make what so many Americans have been feeling since September 11 into a lasting change in what they do, President Bush has called on all Americans to give at least 2 years of their lives to serving their country, and established the USA Freedom Corps as a White House Council to mobilize the resources of the Federal Government to help them do so.

Along with the Peace Corps and a new Citizens Corps, which will focus on homeland security, the Corporation for National and Community Service is proud to be one of the operating arms of this historic new initiative. Through our programs, AmeriCorps, Senior Corps, and Learn and Serve America, we support the President's call to service by helping to create opportunities for all Americans to serve full-time, part-time, and while they are students.

We will also work closely with our Nation's many worthwhile charities and nonprofit organizations to assist them in recruiting and managing volunteers, as well as accomplishing their missions, including providing security for our homeland.

The budget request before you aims to provide the resources necessary for the corporation to do this, and last week the President submitted to Congress principles and reforms for a Citizens Service Act which will be the first reauthorization of the corporation since it was created in 1993.

We believe strongly that for the corporation to play the role the President wants us to in the USA Freedom Corps, we need to make AmeriCorps, Senior Corps, and Learn and Serve America more responsive to State and local needs, more able to support and encourage volunteering, more accountable for results, and more effective in assisting hard-pressed charities, especially faith-based and community organizations.

I would like to submit these principles for the record as well, and would be glad to answer questions about them. We are currently working with the Senate Health and the House Education and Workforce Committee on reauthorization of the corporation's programs. We will keep you and your staffs fully informed on our progress.

While our existing authorizing laws, together with the management improvements we have made in recent years, are enabling the corporation to make progress, we believe that the changes the President is calling for would produce more volunteers and more help for nonprofit organizations for each Government dollar spent.

Our request to the subcommittee totals $638 million, an increase of about $229 million over the amount appropriated for 2002.

Included in this increase are funds for 25,000 additional AmeriCorps members, two additional National Civilian Community Corps campuses, and a Challenge Grant program to expand private support for teaching and other National Service programs. Other elements of the President's proposed budget for the corporation, including an increase of 100,000 members in Senior Corps, and an additional 1,000 AmeriCorps VISTA and AmeriCorps NCCC members, will be considered by the Appropriations Committee's HHS-Labor Subcommittee.

We are mindful that this is going to be a difficult year for the Federal budget. The requirements of the war on terrorism and homeland security, as well as the lingering effects of the economic recession, have created sizeable demands for additional spending. However, President Bush feels strongly, and we agree, that our Nation has a window of opportunity that occurs only once or twice a century.

Through the USA Freedom Corps we have a chance to help bring forth a new, great generation whose contributions to addressing our most serious problems will be felt far into the 21st Century. By investing a relatively modest amount of additional resources in the work of the corporation for national and community service, you will be assisting Americans to answer the question, what can I do to help, by increasing the opportunities they have to be good citizens.

We have a written statement which we have submitted for the record, and I would be glad to answer your questions.

[The statement follows:]

PREPARED STATEMENT OF LESLIE LENKOWSKY

Madam Chair, Senator Bond, and Members of the Subcommittee: Thank you for the opportunity to discuss the views of the Administration concerning the fiscal year 2003 budget request for the Corporation for National and Community Service.

This is my first opportunity to appear before you, since the Senate confirmed my nomination by President Bush to be the Chief Executive Officer of the Corporation for National and Community Service. Prior to this appointment, I served three consecutive terms as a Member of the Corporation's Board of Directors and the Board of its predecessor organization.

Most importantly, this is an extraordinary moment in the history of our country and the Agency I head. Since the terrible events of September 11, we have seen expressions of patriotism in the United States unlike any that I can remember in my lifetime. At a tragically high price, all of us have again come to realize how precious our freedoms are and why it is important for all of us to accept the responsibilities of citizenship in order to preserve them.

To make this a lasting change in our civic consciousness, President Bush has called on all Americans to give at least two years of their lives in service to their country. As the President has said, we can build a stronger Nation and fight terrorism by making a commitment to service in our own communities, whether that be tutoring a child, volunteering at a hospital, or participating in a neighborhood crime watch.

Most of our Nation's civic work is being done without the aid of the Federal Government. That is as it should be, as the Federal Government did not create this civic spirit. At the same time, the Federal Government can do a better job in helping to support and encourage it where it can.

Therefore, through an Executive Order, the President established the USA Freedom Corps, which will build on existing Federal programs that engage citizens in service, as well as create new opportunities related to homeland security and meeting other critical needs.

The USA Freedom Corps initially will have three major components, which will be administered separately but coordinated through a White House council. It includes an improved and enhanced set of programs supported through the Corporation for National and Community Service. Specifically, the Administration has proposed additional community-based service opportunities and leveraging thousands of additional volunteers by adding 25,000 new AmeriCorps members and 100,000 new volunteers in senior service, and by removing current barriers to service.

As part of the announcement of the USA Freedom Corps, the Administration indicated its intent to work closely with the Congress on a bill that will reform and extend the Corporation's programs and authorities. The Administration's reforms were outlined in the document entitled "Principles and Reforms for a Citizen Service Act," released on April 9.

For the Corporation to play the role envisioned by the President under the USA Freedom Corps, we need to make AmeriCorps, Senior Corps, and Learn and Serve America more responsive to State and local needs, more accountable for results, more adept at leveraging private resources, and more effective in assisting hard-pressed charities, including faith-based and community organizations.

The $229 million increase the President has requested for fiscal year 2003 for the Corporation, in the VA–HUD appropriations bill, is less than one-quarter of one percent of the total bill—but it is a vital part of the President's initiatives to strengthen our Nation at this critical time in our history. Defending our Nation requires more than a strong military—it requires a strong and enduring civic spirit and commitment to serving our neighbors, our communities, and our country.

Following is a summary of the Administration's plans for service and volunteerism and the fiscal year 2003 budget request.

USA FREEDOM CORPS

In his State of the Union address, President Bush announced the formation of the USA Freedom Corps—a White House council that coordinates and is working to enhance the many service opportunities, both domestic and international, available to Americans of all ages. The Freedom Corps, which is chaired by the President, brings together under one umbrella, the Corporation for National and Community Service, the Peace Corps, and a new Citizen Corps dedicated to homeland security.

As part of the USA Freedom Corps announcement, President Bush called on all Americans to serve their country for the equivalent of two years—or 4,000 hours—over their lifetimes. Some Americans—such as those just graduating from high school or college or those beginning their retirement—may want to perform one or more years of uninterrupted service. Other Americans may wish to commit service hours over many years. Some citizens will serve for many more than two years, others for less. This initiative is not a Federal mandate—it is a profound individual commitment and a worthy national goal.

The President's Budget for 2003 includes more than $560 million in new funds to support these new citizen service initiatives. Of these increases, $290 million is earmarked for the programs of the Corporation for National and Community Service, the largest share of which, $229 million is under the jurisdiction of this Subcommittee.

The USA Freedom Corps initiative is directed by an Assistant to the President, John Bridgeland. The Freedom Corps Council, established by an Executive Order and comprised of a number of Federal departments and agencies, will make further policy recommendations to the President on new ways to enhance service, help agencies recruit and mobilize volunteers, chart civic progress, and recognize the participation of Americans in serving their neighbors, their communities, and their country.

PRINCIPLES FOR A CITIZEN SERVICE ACT OF 2002

As part of the announcement of the USA Freedom Corps, the Administration indicated its intention to work closely with the Congress on a bill that will reform and extend national and community service programs. The legislation that authorized these programs has proven to be remarkably resilient, but there are significant opportunities to make the programs more effective.

On April 9, the President presented to the Congress a set of principles for legislation that would reauthorize and reform the Corporation's programs. The principles seek to: (1) support and encourage the greater engagement of citizens in volunteering; (2) make Federal funds more responsive to State and local needs; (3) make Federal support more accountable, and more effective by focusing on sustainability of community service programs; and (4) provide greater assistance to secular and faith-based community organizations.

FISCAL YEAR 2003 BUDGET REQUEST

The budget request before this Subcommittee totals $632.6 million. This is an increase of $229.4 million above amounts available in fiscal year 2002.

STRENGTHENING AMERICORPS

The majority of the requested funding increase would support 25,000 additional AmeriCorps members, an increase of 50 percent above the level of 50,000 that we are supporting in 2002. AmeriCorps members mobilize, manage, and train volunteers. The members, and the volunteers they help organize, engage in a wide variety of activities, for example teaching children to read, working to make neighborhoods safer, and helping build affordable homes for low-income families. With the coming class this fall, more than 300,000 Americans, 18 or older, will have participated in AmeriCorps since it was created in 1993 through amendments to the National and Community Service Act of 1990 ("the Act").

Still today, many members of the public do not understand how AmeriCorps functions.

AmeriCorps members serve in nonprofit and community organizations like Habitat for Humanity, neighborhood watch organizations, the American Red Cross, Boys and Girls Clubs, local faith-based organizations, and many more local community organizations. These organizations, not the Federal government, select most of the members and manage them. The members assist those organizations in meeting community needs, as the organizations define them.

AmeriCorps is largely decentralized. State commissions on community service, led by citizen volunteers appointed by governors, select most of the programs in which AmeriCorps members serve. Most of the projects, and the needs being met, are determined in States and local communities, not in Washington.

AmeriCorps has both full-time and part-time members. Slightly more than half of the individuals in these programs serve full-time and receive a very modest living allowance, slightly over $9000 per year, in order to be able to serve. The other half serve part-time; they generally do not receive any living allowance from the Corporation.

All AmeriCorps members, both full-time and part-time, receive an education award, available for seven years, to help finance college or pay back student loans upon successful completion of service. At the end of this year, we estimate the first AmeriCorps class will have used about 72 percent of the education award amounts that were earned.

It's also important to understand that States, local communities, and the private sector make financial commitments to AmeriCorps. There are various statutory provisions that mandate such cost sharing.

There are three main components to the AmeriCorps program: First, "AmeriCorps*State and National" provides grants to States and to national organizations to support members in local nonprofit organizations across the country. Second, "AmeriCorps*VISTA"—the continuation of the Volunteers In Service To America program—focuses its members' activities on supporting community and faith-based organizations in meeting the needs of low-income communities. And third, the "AmeriCorps*National Civilian Community Corps," or "NCCC", is a ten-month, full-time residential service program for men and women that combines the best practices of civilian service with the best aspects of military service, including leadership and team building. As you know, AmeriCorps*State and National, and NCCC are funded by your VA–HUD appropriations bill and the AmeriCorps*VISTA program is funded through the Labor-HHS-Education appropriations bill.

Since it was created in 1993, AmeriCorps projects have involved our members in meeting community needs in education, health and human services, public safety, and the environment. Initial evaluations have found positive results. For example, a review of tutoring programs found that "tutored students at all grade levels improved their reading performance from pretest to post-test more than the gain expected for the typical child at their grade level."[1] Other studies have identified positive results consistent with the basic purposes of the legislation.[2] In addition, we are currently conducting a "longitudinal" study to measure the long-term impact of AmeriCorps service upon the individuals who have served.

At the same time, the program has had its share of challenges and problems over the years. As a Board member, I called for more independent assessments and eval-

[1] Abt Associates. 2001. AmeriCorps Tutoring and Student Reading Achievement. Final Report. Cambridge, MA.

[2] Aguirre International. 1999. Making a Difference: Impact of AmeriCorps*State/National Direct on Members and Communities 1994–1995 and 1995–1996. San Mateo, CA.

uations, and upon becoming the Chief Executive Officer I promptly established a new Office of Research and Policy Development, reporting directly to me, for this purpose.

Further, over the years, several members of Congress have identified the need to achieve greater efficiency and accountability. As a result, AmeriCorps has tightened its financial management, reduced its per-member costs, and adopted and enforced tough rules on political activity. I am very pleased to report to the Subcommittee, that the Corporation has just received its second consecutive "clean opinion" from outside auditors, and for the first time the opinion finds "no material weaknesses."

Having come this far, this Administration is seeking to strengthen AmeriCorps and create additional opportunities for national and community service. Specifically, our fiscal year 2003 budget requests:

—$57 million for the National Service Trust. When combined with the balances in the Trust and interest earnings, these monies will support the anticipated education award and interest costs of up to 75,000 members.

—$403.3 million for AmeriCorps* State and National Programs. These funds are used by State commissions and nonprofit organizations to support AmeriCorps programs. The Budget proposes an increase of $162.8 million above current levels in order to add 24,000 members in 2003. (The other 1,000 additional members are to be supported through the National Civilian Community Corps and AmeriCorps*VISTA). Within this category, we propose funding for:

—*Homeland Security.*—In general, activities in this area fall within the categories of public safety, public health, or disaster response and preparedness. We support thousands of volunteers serving police departments, fire departments, rescue teams, emergency response agencies, and land management agencies. They are not armed, nor can they make arrests, but they carry out vital tasks including organizing neighborhood watch groups, community policing, victim assistance, fingerprinting and other tasks that free up officers and other professionals to do front line work. Volunteers in public health roles assist in immunizing children and adults, serving as case managers, distributing health information, and providing health screenings. AmeriCorps members also have a long track record of working with FEMA and other relief agencies in helping communities respond to disasters and will work actively with Citizen Corps councils throughout the country on homeland security.

—*A Senior Service Initiative.*—The Corporation requests AmeriCorps funding for up to 10,000 seniors to serve 900 hours over a 1–2 year period and earn a part-time education award of $2,362.50. This award could be used by the senior for education or given to a grandchild or other designated individual as a scholarship for future education. This initiative is intended to build on successful pilot programs known as the Experience Corps, which uses retirees for activities requiring significant skills or training. An independent evaluation of the Experience Corps' school-based programs concluded that 92 percent of students measured showed improved reading during the school year. In addition to tutoring, as with other AmeriCorps programs, seniors would perform a wide range of services to meet community needs, including homeland security.

—*A Literacy Initiative.*—The Corporation will continue to emphasize the placement of members in programs designed to help teach reading. These efforts will be conducted in coordination with the Department of Education.

—*A Technology Initiative.*—The Corporation will continue its emphasis on involving AmeriCorps members in programs that: (1) assist in delivering internet access and other technologies to low-income individuals and families; (2) help train school teachers and staff in community organizations in using technology in their work with young people; (3) build the technology skills of Americans, especially children, who have not yet been exposed to computers; and (4) use technology to meet the needs of communities.

—*AmeriCorps Education Award Program.*—This program—providing education awards, but no living allowances—is currently funded from demonstration authority under Subtitle H of the Act. The President's Budget proposes to fund this as an ongoing program (within Subtitle C), in order to increase the types of programs and organizations in which AmeriCorps members may serve, while minimizing the cost to the Corporation.

—*An AmeriCorps "Promise Fellows" Program.*—The activities under this program, previously funded from Subtitle H demonstration authority, are also proposed to be funded through Subtitle C, AmeriCorps*State and National. This change would more fully integrate the activities of AmeriCorps members serving in support of the "five promises to youth" under America's Promise. With this transfer to subtitle C, States and nonprofit organizations would

have the flexibility to determine the level of support for AmeriCorps*Promise Fellows, who specialize in helping organizations and communities increase their capacity to help needy young people.

—*Faith and Community-Based Activities.*—Building on the initiative begun in fiscal year 2002, program guidelines will continue to reflect an increased emphasis on supporting and expanding activities related to faith- and community-based programs, including additional outreach and capacity-building, and the expectation that grantees will include faith-based and small community organizations as they develop and implement their programs. In fiscal year 2003, the Corporation anticipates a significant increase in the number of faith-based and small community organizations participating in AmeriCorps, either directly or through intermediaries. As has been the case ever since the Federal Government began the VISTA program in the 1960s, assistance to faith-based organizations will continue to be strictly for secular activities.

—*Volunteer Mobilization and Management.*—For the current fiscal year, a fundamental objective of AmeriCorps is to help mobilize, support, and manage the vast networks of volunteers assisting non-profit organizations in meeting community needs. This includes working cooperatively with the many volunteer networks that already exist in the field. In fiscal 2003, we will seek to further strengthen AmeriCorps' capacity-building activities.

—$35 million for the AmeriCorps*National Civilian Community Corps. Under this budget request, the AmeriCorps*National Civilian Community Corps would expand from five to seven campuses. This expansion would permit the most cost-effective deployment of a proposed 1700 members in fiscal year 2003. The expansion is planned in areas of the country that do not currently have adequate support from AmeriCorps*NCCC—the South and the Midwest. Homeland security and disaster response will continue to be a high priority for AmeriCorps*NCCC.

—$10 million for funding of challenge grants to enhance sustainability of nonprofits by the private sector. The Corporation requests $10 million under Innovation, Demonstration and Other Activities for challenge grants to support the expansion of teaching and other national service programs under AmeriCorps. Private sources would provide at least 50 percent of the amount required to expand existing national service programs under AmeriCorps. The Corporation has supported effective teaching programs in the past, such as Teach for America and Notre Dame's Alliance for Catholic Education, but has not used an authority that targets Federal funds to challenge the private sector to help expand these efforts. Further, this request would support other national service programs that have the capacity to raise substantial amounts of new private funds. When fully implemented, we estimate that up to 5,000 additional members could be supported with these funds.

I'd like to take a few minutes now to address some of the questions that you and others may have about our budget requests.

One question you may have is whether nonprofit organizations will be able to recruit 25,000 additional AmeriCorps members. We believe that many Americans want to serve and that nonprofit organizations, with appropriate funding and lead times, will have little difficulty in recruiting an additional 25,000 members. Since the State of the Union, the number of applications submitted through our on-line recruitment system, when compared to a comparable period a year ago has increased by more than 100 percent (although on-line applications are still a minority of applications received). Individual programs have experienced increases as well. For example, Teach for America (TFA), an AmeriCorps program, told us a couple weeks ago that they have seen more than a 180 percent increase in applications compared to a year ago. As a result, they are projecting an incoming corps this year of between 1,700 and 1,900—up from 900 last year.

Not all of the more than 900 programs across the country have seen these results. But our informal surveys this past fall indicate that they are seeing greater interest in service among young people. In short, we believe that people will apply and that the national service network will be able to recruit many thousands of additional participants in AmeriCorps, who will in turn recruit many more volunteers—at least 3 for every AmeriCorps member. We call this leveraging of additional volunteers.

A second question you may have is whether organizations have the capacity to use these additional participants effectively. That is a question we have also discussed with existing programs, and potential new grantees. A sample of programs surveyed last fall indicated that many are hoping to double in size. In addition, a conference of small community and faith-based organizations last year revealed a strong interest in accessing additional national service resources, as long as we take steps to minimize the administrative burdens on these organizations. Also State

service commissions, as well as the Corporation, each year turn down many qualified applicants. And, finally, it's important for you to know that we are committed to actively assessing the effectiveness of all existing and new grants through an aggressive set of outcome measures.

A third question you may be considering is whether more Federal resources are needed in order to generate 25,000 additional members. Couldn't we rely on other sources of funding to do this? In fact, our budget assumes approximately $350 million in financial and in-kind support for AmeriCorps from non-Corporation resources, including funding from the private sector, individuals, States, and community organizations. We believe there are opportunities to expand this funding, such as through the challenge grants mentioned above. At the same time, the Federal Government has an important role to play in enabling thousands of additional Americans to make a substantial time commitment to national service thereby building a vital non-profit infrastructure. In addition, small hard-pressed community organizations need our assistance to build their capacity to provide services. Except for individuals with substantial means, providing these organizations with full-time assistance requires the availability of modest living allowances, and educational awards provide additional important incentives.

I intend to continue to work with the Congress to achieve the proper balance of public and private sector support for national and community service.

EFFECTIVE SERVICE-LEARNING

Our budget request includes $43 million for the support of service-learning programs—known as Learn and Serve America—in our Nation's elementary and secondary schools and institutions of higher education. Over the last decade, growing numbers of our Nation's elementary and secondary schools and institutions of higher education have used service-learning as a way of integrating education and service.

A 1999 U.S. Department of Education study found that 32 percent of all public schools organized service-learning as part of their curriculum, including nearly half of all high schools. In addition, an impressive fifty-seven percent of all public schools organized community service activities for their students. This growth is significant when compared to a similar study conducted in 1984 that found only 9 percent of all high schools offered service-learning, and twenty-seven percent of all high schools offered some type of community service.[3]

A 1999 study by the Rand Corporation found that Learn and Serve America participants had a positive impact on the organizations they served. Student volunteers helped community organizations reach more people and improve the quality of their services. These accomplishments included: improving (younger) students' school achievement; promoting children's readiness for school; improving the English skills of immigrants; improving adult literacy and job skills; and strengthening parents' child care skills.[4]

Our objective is to encourage schools at all levels to respond to the President's call to service—for 4000 hours of service over one's lifetime—and institute more service-learning programs. Such programs, which tie rigorous school studies to worthwhile volunteer work in the community, are critically important if we are to instill the ethic of a lifetime of service and civic involvement in a rising generation of Americans.

We do not propose additional funding for Learn and Serve, but instead propose to target more Learn and Serve resources on improving the quality of programs. And, as we did in the reauthorization of the Elementary and Secondary Education Act, we will propose to add more accountability to this system of Federal support.

For higher education, in fiscal year 2003 we propose to continue individual campus grants, designed to allow individual institutions of higher education to create sustainable programs that are conducted in collaboration with schools, nonprofits, and other local organizations and institutions. We also propose new grants to higher education associations and to consortia that include higher education institutions and other organizations. Examples of previously funded higher education consortia include Campus Compact, the American Association of Higher Education, the United Negro College Fund, and Community-Campus Partnerships for Health.

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[3] National Center for Education Statistics. 1999. "Service-Learning and Community Service in K–12 Public Schools." *Statistics in Brief.* Office of Educational Research and Improvement. U.S. Department of Education.

[4] Gray, Maryann J., E. H. Ondaatje, and L. Zakaras. 1999. *Combining Service and Learning in Higher Education: Summary Report*, RAND.

MANAGEMENT AND ADMINISTRATIVE IMPROVEMENTS

All of us involved with national and community service—the Corporation's Board, its previous CEOs, the Congress, State Service Commissions, and programs across the country—have recognized the significant management and administrative challenges that have faced us over the last decade. The Corporation has made progress over the last couple years, but much more remains to be done and the Bush Administration is committed to making the necessary reforms.

In this effort to improve the Corporation and its operations, fiscal year 2000 was a landmark year. The Corporation received an unqualified opinion on its financial Statements for the first time. This achievement resulted from a commitment to strong management controls and accountability for financial resources. In addition, we have during the last month received the results of the 2001 audit from the independent auditor under contract to the Office of the Inspector General, and the Corporation received an unqualified opinion for the second year in a row. Significantly, this year, the auditors reported no material weaknesses.

In general, the Congress has provided the Corporation with the tools and support necessary to achieve management improvements. However, we have additional ideas that are intended to strengthen our ability to carry out our programs efficiently and effectively. As you know, we are discussing these ideas in with our authorizing committees.

Our budget request for fiscal year 2003 includes $35 million for program administration, of which $14 million would support State Service Commissions. Most of the $4 million increase in requested administrative funds would be targeted to State Commissions to support the program expansion to 75,000 AmeriCorps members, and their efforts to meet standards we have developed for Commission accountability. The other portion of the increase would support inflationary costs, including civilian pay raises proposed in the President's Budget, as well as further improvements in our financial and systems performance.

Having completed installation of a new accounting and financial management system—that has proven essential to our positive financial audits in 2000 and 2001—the Corporation is now implementing a new electronic grant system, using funding provided specifically for this purpose by the Congress. We expect to complete systems development and testing this fiscal year, conduct training, and begin implementation on a phased basis throughout fiscal year 2003, consistent with our established grant cycles. When completed and fully operational, the Corporation will have an integrated grants management system providing comprehensive financial management information for all grants and cooperative agreements. Grantees will apply for and receive assistance electronically, thereby greatly reducing current paperwork burdens. And the grant system will interface with the Corporation's financial management system. The design meets the Grants Financial System Requirements of the Joint Financial Management Improvement Program, and the requirements of the Government Paperwork Elimination Act and the Federal Financial Assistance Management Improvement Act.

OTHER BUDGET REQUESTS

Innovation, Demonstration, and Other Assistance

In the area of innovations and demonstrations, the Administration is requesting $25.5 million (in addition to the $10 million identified above for challenge grants) for various purposes, including: training and technical assistance, recruitment, Martin Luther King, Jr. Day grants, and other activities that are critical to the support of high quality programs. Moreover, if Congress approves our request to transfer the AmeriCorps Education Awards program and the Promise Fellows program from this category, we will have greater flexibility in carrying out the original intent of this type of support which is to develop new methodologies for encouraging service. I continue to believe that a critical role for the Corporation is to support those innovative activities that will lead to the overall strengthening of programs and service experiences across the country.

EVALUATION

The Corporation conducts or contracts for evaluations of its programs, initiating several studies each year on a range of issues. These studies originate from several sources. The National and Community Service Act mandates several evaluation studies. Other studies are an important part of the Corporation's compliance with the Government Performance and Results Act (GPRA). Other research derives from the Corporation's Strategic Plan, which is developed through our Board of Directors.

In fiscal year 2003, we are requesting $5 million to support the studies identified in our budget justification.

These evaluations are a major part of the effort to enhance program performance and collect data addressing critical program issues. I believe strongly in the centrality of research and evaluation to the future of national and community service, and have therefore created an Office of Research and Policy Development (RPD), reporting directly to me, to focus greater attention in this area.

Increasingly, I expect the Corporation's new Office of Research and Policy Development to be recognized by the broader governmental, philanthropic and nonprofit communities as a resource on a wide range of research and evaluation issues.

Points of Light Foundation

The fiscal year 2003 budget requests $10 million for the activities and operations of the Points of Light Foundation that are designed to:

1. Encourage every American and every American institution to help solve the Nation's most critical social problems by volunteering their time, energies, and services through community service projects and initiatives;
2. Identify successful and promising community service projects and initiatives with nonprofit organizations, corporations, families, and youth, and disseminate information concerning such projects and initiatives to other communities in order to promote their adoption nationwide;
3. Build the capacity of institutions to support volunteer service, and develop individuals as leaders to serve as strong examples of a commitment to serving others and to convince all Americans that a successful life includes community service; and
4. Expand its efforts to build the capacity, visibility, and sustainability of a unified nationwide network of local Volunteer Centers.

America's Promise: The Alliance for Youth

The 2003 budget requests $7.5 million for America's Promise: The Alliance for Youth. That organization, founded by Secretary of State Colin Powell and currently led by former Senator and CEO of the Corporation, Harris Wofford, seeks to act as a catalyst to challenge, energize, and inspire individuals, organizations, and communities to expand efforts to ensure that youth become productive, responsible adults.

Earmarked Grants

The fiscal 2002 appropriations for the Corporation for National and Community Service marked the third year of funding for "earmarked grants" and included $11.5 million for five specified organizations: Communities in Schools, the Parents as Teachers National Center, the Youth Life Foundation, Teach for America, and the YMCA of the USA.

Although it is Congress' prerogative to set earmarks, I would urge restraint in this area. The Corporation's Board of Directors and I believe very strongly that the best results occur when organizations are required to compete for available public funds. The fiscal year 2003 budget therefore does not propose any earmarks. Moreover, several grants awarded under this category in fiscal years 2001 and 2002 were for multi-year efforts, thereby eliminating the need for any additional funding for the activities of those organizations in fiscal year 2003.

Office of the Inspector General

As a separate request, the President's Budget requests $5.1 million for the audit and investigative activities of the Office of the Inspector General.

I value the important work of that office to conduct independent and objective audits and investigations and to prevent and detect fraud, waste, and abuse. Furthermore the reforms being put in place to strengthen program accountability will require an active partnership between that Office and the Corporation's senior management.

The President has nominated J. Russell George to be the Inspector General of the Corporation for National and Community Service. Mr. George has an extensive background in working to promote effectiveness and efficiency in government. Most recently, he has served as the Staff Director and Chief Counsel to the U.S. House of Representatives Committee on Government Reform, Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations, that has jurisdiction over the Inspector Generals program nationwide.

Madam Chair, that concludes my statement concerning the Corporation's budget request for fiscal year 2003. We are clearly at an opportune moment in the history of Federal support for service, and I look forward to working with you, Senator Bond, and the other Members of this Subcommittee and the Congress to make the President's proposals a reality. I am available to address any questions that the Subcommittee may have.

FREEDOM CORPS

Senator MIKULSKI. Thank you very much, Doctor. Let me go right to our questions.

I think that there is confusion over the Freedom Corps, AmeriCorps, and so on, and could you share with the committee what is the Freedom Corps, and second, how does the national and community service fit into this?

Dr. LENKOWSKY. Thank you, Senator. We do have a bit of what I call a corps identity crisis going on at the moment. The Freedom Corps is a White House Coordinating Council. It is a Cabinet-level council chaired by the President, consisting of Members of the Cabinet and heads of independent agencies such as myself, and staffed by John Bridgeland, the Special Assistant to the President. It can be thought of as analogous to the National Security Council or the National Economic Council.

The USA Freedom Corps was established by executive order, but it does not affect the legislative authority or my responsibility to you as CEO of the Corporation for National and Community Service. The same would be true of my colleagues in the Peace Corps and the various agencies in the Citizens Corps.

There are three major operating arms right now under the umbrella of the Freedom Corps. One is the Peace Corps, which engages in overseas volunteer activities. The second is the corporation. We're going to continue to do the range of activities we currently do on the domestic front. The third one is the Citizens Corps. That's the new one. It will be chaired, coordinated through the Federal Emergency Management Agency, and it consists of a number of programs, such as the Department of Justice's Neighborhood Watch organization, that are focused on homeland security.

The corporation's role vis-a-vis the Citizens Corps is to provide support to it. About 30 percent of our AmeriCorps and Senior Corps members are already engaged in public safety, public health, and disaster preparedness activities. We expect, as part of the State and local level planning, that this will go on under the aegis of Citizens Corps. In the event, which we hope will not occur, of another tragedy striking our cities or rural areas, there is going to be a need to get people.

Senator MIKULSKI. So essentially it is like just, I will call it a coordinating council?

Dr. LENKOWSKY. That is correct.

Senator MIKULSKI. Then within this subcommittee we are being asked to fund two programs, one, the National Service Corporation that you are here for, and the other one is the Citizen Corps, which would be under FEMA.

Dr. LENKOWSKY. That is correct.

Senator MIKULSKI. Now then, what President Bush is asking under our subcommittee is the expansion of the programs as we know it, which means AmeriCorps, the Senior Corps, and the Learn and Serve America, am I not correct?

Dr. LENKOWSKY. That is correct.

Senator MIKULSKI. So it does not break new ground. He wants an expansion of what we have, and will work with us and the authorizing on what should be a new framework for the new century?

Dr. LENKOWSKY. That is correct.

Senator MIKULSKI. And it would be to essentially call for the new, reinvigorated sense of patriotism, is that correct?

Dr. LENKOWSKY. That is correct, Senator.

SENIOR CORPS

Senator MIKULSKI. Now, I am going to come back to the Citizens Corps in a minute but for now let's go to the Senior Corps. You are talking about expanding the number of volunteers, but also saying that the seniors—first of all you want to change the age.

Dr. LENKOWSKY. Correct.

Senator MIKULSKI. Then you want to change what they do. You want to have them have a benefit that they can use either for their own education or to give it to a grandchild, is that correct?

Dr. LENKOWSKY. We want to make a Silver Scholarship available to seniors who commit a significant amount of their time to the Senior Corps program, that is correct, Senator.

Senator MIKULSKI. This would be up to 10,000 seniors who serve 900 hours over 2 years would get a $2,300 education grant. Now, here is my question, okay, because first of all I am going to ask you, do you think you will need authorization to do this, and number two, then do you think you need the Finance Committee's permission, or legislative permission, shall we say, to do this, and are we—it is hard enough to fund AmeriCorps for young people to have education. Why are we getting into this? Would you comment?

Dr. LENKOWSKY. There are two provisions related to seniors, Senator. The one you cited, the $2,300 for 900 hours, is actually part of AmeriCorps today. In AmeriCorps you can be a senior and serve, and you can earn an education award. That is the law today, so you are absolutely right, we do not have any authorization issue there. The problem that has arisen is that for a senior who is serving at, say, age 55 or older, to get an award useful only for their own education is not necessarily the most valuable way we can thank them for their service.

I was on a talk show, and a woman who served in VISTA, or in the Senior Corps, or in AmeriCorps at age 62 said, well, thanks for the ed award, but you know, my education is done. Can I not transfer this award, say, to a child or grandchild, or maybe a tutee that I have been working with, or someone I have been mentoring. We do need legislative authority to enable us to do that, Senator.

Senator MIKULSKI. And does the administration believe that that should be tax-free?

Dr. LENKOWSKY. Senator, we do not think the ed award for anyone should be taxable. This is a major part of our proposals for all age groups, not just the senior group.

Senator MIKULSKI. Well, my time has expired. Is it the administration's position, then, that the education awards, regardless of how they are garnered, either in AmeriCorps or Senior Corps, should not be taxable?

Dr. LENKOWSKY. That is correct, Senator.

Senator MIKULSKI. And this is going to require an action by the Finance Committee?

Dr. LENKOWSKY. I think that is probably correct, Senator, but I can tell you, I was just visiting our NCCC campus in Denver and

there I heard what I hear whenever I meet with AmeriCorps members regardless of their age, that the taxability of this ed award is their single largest complaint. Remember, these people, particularly the young people, do not actually see the money. The money goes from our trust fund into the school, or to pay back a loan, but what they do see is the tax bill, and since they are young people, often going to school, they do not have a lot of money stored away to pay taxes.

Senator MIKULSKI. I am not arguing with the merits. I am arguing where we are. In other words, as we authorize it, do you have a Finance Committee—are you discussing this with the Finance Committee?

Dr. LENKOWSKY. We will be talking with the Finance Committee, yes.

Senator MIKULSKI. Well, I will come back for other questions, but I think this helps clarify Freedom Corps, then the National Service program within it, and then your desire to both expand it, as well as for Senior Corps change the age and change what can be done with the education, am I correct in that?

Dr. LENKOWSKY. There is a separate provision for Senior Corps. It is a little bit different. That one also requires authority. The Silver Scholarship is a much smaller amount, $1,000 for seniors who commit through Senior Corps and not through AmeriCorps a substantial amount of time.

Senator MIKULSKI. I think we need to get a list of these education benefits.

Senator Bond.

Senator BOND. Thank you, Madam Chair. It appears that the vote has started, but that always makes it interesting around here.

Senator MIKULSKI. Senator, if I would suggest, why don't I leave and you pursue your line of questions, and Senator Domenici, if you feel comfortable with the vote, and if I am not back just recess, and then we will come back for a second round. Does that sound good?

Senator BOND. That is my suggestion. Thank you, Madam Chair. It is always good to get the gavel back, even though it is briefly.

Senator MIKULSKI. That has a geopositioning device on it.

CITIZEN CORPS

Senator BOND. Dr. Lenkowsky, I am concerned, as the chair is, as I discussed with you yesterday, locating the new proposed Citizen Corps to be run by FEMA. Frankly, FEMA has not run volunteers. You are the people that run volunteers, and FEMA is going to have an awful lot of work to do when we get finished with all the funds we dump on them, so we want to continue to discuss with you whether in fact FEMA would be better off describing and defining the roles that volunteers need to play, and tasking CNCS to mobilize the volunteers.

There is a heck of a lot of difference between running the FEMA programs and doing what you do, which is a very staff-intensive effort to mobilize volunteers, but we will continue to work with you on that.

Dr. LENKOWSKY. I can assure you, Senator, that is appropriate. At both the State and local level we will provide as much support

to that effort as we can, and the larger questions I think are questions you need to discuss with your colleagues.

Senator BOND. That may not be at your pay grade. We will work with others on that.

On the sustainability question I mentioned some fine organizations that are getting funded regularly, and I just would like your view on why would AmeriCorps continue to fund Youth Build when it already receives substantial funding, much more funding really from HUD, and do you expect that these existing grantees will just continue getting the money that is available, or should there be some effort to move dollars into new promising programs to get them started?

Dr. LENKOWSKY. As a board member, Senator, I was strongly in favor of making sure that sustainability was emphasized in all our programs. Our proposals envision a number of steps to enhance sustainability by grantees, and especially by the kinds of grantees that are large and well-established.

The most important is our Challenge Grant program. The Challenge Grant has been part of our authority since the corporation was established, but if I am not mistaken, until President Bush, no one has proposed actually funding it. We have put a fairly modest amount of $10 million in the budget request. We can discuss that if you would like, but the aim of the Challenge Grant program is, of course, to give well-established organizations a real incentive to develop private support for their activities, and to move to less dependence on funding from the corporation so we can reach out to the smaller groups.

As you suggested, Senator, we are also going to put a greater emphasis on capacity building, part of which involves the capacity to go out and get resources from throughout one's community, so we want to help them become sustainable that way. The challenge we are facing, of course, is that one of the glories of our nonprofit world is, there is a lot of variation in it, and we do not want to create a cookie-cutter approach that says, 3 years and you are out. We want to be sensitive to what different organizations are doing and what their situations are.

I visited an AmeriCorps program in Red Hook, New York, which is taking back a neighborhood that for 40 years has been the object of benevolent but misguided intentions on the part of public policy. Until AmeriCorps got there, people were afraid to walk out their doors. Now the Red Hook Public Safety Patrol is bringing back this neighborhood. It is cleaning it up. Crime rates are down, drug use is down. The members come predominantly from the community, and they are using AmeriCorps as a stepping stone to getting higher education themselves.

We have been there 7 years. That is a long time, but I visited that one personally, and frankly, I think while we obviously want to push towards sustainability, and there is a fair amount of support coming from the City of New York. As with all of our programs, as you know, there is a matching requirement. We do not want to arbitrarily say, enough is enough, because this is a deep-seated poverty situation.

Senator BOND. Well, I think that is a unique situation, but the Challenge Grant was going to be my next question. We are inun-

dated with earmarks, with scores of wonderful organizations such as the Girl Scouts, Camp Fire USA. Because they do not appear to fit into the strict AmeriCorps funding programs you have urged that the best results occur when organizations are required to compete for available public funds. If we expanded the Challenge Grant program, would you be able to allocate grants to these people and make these choices?

Dr. LENKOWSKY. Yes, Senator. Again, we have to have a competitive process for doing so, but the whole idea is that the other area I would like to call your attention to as well is our National Direct program, which is also a vehicle for funding. Most of the groups, in fact, you mentioned I think are probably National Directs. We want to make that more competitive as well. We proposed additional funding for National Directs. We want to be competitive.

Senator BOND. If you will excuse me, I want to turn to Senator Domenici so he can ask questions before we have to go vote.

SPECIFICS OF THE PRESIDENT'S BUDGET

Senator DOMENICI. Again, I cannot come back, but before we finish, are you going to be able to straighten us out as to which programs we are going to be funding and which ones the President is asking us to fund? There are so many things we have going that he does not want any more, but he wants some new things in this area of public service, is that correct?

Dr. LENKOWSKY. That is correct. The only things before you now are what have always been part of the National Community Service Act legislation. That is to say, funding for AmeriCorps in particular, and for the National Civilian Community Corps Challenge Grants. There is a separate appropriations bill as you know, Senator, that deals with VISTA and some of our senior programs. There is no change at all in what we have done in years past.

Senator DOMENICI. So the President's budget supports AmeriCorps continuation?

Dr. LENKOWSKY. That is correct.

Senator DOMENICI. And what is the President's proposal?

Dr. LENKOWSKY. We are proposing a Citizens Service Act which encompasses the reforms of AmeriCorps and our other programs. I think it is very important to emphasize that. I think we have listened to the members of this committee and of other committees, learned from our own experience, and as a former board member I have been particularly involved in this discussion, so what we are proposing is not simply an expansion of our existing programs at all. It is really a significant overhaul and improvement.

The expansion really reflects two things. First, once we have done that, we think we can really make these programs work. Second, the moment in our time when so many people are looking for ways to serve this country, we think through these improved programs we can be helpful.

Senator DOMENICI. Now, the new approaches by the President, could you just state quickly what that is going to be? Are we going to pay those volunteers like we did under AmeriCorps?

Dr. LENKOWSKY. A portion of them are stipended, that is correct, Senator, but it is now less than half, and we have added to our mix various kind of nonstipended or partially stipended programs. One

of the President's principles, in fact, is to take the education-award-only version of AmeriCorps, where participants do not receive a stipend from the Federal Government, just an education award on the completion of their service, move that from the demonstration phase, where we are limited to how many of those we can do, and into the regular AmeriCorps, giving more discretion to the State and local folks as to whether they want to use that approach or other approaches.

Senator DOMENICI. I just wanted to comment for the record, and to my good friend from Missouri, I was unaware that in my little State, there are 12,000 New Mexicans that are in this American Service Corporation program, and the amount of money spent just on us is $6.7 million. Do you believe that the corporation is now on track as far as carrying out the work that Congress intended when it authorized these programs?

Dr. LENKOWSKY. I think we are certainly moving in the right direction. We have, as has been noted, our second clean audit in a row, and while I would like to take full credit for that, the truth of the matter is that a lot of the hard work to get there reflects the efforts of the career employees and other board members in the agency. We are going to build on that, and we think through the proposal in our reauthorization package we will move even further in the right direction and make this a program we are all going to be proud of.

Senator DOMENICI. Senator Bond, there are several types of programs that are funded by the corporation we are speaking of in New Mexico, and they have gone to existing institutions, so you do not have to go back and start over, like the Boys and Girls Club, and it is wonderful to see us fund a Boys and Girls Club and expand in a poverty area.

It would take them 2 years of fundraising and all kinds of activity to double the size. Instead of doing work helping these kids the adults are busy trying to put the building together and come up with the money, and so I am one who thinks that Boys and Girls Clubs, existing organizations, if they apply and are doing the kind of work you are generally doing, that you would get a very good bargain by not starting over with a whole new staff trying to add criteria.

The Boys and Girls Clubs in New Mexico, I do not know about yours, but there are eight or nine that receive funding from your bill, and it is a very good way to spend our money in my opinion.

Dr. LENKOWSKY. That is the challenge of sustainability as well. You do not want to throw out good organizations that are doing good work.

I should also tell you about a wonderful program at the University of New Mexico, where we are getting students out into some of the poorer communities. They are all just getting an award from the corporation. They may have received some stipends locally, but basically these are getting college students engaged.

Senator DOMENICI. Can you give us that name for the record?

Dr. LENKOWSKY. I will make sure you get that in the record.

[The information follows:]

The Learn and Serve America Higher Education Program at University of New Mexico—Gallup (UNM-Gallup) involves 525 college students and 600 K–12 students

in conducting service-learning projects in McKinley County, a highly impoverished area in which 72 percent of inhabitants are Native Americans. The UNM-Gallup students mentor kindergarten-through 12th-graders and tutor Family Literacy, Adult Basic Education, and college developmental students. They also conduct human service, housing, conservation, and environmental service-learning projects and leadership development activities in conjunction with 40 community organizations. The project uses summer institutes, in-service workshops, and mini-grants to assist 100 faculty members in adding strong service-learning components to their curriculum and instruction designs in order to ensure that service-learning will be sustained over the long-term at UNM-Gallup and in the surrounding community.

In the past year, UNM-Gallup, has provided tutor/mentor assistance to over 400 students in family literacy and adult basic education programs in McKinley County, New Mexico. These students, ranging in age from youth to senior citizens, have received over 9,000 hours of one-on-one tutoring.

The college has conducted two regional "College, Career and Service" fairs drawing 400 high school students and over 300 college students to an exploration of more than 50 public service, education and business opportunities. This initiative offers students the opportunity to be of service to others and become more civically engaged.

During their annual Earth Week activities, the college initiated a community clean-up effort in central public area where car bodies, glass and other trash have been dumped for years. This clean-up effort has lead to the city and county collaborating to introduce three sponsored clean-up days this spring addressing litter hotspots and citizen involvement. The Learn and Serve America program also organized a forum in which nearly 100 community members and representatives from the Navajo Nation Division of Forestry, the Zuni Department of Natural Resources, the Plateau Sciences Society, UNM-Gallup, K–12 institutions and other interested citizenry, met concerning community environmental issues. A planning group was formed to pursue an academic and service-learning program at UNM-Gallup that will focus on the study and use of native plants and indigenous knowledge in pursuit of a new vegetation, soil and water management system for the Southwest and beyond.

The Learn and Serve America program provides mini-grants for a number of service-learning programs designed to link older with younger students or students with others in the community. This year for example, middle and high school students participated in an essay contest on the issue of safety in our communities, families and individual lives. Students read their essays before 150 peers and other community members and the contest was judged by college students. Mini-grants also supported a pre-school program involving 40 students in planting flower gardens at the school, who then presented the flowers to the senior citizen residents of Red Rocks Care Center. In another project, a class of 4th graders created activity packs containing books, writing and thinking activities for pre-schoolers and instructed 40 children in the activities included in the packs. One mini-grant funded an innovative "Listening, Language and Literary Skills" project in which high school students recorded elementary level books for younger students to check out of the library for use in building reading comprehension and fluency. Other projects this year focused on building arts, geometry and science skills through community beautification.

To ensure the long-term sustainability of service-learning and partnerships among schools, colleges, and community groups over time, the Learn and Serve America program provided seven training events this year alone. Through these events, 180 college students, 60 faculty, and 40 community members a better understanding and appreciation of service-learning as an educational method linking academic work with community service.

Senator DOMENICI. Thank you, Mr. Chairman.

Senator BOND. Senator Domenici, thank you very much for your comments and your interest. This is a very exciting time, and I think we have an opportunity to support the corporation. It is truly exciting, but we hear our master's voice, and I will take the prerogative of the chair and declare a recess until the chair returns.

NATIONAL PROGRAMS

Senator MIKULSKI. The subcommittee will reconvene. Doctor, I want to raise the issue of the national program, which is to get the administration's perspective on how it wishes to fund the national

programs. This committee is challenged by the fact that these outstanding programs like Teach for America, the Y, and a list that I could have, have—and this committee has pursued an earmark strategy that leaves—but that is not a way to do it.

In this year's request alone we have $38 million worth of requests and each one has merit, so we are not even disputing that. I would like to get your perspective on, number 1, how do you think we should work together to handle this? What should be the role of the national groups, and how—again, there is no relationship between the money they ask for and the number of people they serve. There is not a clear—and I am not saying we should go to a formula.

Some have been flat-funded, like Teach America over the years when they were just a small start-up, and they were like an IPO, and they are now a blue chip, and paying enormous dividends. The Scouts, that really goes to leadership money, not directly to individual Scouts, and I am going to support them, and I ask you for your advice on really—this is both an authorizing and an appropriations question. Could you share your thoughts from the administrative perspective on how we can deal with this, or how do you propose to deal with this in this year's appropriations?

Dr. LENKOWSKY. Yes, Senator. I was really taken by your analogy yesterday to large caps, mid caps, and small caps, but it fits well with what I have thought ever since I began my career years ago as a grant-maker for a private foundation, that good grantmaking—and that is what we do here—ought to be like good investing. You need to diversify the portfolio, and a good balance, some that are your blue-chippers, some that are your organizations that may have a niche appeal, that would be the mid-cap kind of approach, and some that are the start-ups, the innovators that you think can grow, and some are risky, but you want to take that risk prudently because you think they do have that potential.

Our view is, in fact, to try to have that kind of diversified portfolio. We share your concern about doing things through earmarks. We also need to improve the way I think we report on a lot of these organizations, and what we do administratively. For example, while it is true, if you look at Teach for America—which is a wonderful program. I was privileged to have known its founder when she was just getting it going—it looks like we do not give them a lot of money, a little more than $1 million, but that money pays for their recruitment and training efforts, which are critical, but the big value-added of the corporation's involvement with Teach for America is for our award-only program.

Every member of Teach for America receives an ed award on the completion of service, which amounts to millions of dollars. It does not show up in the budget because it is a trust fund expenditure. We want to be very clear on how we are funding organizations. We want to focus them a little bit more, and make sure that our National Directs are, in fact, national organizations, blue-chippers are really blue-chippers, and not organizations that may work in one or two States and somehow have gotten into the National Direct pool.

The big issue we need to talk about in the context of authorization and appropriation is the cap that exists on National Directs

in current law, and our authorization proposals. We do not propose to change this. One-third of the AmeriCorps allotment is reserved for these blue-chippers. The other two-thirds under our proposals for reauthorization would go to the States, and through the formula grants, and that would be to handle those mid-caps as you put it, the State-relevant programs.

However, through the budget process there has been a second cap put on, which is about 18 or 19 percent of the funding for AmeriCorps slots. We have proposed in the President's budget a substantial increase in dollars for the National Directs, but we chose not to increase the percentage in relationship to the State funds. That may be something you would like to revisit as we go forward here, because a lot of the groups that come in for earmarks could just as easily be competitive in the National Direct pool, and that would also give us a good check on quality.

Let me just say a word about the small caps, the innovators. One of the things we are proposing in this budget and in our reauthorization principles is to move a couple of things we have been trying, the ed award only program, the America's Promise Fellows, out of the demo phase and into the regular AmeriCorps funding pool. We think they have proven their worth and it is time to make that change. That would have a very nice consequence as well, since we are proposing continued funding of our research and demo phase at its current levels to free up some funding for us to try to do a little more demo type activity and really try to find those small caps, those start-ups, or those new approaches to AmeriCorps.

One interesting one that I have been considering is our NCCC program, the National Civilian Community Corps. It is a great program but it is an expensive program, because in addition to a stipend we have to provide room and board, because these are people who live on campuses like the one in your State at Perry Point.

Well, we ought to think a little bit about some new models to take the best of in NCCC, but apply them in a new way. I like to say the equivalent of the ready reserve. If you think of NCCC as the Regular Army, maybe we ought to think a little bit about the Ready Reserve type that not only gives the experience of NCCC to more people, potentially at a lower per-member cost, but enable us to partner with other kinds of not-for-profit organizations that want to do the kind of NCCC work which is very much a part of our homeland security effort. Our range for experimentation and innovation is going to be broader under the President's proposal.

CHALLENGE GRANTS

Senator MIKULSKI. I am going to come back to that. Going back to the days of the original administration project, the part-time versus full-time, the belief that the poor have capacity to serve and not only be beneficiary of services. That was one of the innovations of Senator Dodd, actually, in the early days of our work, as our thinking evolved from military service to National Service.

Tell me your vision of the Challenge Grants. This subcommittee, though authorized, has never funded the Challenge Grants simply because we were under very spartan circumstances, and political prickliness, and we did not fund it. We just did not have the money and there was not the political will within the Congress. Working

now with this bipartisan effort under President Bush, how do you see—and presuming we get a decent allocation, what do you see the role of the Challenge Grants as being, does this deal with maybe the earmark ideas, and essentially your thoughts on the Challenge Grants.

Dr. LENKOWSKY. The Challenge Grants are going to be very useful, we think, for those organizations that are requesting earmarks, because these are usually well-established organizations that have a proven track record, but have not always generated the level of private support that they are capable of generating.

A lot of our National Directs do generate a lot of private support. City Year gets about two-thirds of its revenues from the private sector. The percentage for Teach for America is even greater, but we think there is probably room to expand, and through the Challenge Grant process we want to put up a relatively small amount of Federal funds that will have to be matched by private contributions.

As you know, the matching grants provide often a great inducement for private funders to join in a project. We want to give our successful, well-established organizations opportunities to go to potential private supporters, corporations, foundations, wealthy individuals and say, okay, if you provide support for these volunteer service activities it will be matched by the Corporation for National Community Service.

What we propose is a one-to-one match. One corporation dollar for every private one, but in our reauthorization proposal after a number of years we increase that to two to one—two private for every one public, to give a stronger incentive for the private sector to get behind these excellent groups, and hopefully reduce the pressures for earmarks or just for competition through our National Direct pool.

Senator MIKULSKI. Senator Bond, I was asking Dr. Lenkowsky about the whole issue of the national groups and the earmarks, and he gave us some really excellent insights, but in my conversation with him yesterday what I was talking about was, first of all, or often, we encourage Government to be run like a business.

And I said, so let us think like a business, and we are public investors, and this was just kind of fun that we think about the national groups like the Y, and Teach for America, which you have been so supportive of, as large caps, and then there is the wonderful programs run by the States under the Governor's Commission, so they are responsive to the States and the needs of that community.

And then third, there is the kind of small cap, and that is the small start-up, really new, social entrepreneurs that have new ideas, maybe with part-time, or weekend, or generational issues, et cetera, so that is what we were also talking about.

You are here, and let us give you time for a second round, and then I am going to come back to the part-timers.

Senator BOND. Thank you, Madam Chair. Not to flog the investment analogy too far, but if you are investing in a large blue chip or mid cap or small cap, the only reason you do it is to see a return on your investment, and I would suggest that whether you are looking at a large organization that we know is great, or a small

organization that is just starting up, one of the tests ought to be, what new are you going to get from this investment, and you talked about the Red Hook and the tremendous progress.

Okay, you are seeing a pay-off there. Are there new things where we can get these existing agencies to expand? If you are just putting money into a grant program that is going to continue to go on, there may be other needs, and so I would urge you and the corporation to look very carefully at again performance measurements, expectations, standards by which to measure what are you going to get when you put the money in, and I would really like to see that test applied.

I need to go back to the very first question I mentioned earlier about the National Service Trust. Senator Mikulski and I asked the OIG to review the trust fund, and no new funds were needed in 2002, and recommended $75 million in new funds for 2003 to enable the corporation to meet its liabilities to fund 43,000 AmeriCorps members.

The administration's request, however, assumes the funds for 75,000 volunteers but only requests $57 million. Where does the money come from?

NATIONAL SERVICE TRUST FUND

Dr. LENKOWSKY. What we are dealing with here, Senator, are the differences between financial statements, which are retrospective, and actuarial estimates, which as you know are prospective and depend on such things as estimates of the take-up of what rate of utilization of the ed awards will we see going forward, and so on.

We brought PriceWaterhouseCoopers in to look at this as well, and we have been working very carefully to try and get an accurate estimate of how much we need so that going forward we will have the funds on hand to meet the anticipated usage of the education awards. We think the $57 million proposed in the President's budget will enable us to do that, but we would also be glad, together with our IG, to sit down with your staff and review these calculations with you.

It is like anything else in this financial business.

Senator BOND. The cash flow, and I am no fan of accrual accounting for small business. We work with the IRS to give them some relief, but if you say that you are going to start up new programs and going to be accruing, say, roughly $150 million in obligations, you need to put that in the budget authority even if you only cash-flow out $57 million, because we do not have a bow wave coming down where you load up a whole bunch of volunteers and say, well, we can cover them this year, because the cash-out is only $57 million.

If you are incurring those liabilities, that is where we need you to come up with the budget authority to make sure we do not wind up with programs that we cannot afford as the bills come due.

Dr. LENKOWSKY. We certainly agree with you on that. We ought to work together and let your staff have a look at these estimates, and if you think there are some things we need to do to adjust them, we would be glad to do that.

HOMELAND SECURITY

Senator BOND. Now, I mentioned the concern I have about the Citizen Corps being in FEMA. Could you discuss the corporation's current activities related to homeland security and disaster relief? For example, is the corporation planning to award grants this year to support communities and organizations in initiatives like public safety, health, disaster preparedness? Is this different from the supplemental proposal for $50 million to jump-start a Citizen Corps in 2002, and where do we stand on this?

Dr. LENKOWSKY. Our request has nothing to do with the supplemental. We do have in the 2002 budget about, $20 million of additional spending that is to be used for homeland security. This was immediately after September 11. We have just put the notices of fund availability out. I am glad to tell you we had an extraordinary response from not-for-profit groups interested in participating.

Senator BOND. Was this done in cooperation with FEMA?

Dr. LENKOWSKY. No. I should make it clear, and I believe we are submitting to you at your request a copy of our memorandum of understanding with FEMA. We have a longstanding understanding with FEMA, so while we are moving forward with our own programming this is nothing new qualitatively. It is just an increase in the amount, in light of the conditions we have seen in this country post September 11. As we go forward in 2003, we expect that we will continue to see about 30 percent or so of our AmeriCorps and Senior Corps slots engaged in public safety, public health, disaster preparedness. These are things that the groups have identified as priorities for their own activities.

I think, and you are aware, that a number of our NCCC folks came into your State after some recent weather-related damage to help work with all of the other first responders and volunteer groups.

Senator BOND. That was the Kansas City ice storm.

Dr. LENKOWSKY. Exactly, to help get things back in working order. We are going to continue to do this. What Citizens Corps does, though, is going to give a little more structure at the State and local level so that our State commission, our gubernatorial State commission folks will be able to participate at the State level in inventorying and planning a little more systematically for the use of our assets should disaster strike. The same will be true at the local level. It is really our participation in the coordinating effort, and not really to change our programming as such.

Senator BOND. Well, this obviously will be continued, but I have made my views clear as to who is better running volunteers, and we will take that up later.

Thank you very much.

CITIZEN CORPS

Senator MIKULSKI. Thank you very much. I would like to pick up just for one quick moment on the line of questioning of Senator Bond for the Citizen Corps. First of all, we support what the President wants to do in terms of a new call to service. Senator Bond and I have been working for almost a decade on the reform of FEMA, really, because when President Bush I was in, and Hurri-

cane Andrew devastated Florida, FEMA was the second disaster to hit Florida, and Bush I sent down Andy Card, so we have had a rocky road, but it has developed into a good road.

We now are working with Joe Allbaugh to help FEMA become an all-hazards agency, and there are issues there over what—Tom Ridge wants to expand it. Senator Bond and I have really serious yellow flashing lights over FEMA's ability to organize and train and sustain volunteers, not to do the FEMA job, and for us to continue now to do our reform, because it takes in homeland security and all hazards. That is a big job. Allbaugh has a big job, and working very hard to do it very well, so we are clear about that.

There is a myth about volunteers, that people can just show up, and give them a rake, and it is going to be all fine. There is the issue of screening, training, and then sustaining both their motivation and their skills, and we really do not think that FEMA is the place to really think about doing this, but perhaps we should have a memorandum, perhaps with you.

And then there is this whole issue of how Citizen Corps fits in with the volunteer fire fighters who they think are already the Citizen Corps, so we have got some real issues here. I hope to meet with the Director of Freedom Corps, but we would hope that perhaps we can resolve this in some collegial way, keeping the momentum that the President has created. We want to keep that momentum, and yet at the same time have what he wants to do in the right place with the right policies and the right funding.

Dr. LENKOWSKY. I understand completely, Senator. All I can say for our agency is, everybody in this agency and all of our members of AmeriCorps, Senior Corps, and Learn and Serve are ready to serve when and how asked.

NATIONAL SERVICE VS. NATIONAL GUARD

Senator MIKULSKI. Right. Let me then go back to two other issues while Senator Bond is here. I just want to have us also for the record—two things. Because you were part of the founding of National Service and the commission, I want to get your view—well, first of all, as I recall, when we founded it National Service, meaning citizen volunteers, were never to compete with the National Guard, who were citizen soldiers, and the reason for that is that both offered education grants. The guard was always worried that it could not compete, so we were very clear there was a distinction.

Senators' Bayh and McCain have a proposal of 18 months' military duty, 18 months' reserves, 18 months of community service, a total of 54 months, very different from what we have. Is it your recollection—and also a reaffirmation of policy that the National Guard, and whatever we do to expand AmeriCorps or other opportunities for volunteerism were never to compete with the National Guard. In other words, that there were two distinct routes for service.

Dr. LENKOWSKY. That is exactly right, Senator. I was a National Guardsman myself many years ago. I know the differences. I know the distinctive and valuable contributions the National Guard makes and National Service makes, but they are separate and should be kept separate. People who want to serve at both in var-

ious points in their life, they should be able to do that. That is great. But we certainly understand the distinction between the two, and should not confuse it.

PART-TIME MODEL FOR NATIONAL SERVICE

Senator MIKULSKI. Now, let me go to the part-time, and we invented again National Service, and this goes to the innovations that you have talked about. Even in homeland security there was an understanding that not everyone could go away, or should go away. It was essentially a model of a 2-year affluent person using the Peace Corps model. We knew that for many they had technical skills, like now in technology, where they could not go away but they wanted to serve. Or second, it might be that single mother who in the process of volunteering is getting an incredible experience and an education voucher maybe to go on and get that nursing degree at the local community college.

Could you share with us, number 1, your view of the part-time model, and is there funding in your request to affirm this, and is this also a tool for, again, creativity within this new framework that not everybody can do 2 years, and it also has meant, quite frankly, we did not have a housing allowance but you could get the education.

Dr. LENKOWSKY. Yes, Senator, that is exactly still our understanding. Whenever I travel, I am really quite privileged, because I often go into some of the worst parts of every community and see the best people. These are people who are bringing back their own neighborhoods. They are people who are not Ivy League college graduates. They live in those neighborhoods. They are engaged in AmeriCorps full-time or part-time, a mixture of both, usually, and through their work they are contributing not only to their communities in a very positive way but also to themselves, taking the next step up the ladder of social mobility.

I was doing a little research recently and it turns out that one out of every five AmeriCorps members had a parent who received food stamps, so AmeriCorps looks like America. We want to keep it that way, and we want to have the kinds of flexibility in how we can bring people into AmeriCorps to make sure that a very diverse group of people can participate. The President's budget does contemplate that partly by moving our ed award, which also includes a lot of our part-time, into the general AmeriCorps mix, where we will have more room to offer those kinds of positions.

We made certain assumptions just coming up with the number, but basically there is lots of room within that number for a mixture of full-time, part-time, and ed award only placements.

Finally, under our innovation area, one of the things I am very eager to try and have actually written a little bit about this, are more varieties of AmeriCorps that would enable people to participate in different ways. For example, if you were a young person living in Madison, Indiana, and you wanted to join AmeriCorps today, the odds are you would have to move, because we probably do not have an AmeriCorps grantee in Madison, Indiana.

Now, that puts an additional burden on somebody to participate who wants to participate, but suppose we had a variety of AmeriCorps, or form of AmeriCorps which you might call individ-

ualized model, where you could actually become a member of AmeriCorps through a selection process. If you were chosen, you could find an organization within certain limits, such as an accredited organization, or United Way organization. It could be a nursing home that took care of your grandmother for years and years, and you would like to spend a year or two giving back that way. I mean, an individualized model rather than the kind of group models which we have, which are typical right now.

There are some disadvantages to it. It probably makes the problems of accountability and management a little trickier, so we want to test it. We do not want to jump right into it. But it also gives us the flexibility to get people from all walks of life into our programs.

Senator MIKULSKI. I think that is excellent. I want to come back to the variety, because it could very well be someone who has technology skills and says, well, there is nothing in Madison, but I would like to work in the Police Athletic League program. They have tech centers, and I would like to help all of the people there to be able to teach tech to the kids.

Dr. LENKOWSKY. Exactly.

Senator MIKULSKI. Senator Bond.

Senator BOND. Madam Chair, I am going to submit the rest of my questions for the record.

CHALLENGE GRANTS

Senator MIKULSKI. I am just going to clarify the Challenge Grants, then, one other thing related to variety, but with the Challenge Grants, what do you see as being encountered in the Challenge Grants? There is confusion now whether State and local funds would be counted in the Challenge Grant, and I am not talking necessarily about the teacher's salary being paid to a teacher in AmeriCorps, but where the City of Baltimore, along with the Abell Foundation was contributing to the administration of Teach for America in Baltimore.

Dr. LENKOWSKY. As you know, there is a matching requirement in existence today for AmeriCorps. I believe it is a 15-percent match, and that could be accomplished by any non-Federal source, including State or city funding and, of course, private funding.

To be honest, I do not think we have really thought carefully enough yet about the Challenge Grants. My own instincts, given what we are trying to accomplish, would be that the match would come from private sources, but I think we need to consult with our grantees, the Teach for Americas, the City Years to make sure that as we set up the provisions of this program we are doing it in a way which ultimately achieves the goal, which is to enable them to generate the kinds of resources they need to become as self-sufficient as possible, so we want to keep the goal in mind here, and my view would generally be that Challenge Grants ought to be matched with private money, but I think we need to consult carefully with our grantees.

COMMUNITY SERVICE IN RURAL AREAS

Senator MIKULSKI. Well, as we move forward with our appropriations and the desire to see if we cannot fund Challenge Grants this year, we really need very clear guidance from you on that matter.

One of the things I would like to just bring to your attention is the issue around rural communities, or where they do not have foundations. I have been struck, and I know my colleague has been a real advocate for rural communities, where we have county commissioners who are part-time people who run a county.

My mountain county in Garrett, my Somerset County on the shore do not have these foundations—the Abell Foundation, or the kind of United Way we have, and yet I have been so impressed by their dedication to try to empower and help people in their own community, and if they put some money in I think you ought to look at it.

I am going to really ask you for the policy recommendation, but communities that do not have access to foundations, where there are at least a modest, or modicum of local effort and local commitment, I would like us to see how we could recognize that, because that is the point. We have challenged that.

Dr. LENKOWSKY. We might also need to think of the Challenge Grant also valuing volunteer time. A major part of the President's principles calls for judging AmeriCorps programs by their ability to leverage nonstipended volunteers, those occasional volunteers who on average give 3½ hours a week.

Senator MIKULSKI. It would be simple enough to implement. You are very good at that, but I would like to have guidance on whether, in addition to foundations or any type of private, literally private money, to look at also State and local or other income.

We are going to say goodbye to Senator Bond. I am just going to ask another set of questions related to your testimony. I want to go to your written testimony, and I want to give you the Challenge Grant part, because we really have worked in partnership, and I cannot say enough about Senator Bond's commitment to sustaining this program during very difficult times.

ESTABLISHMENT OF ECORPS

I want to go to page 6 of your testimony, where you talk about the senior initiatives, the literacy initiatives, and the technology initiatives, all of which are really quite interesting. I want to go to things like technology. I am trying to establish an eCorps within AmeriCorps. Now, I am really asking your advice as to how—and I think we can agree upon the technology, and that goes to my concern about the digital divide, that second—the digital divide, as I define it, as access to technology and access to people who can teach you how to use it.

I was thinking about it in schools and community-based centers, PAL programs and so on. But the eCorps from AmeriCorps was literally teaching the people who need to teach, who in many ways themselves have not had access, in other words, an eCorps. I call it an eCorps. I do not care what we call it, but what I was looking for, that there are a lot of people who are not even infotech majors,

but have those skills, and they could be the part-timers, and again I am going to leave it to your creativity.

I do not think this has ever really quite gotten off the ground, and I just wanted to lay out my picture, and could I hear from you, your description, and we have had a good discussion on the Senior Service initiative, but on the literacy and the technology side, and see what your thoughts are to be able to stimulate that.

Dr. LENKOWSKY. Let me start with the technology one, because I know that is an interest of yours. We are, in fact, funding a large number of technology initiatives now, and would be glad to submit a list of those to you for the record, but I completely agree. I think with what you are suggesting, that what we really ought to be doing in our technology efforts is, again, part of our general theme of capacity-building.

We ought to be teaching the teachers. We ought to be helping the organizations develop the capacity to use modern technology. You usually talk about the digital divide as being one between different people, and there is one, but there is also a great digital divide between different kinds of organizations, those big national organizations are moving very quickly into all sorts of electronic technology, electronic fundraising, membership development, all sorts of things, but our smaller groups stay level who are often on the front line. They are ones that need the help getting that new capacity. I think that is a very valuable part of what we can do through programs like VISTA and so on.

I think where I might differ a little with you, Senator, is, I would not want to limit this to AmeriCorps. As you know, we are also proposing a significant increase in the Senior Service Corps.

Senator MIKULSKI. That is an excellent recommendation.

Dr. LENKOWSKY. You and I talked a little bit yesterday about trying to make sure that our senior programs and senior volunteers generally is as attractive to the rising generation of seniors, and I am on the front end of that one, approaching retirement, as it has been to the previous generation who have that strong sense of duty to country.

We know that a lot of the motivation behind the rising generation of seniors is related to using the skills they acquired in their working years, but putting them to some other use once they are approaching their retirement years, and I think if we could engage our seniors in some of these technology activities, too, we have a win-win here. We will get more attention on the part of the rising generation of retirees and bring a lot of valuable skills to organizations and people in the technology arena, so that is my vision for the use of technology.

Literacy, as you know, a very large fraction of our AmeriCorps members are engaged in tutoring and mentoring. I would expect not only to continue that, but to expand that. One of the President's proposals which is not before this committee is an appropriations matter, and we did discuss a bit in my testimony with the Health Committee concerning the Federal Work-Study program.

The Federal Work-Study program is really a very creative idea. Back in the 1960's it was part of the war on poverty, and the idea was that young people from modest backgrounds who had got the grades, the ability to go to college, would get a certain amount of

financial aid that would be premised on their going back into their communities and tutoring and mentoring younger people just like them who needed that sense of hope and aspiration, and that has changed.

Work-Study programs are used by colleges and universities for all sorts of things these days, and I am sure they are very valuable. The President's proposals call for making available setting a target of 50 percent of Federal Work-Study slots which will be used for community service, and I would expect that if we were able to do this a fairly large proportion of those would be related to literacy.

The colleges and universities have very justifiable concerns with that proposal, and we are going to be sensitive to that and work with them, but there are a lot of ways that you can achieve the President's goal.

For example, I learned of a program—I believe it is at Harvard—where they are doing distance tutoring. They have really set this up through technology to be able to tutor children all around the country in reading and other skills, and these are Federal Work-Study students, so the opportunities here to be creative are enormous.

One of the things that is most inspiring to me about the President's call to service is when you start thinking seriously about this you see there are all sorts of creative ways to do it using a lot of existing resources. This is not something, as we discussed earlier, where we have got to have a 10-year R&D effort before we can figure out some good things to do.

LITERACY AND TECHNOLOGY

Senator MIKULSKI. Well, we know that the First Lady is devoting herself to education, and we salute her on that, and her mother-in-law, Barbara Bush, really did an outstanding job on the whole issue particularly of adult literacy, to show that there was not something to be ashamed or stigmatized about, and I really think did an important service. We want to be able to support the literacy issue, and we will work that out in appropriations and authorizing, but we see literacy and technology as linked. Often, technology is a tool for literacy, as you have indicated, and we look forward to how we can foster those, but not have so many specific line items that we don't lose out of creativity and flexibility.

The whole idea, when we were working to create this, Senator Nunn, myself, and folks like yourself and the Mandel Foundation, was that this was not to be just one more Government program. It was not meant to be one more social program. It was to be about a social movement around the habits of the heart, for every opportunity there is an obligation and so on, and it was meant to be flexible, not so prescribed. In other words, get away from the mentality of the sixties programs, not the value base of those, but remember how they were overprescribed, over-line-itemed, and over what I call—you would have 30 line-item boutique programs, but you could not get a critical mass to achieve a critical mass of social good.

So I am looking out for these initiatives, but really I am going to again invite you to keep us in the spirit of creativity, flexibility, local needs, because they are different, and at the same time na-

tional standards that we expect for training, appropriateness, fiscal accountability and so on, but we really do want to keep that local flexibility and creativity.

Dr. LENKOWSKY. I could not agree more with that, Senator.

Senator MIKULSKI. I think we have really covered everything. I want to thank you for your excellent testimony. I think your written testimony also provides a very good road map. We are going to be as good as our allocation, which is kind of sitting out there. I am going to need the Hubbell telescope to see it, but it is on the horizon for us, and again we just welcome you with enthusiasm and hospitality.

Dr. LENKOWSKY. I look forward to working with you, Senator.

SUBCOMMITTEE RECESS

Senator MIKULSKI. This subcommittee stands in recess until next Thursday—excuse me, next Wednesday, on April 24, in which we will be taking testimony from the Neighborhood Reinvestment Corporation and the CDFI.

Thank you very much, and we are recessed.

[Whereupon, at 11:10 a.m., Wednesday, April 17, 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 2003

WEDNESDAY, APRIL 24, 2002

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

The subcommittee met at 9:37 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Barbara A. Mikulski (chairman) presiding.

Present: Senators Mikulski and Bond.

NEIGHBORHOOD REINVESTMENT CORPORATION

STATEMENT OF ELLEN LAZAR, EXECUTIVE DIRECTOR

ACCOMPANIED BY:

MARGO KELLY, DEPUTY EXECUTIVE DIRECTOR
CLARENCE J. SNUGGS, DEPUTY EXECUTIVE DIRECTOR/TREASURER
JEFFREY BRYSON, GENERAL COUNSEL

OPENING STATEMENT OF SENATOR BARBARA A. MIKULSKI

Senator MIKULSKI. Good morning, everybody. The VA–HUD Committee will now come to order.

And we want to welcome Ellen Lazar, the Executive Director of the Neighborhood Reinvestment Corporation, and her team; and Mr. Tony Brown, the new Director of the CDFI Fund, who we also welcome. Both Neighborhood Reinvestment and CDFI seek to improve conditions in low income neighborhoods.

We asked you to testify together at the panel, recognizing the distinct, but complementary, missions in a way that we could get right to the questions. And some of the questions deal with predatory lending, the ability of nonprofits to really function in neighborhoods and community development corporations. There are many questions that really go both to your distinct missions. There are parallels or even collaborations, so we thought we would do that.

And also, we have a markup in Senator Kennedy's committee at quarter of 11:00. So we are going to try to move very rapidly.

First of all, both of your institutions recommend, really, the area of community development. And we are very interested in wanting to know what is working, what is not, what are the lessons learned.

Also, we are very cognizant of the fact that in terms of the President's budget, the President has proposed level funding of $105 million for the Neighborhood Reinvestment Corporation. And we want to know the consequences of flat lining.

Though when I took over this subcommittee in 1988, it was $10 million, and I am not sure, if it were indexed and all, where it would be. But Congress has had a steady commitment to the Neighborhood Reinvestment Corporation.

For CDFI, the President's budget request is at $68 million, a $12 million or 15 percent cut from last year. I have a lot of yellow flashing lights about that.

And, Mr. Brown, we would like to know what are the consequences of this cut, and get a picture from you.

This hearing will focus on really the role, the mission, and the resources of both institutions. We are very impressed that in fiscal year 2001 at Neighborhood Reinvestment, which has been an important tool in assisting communities with housing and economic development, but also community development and capacity building. I think that is one of the signatures of Neighborhood Reinvestment, and that you are not just another housing program. You are not a real estate program. You are a real community program. And it is about community development and capacity development.

We know that what has been so impressive to the Congress over the year is the way that Neighborhood Reinvestment has leveraged funds right at the local level to promote economic development, neighborhood stability, and home ownership. We know that you have helped many first-time home buyers in purchasing and keeping their homes.

Due to our concern about the shortfall in rental housing, we know that you have had a real effort to explore innovative ways to produce mixed income rental housing for very low income families and have a whole new initiative on that. And we are very much interested in the whole multi-family area.

The whole issue of promoting Section 8 for home ownership, everyone says "Let us do that," but I am concerned about the ability of new homeowners who are very poor and often have not been given the financial literacy skills that they need to sustain this. I do not want an American dream to become a family nightmare, and how we can avoid that from happening.

This committee has been troubled for some time about the whole issue of FHA defaults in neighborhoods, where they become what they call HUD houses. And that is the way they are referred to, "Senator Mikulski, there's a HUD house in my neighborhood."

And rather than remarking on how wonderful it is, it usually has been someone has defaulted on their mortgage, usually because of no fault of their own. And HUD wants to sell it, and HUD becomes a slum landlord and then just unloads it, sometimes to even predatory or scum-bum people. So we want to know kind of where you are on that.

And also, in terms of CDFI, CDFI provides financing and technical assistance while the BEA program awards banks and such for providing similar services. We know that you are doing a new market program, and we want to hear about that. We know that you

are working hard on performance measures and your experience in the private sector.

We are particularly pleased that there is a Native American initiative, so that the only money coming in is not more of the old Federal stuff that has not worked or casino money. And I am not knocking casino money, but there needs to be other forms of empowerment for our Native American community.

For both of you, I know that you have done significant work in the rural communities. And this is really an outstanding achievement because often they do not have access to technical assistance, foundations. The Big Macs do not always want to come to the little nuggets in the rural communities.

PREPARED STATEMENT

So we look forward to hearing from you about your work, about what you need to do your work, and is the resource that is being proposed adequate and, at the same time, really remaining the stewards on taxpayers' funds. Not only what you do, Mr. Brown, for example, better management of the legacy of CDFI, but really to make sure that—there are those out in the neighborhoods, not the poor themselves, but who gouge the poor and gouge our taxpayers, and that kind of fraud really I find doubly despicable.

[The statement follows:]

PREPARED STATEMENT OF BARBARA A. MIKULSKI

Today we welcome two witnesses to testify on their fiscal year budget submissions: Ellen Lazar, the Executive Director of Neighborhood Reinvestment Corporation, and former director of the CDFI Fund, and Tony Brown, the new Director of the CDFI Fund.

We are delighted to have you both here. Both Neighborhood Reinvestment and the CDFI Fund seek to improve conditions in low-income communities. Neighborhood Reinvestment trains nonprofits and builds capacity, while CDFI provides grants and loans to financial institutions serving low-income neighborhoods

In the area of community development, we want to know: what is working out there, what isn't, and what are the lessons learned? I am especially interested in two areas—how you certify your members, and what you are doing to stop predatory lending.

If we are asking nonprofits to take on more responsibility, then we must make sure they are ready. Last year, Neighborhood Reinvestment provided over 200,000 training hours to nonprofits and community leaders in support of this goal. As the federal government sends more money to nonprofits, we need to make sure that they are ready for prime time. But we also need to remember that community based groups are not a substitute for government—they are a partner to government.

We also want to know what Neighborhood Reinvestment and CDFI are doing to help communities fight predatory lending. In my own hometown of Baltimore, nonprofits like St. Ambrose Housing Aid Center are on the front lines fighting flipping. This is an area that I know your members have spent a lot of time on, whether its providing loans, homeownership counseling or doing damage control in the neighborhoods hardest hit by the predators. We really need you to tell us what can be done to prevent these scum—be it lenders, appraisers or investors—from destroying neighborhoods and dreams. And also, how do we help neighborhoods devastated by these practices to pick up the pieces.

My own goals for community development have grown out of my own experiences, as a community activist, a social worker, and an appropriator. I believe there are three types of neighborhoods: stable, stress and siege. I believe we are best off focusing our resources on neighborhoods under stress that are teeter-tottering on the edge of siege. We want to move them into the stable column and fight to make sure they don't come under siege. I know that both Neighborhood Reinvestment and CDFI support this goal. Neighborhood Reinvestment builds capacity of community-based nonprofits by providing capital and "training the trainers" and CDFI gets capital to underserved communities where there has been little investment.

These two agencies are in a unique position. They play a support role for community-based groups on the front lines in their neighborhoods. So they are able to respond to the unique needs of each community. Too often we make the mistake of confusing program development with community development when we know that no two neighborhoods are the same, and no two neighborhoods have the same needs. Low-income neighborhoods can't afford to navigate giant bureaucracies and the federal government can't afford to maintain them, which is why we need to target resources carefully.

In considering the President's budget, we want to learn from you what the impact of the fiscal year 2003 budget submission will be. The President has proposed level funding of $105 million for Neighborhood Reinvestment and funds CDFI at $68 million, a $12 million, or 15 percent cut from last year. I am disappointed by this because I know how important community development funds are to our neighborhoods. We want to know what the consequences of this cut will be and how CDFI is working to better measure the impact it's having in communities.

Today we hope to learn what is working to revitalize our communities, and what is not working as well. We need to ensure that Neighborhood Reinvestment and the CDFI Fund make the best use of scarce resources to create communities where families can live, work, worship and shop. We look forward to your testimony.

Senator MIKULSKI. So I am going to turn to my very able and dear friend, Senator Bond, for any comments he wishes to make.

STATEMENT OF SENATOR CHRISTOPHER S. BOND

Senator BOND. Thank you very much, Madam Chair. And I share the concerns that you raised.

As I am sure that you all know, this committee operates in a very bipartisan way and we are very proud of the work that the agencies under this committee's jurisdiction have performed, and we share the concerns to make sure they continue to serve as they should.

I join in welcoming Ellen Lazar and Tony Brown. I think, Mr. Brown, this is your first appearance before the subcommittee. Fasten your seat belt. It is always interesting. We never know what is going to happen next.

Ms. Lazar is probably on the verge of breaking a subcommittee record in the number of appearances that she has testified as head of CDFI in the past.

NRC and CDFI are two of the smaller agencies within the VA–HUD jurisdiction. But clearly, they are not forgotten, and we do not want to overlook them. You do not have the same level of resources of other Federal agencies and departments with which we work, but both of your agencies play a vital role in serving the needs of distressed communities. And that is why this separate hearing is designed to focus on your work.

It would be very difficult for me to forget Neighborhood Reinvestment due to the great work it has done and is doing in my home State of Missouri. NRC affiliates in St. Louis and Kansas City have been working in some of the most distressed communities and have been instrumental in revitalizing the neighborhoods. I am proud of the work they have done. I have seen the value that they have added.

I am also excited about the merger between Neighborhood Housing Services of St. Louis and another successful organization called Beyond Housing. These are two of the leading CDCs in the St. Louis area. And it seems to me that the combining of their talents is a great move. I hope this merger may become a model for other CDCs in St. Louis, where there are dozens of small-sized, special-

ized organizations that may not have the capacity to take on much-needed, larger-scale housing and economic development projects.

Today I would be interested in hearing more about NRC's activities, especially in affordable housing programs. Addressing the shortage of affordable housing is one of my highest priorities. It has to be one of the highest priorities of this committee. It is obviously clear that we need to stimulate and support the production of more affordable housing, especially for extremely low income families.

We have a situation in St. Louis County, Missouri, where we do not even apply for more Section 8 vouchers, because there is no place for them to be used. A voucher without a house to go with it is not very useful.

In the 2002 VA–HUD appropriations bill, I worked to add $5 million for Neighborhood Reinvestment to expand their multi-family housing programs. However, the administration and OMB, in their wisdom, did not continue this important initiative in the budget request. I am disappointed. I do not agree. But I am not deterred. And we will continue to seek support for multi-family production.

Further, we need to know how NRC has been involved in helping HUD dispose of its single-family assets and administer the new Section 8 home ownership program. Like the Chair, I have questions about some of these things.

First, HUD's decision to impose a moratorium on the asset control program, I think it makes a lot of sense to suspend those organizations that have not performed or have not complied with program rules. But punishing good nonprofits puzzles me. It is sort of like throwing the baby out with the bath water.

The alternative of HUD using its own resources to dispose of the assets is definitely a worse option. And as the Chair said, we want to make sure that the home ownership, the Section 8 home ownership program, does not become a trap for families that are not prepared to assume the responsibility of home ownership.

Now with regard to the CDFI, I commend Treasury Secretary O'Neill's initiative to have the fund develop real outcome measurements of its program and past reports. It has focused too much on the outputs or how much money it spent rather than the outcomes. I hope that this effort will help us understand how cost-effective and efficient the CDFI programs are, especially in comparison to other similar Federal activities. If you are not giving more value-added for the buck, then we are going to cut it back. We want to see programs and agencies that work. And we need to be convinced that they are making the kind of difference that warrants the allocation of resources to them.

There are two other issues I need to highlight. One, again, I am disappointed by the administration's decision not to fund the Native American CDFI technical assistance program. It is a modest $5 million program for a population that has significant needs. The Treasury Department's own study identified significant barriers to capital access for Native Americans. And it recently released the Native American lending study, which found that many communities located in Indian lands face economic and social challenges that place them significantly behind the rest of the U.S. economy.

To me, it is clear from the report that CDFI should be playing a role in Native American lands.

The second issue I would like to raise is the future of CDFI. What are you, fish or fowl? With the addition of the new markets tax credit program, I want to know whether this program will be the fund's primary activity. In other words, should CDFI focus its activities on grant-making, as it has in the past, or is it going to be an allocated tax credit to meet its mission? Which one is it going to be? And I am concerned that there may be different skills needs. And I want to see where you can get the most effective result of the resources allocated.

PREPARED STATEMENT

Lastly, I am concerned about the fund's effort in addressing distressed communities in rural areas. I happen to live in a rural area. And I know many of our colleagues do, and they share my concerns. I would like to hear how the fund has proposed and has been addressing this issue, because this clearly is a concern as much as the concern about distressed communities in urban areas.

With that, Madam Chair, I thank you and look forward to hearing the testimony of our two good friends and witnesses.

[The statement follows:]

PREPARED STATEMENT OF SENATOR CHRISTOPHER S. BOND

Thank you, Madam Chair. I also welcome Ms. Ellen Lazar from Neighborhood Reinvestment and Mr. Tony Brown from the CDFI. This is Mr. Brown's first appearance before the Subcommittee but I think that Ms. Lazar may be on the verge of breaking a Subcommittee record in number of appearances since she has also testified as the head of the CDFI.

NRC and the CDFI are two of the smaller agencies within the VA/HUD jurisdiction but they are not forgotten. While these agencies may not have the same level of resources of other Federal agencies and departments such as HUD, both agencies play a vital role in serving the needs of distressed communities.

It is especially difficult for me to forget Neighborhood Reinvestment due to the great work it has performed in my home state of Missouri. NRC affiliates in St. Louis and Kansas City have been working in some of the most distressed communities and have been instrumental in revitalizing neighborhoods. I am proud of the work they have done and I have seen the value they have added. I am also excited about the merger between the Neighborhood Housing Services of St. Louis and another successful organization called Beyond Housing. These are two of the leading CDCs in the St. Louis area and combining their talents is a great move. I hope that this merger will become a model for other CDCs in St. Louis where there are dozens of small-sized, specialized organizations that do not have the capacity to take on much needed larger scale housing and economic development projects.

Today, I would like to hear more about NRC's activities, especially its affordable housing programs. Addressing the shortage of affordable housing is one of my highest priorities. It is obviously clear that we need to stimulate and support the production of more affordable housing, especially for extremely low-income families. In the fiscal year 2002 VA/HUD appropriations bill, I sponsored the addition of $5 million for Neighborhood Reinvestment to expand their multifamily housing programs. However, the Administration and OMB did not continue this important initiative in its budget request. I am disappointed but not deterred, and I will continue to advocate for multifamily production.

Further, I would like to hear how NRC has been involved in helping HUD dispose of its single-family assets and administer its new Section 8 homeownership program. I have questions about HUD's decision to impose a moratorium on the Asset Control Area program. While I support the suspension of those organizations that have not performed or complied with program rules, punishing good non-profits is puzzling to me. HUD's decision is like "throwing the baby out with the bath water." And, the alternative of HUD using its own resources to dispose of its assets is definitely a worse option.

In regards to the CDFI, I support Treasury Secretary O'Neil's initiative to have the Fund develop real outcome measurements on its programs. In past reports, GAO found that its programs emphasized outputs rather than outcomes. I hope that this effort is able to help us understand how cost-effective and efficient the CDFI programs are, especially in comparison to other similar Federal activities.

There are two other issues I would like to highlight. One, I am disappointed with the Administration's decision to not fund the Native American CDFI Technical Assistance program. This is a modest $5 million program for a population that has significant needs. The Treasury Department's own study identified significant barriers to capital access for Native Americans. Its recently released Native American Lending Study found that "many communities located in Indian Lands face economic and social challenges that place them significantly behind the rest of the U.S. economy." It is clear from this report that the CDFI must play a role in Native American lands.

The second issue I would like to raise is the future of the CDFI. With the addition of the New Markets Tax Credit program to the CDFI portfolio, I am interested in whether this program will become the Fund's primary activity. In other words, should the CDFI focus its activities on grant-making or the allocation of tax credits to better meet its mission?

Lastly, I am concerned about the Fund's efforts in addressing distressed communities in rural areas. Many members of this Subcommittee share this concern. I would like to hear how the Fund has addressed this issue.

Thank you.

Senator MIKULSKI. Well, we welcome both of our witnesses. And we ask them to proceed with their testimony. Ms. Lazar, you come with considerable background in public service. And we would just ask you to proceed.

Ms. LAZAR. Thank you. Good morning, Madam Chair Mikulski, and Ranking Member Bond. My name is Ellen Lazar, and I am the Executive Director of Neighborhood Reinvestment Corporation.

I am joined today by Margo Kelly and Clarence Snuggs, who are my Deputy Executive Directors, and Jeff Bryson, our General Counsel.

This past year, we were fortunate to have very strong leadership from our board of directors. Governor Edward Gramlich of the Federal Reserve, serves as our chair. John M. Reich, Director of the Federal Deposit Insurance Corporation, serves as our vice-chair. Among the other members of our board are James E. Gilleran, the Director of the Office of Thrift Supervision; Deborah Matz, Director of the National Credit Union Administration; John C. Weicher, Assistant Secretary for Housing and the Federal Housing Commissioner; and Julie Williams, the Deputy Comptroller from the Office of the Comptroller of the Currency.

I am here today to talk about Neighborhood Reinvestment and the experience of over 225 affiliated community development nonprofits, known as the NeighborWorks network, that serves over 2,000 urban, suburban, and rural communities in 49 States, the District of Columbia, and Puerto Rico, and to talk about the work these organizations are doing to revitalize communities and help low- and moderate-income families achieve a personal stake in the renewal of their communities.

Neighborhood Reinvestment supports and strengthens NeighborWorks affiliates through technical assistance, training, direct funding through grants, program review and oversight, and access to a unique secondary market. I ask you to support Neighborhood Reinvestment's budget request of $105 million. There are three reasons why a continued investment by Congress in Neighborhood Reinvestment——

Senator MIKULSKI. Wait a minute. I am lost here in testimony, Ms. Lazar.

Ms. LAZAR. I am sorry.

Senator MIKULSKI. I have an oral testimony. And then it talks about Neighborhood Reinvestment. And then I have your formal testimony. What are you—where are we here?

Ms. LAZAR. I am on the second page of the oral testimony.

Senator MIKULSKI. I have it now. Thank you.

Ms. LAZAR. Okay. Thank you.

There are three reasons why a continued investment in Neighborhood Reinvestment is a wise use of this Nation's Federal resources.

STEWARDSHIP OF FEDERAL RESOURCES

First, Neighborhood Reinvestment takes very seriously its stewardship of its Federal appropriation by maximizing the effectiveness and efficiency of the NeighborWorks network. We use Federal funding to attract private sector resources. For every dollar appropriated to Neighborhood Reinvestment, the NeighborWorks system generated more than $15 from private sector and other sources, resulting in a direct investment of nearly $1.4 billion.

We can achieve this level of impact because our programs and services are highly flexible and tailored to fit the credit and resource gaps that cannot be filled otherwise. We use a community-based approach to direct our activities. Essentially, we ask each NeighborWorks organization to identify the specific challenges in their communities. We respond with a unique combination of training, technical assistance, and financial support.

As you know, two-thirds of our budget goes out to NeighborWorks organizations as direct grants, but we provide much more than just funding to local community development organizations. Our capacity-building services include technical assistance, which responds to intricate and timely organizational issues; our risk management system, which monitors the organization and its financial health, productivity, and viability; and our training institutes, which help to educate and ensure that local staff are well informed.

In fiscal year 2001, we trained more than 4,200 people. Our training institutes not only serve our network, but the broader community development and housing field. Our services improve the local organization, mitigate long-term risk, and maximize the impact of the Federal resources we use.

Secondly, Neighborhood Reinvestment continually looks toward the horizon, seeking new opportunities to address persistent challenges, thereby serving as the laboratory environment Congress intended. The challenges facing this country are ever changing. Neighborhood Reinvestment was chartered and directed to serve as a laboratory for the community development field.

HUD's Section 8 home ownership option is a good example. NeighborWorks organizations provide a bridge between private lenders and public housing authorities to make home ownership a reality. Organizations receive technical and grant support from Neighborhood Reinvestment. And this subcommittee has provided

the resources that have created this laboratory and seeded this effort.

We have assisted 21 NeighborWorks organizations, working with 26 public housing authorities, and have trained over 1,000 professionals on this option through courses we offer.

Our multi-family funding has been another significant area for us. Last year we received $5 million, which was designated to explore ways to serve families with incomes below 30 percent of area median income in mixed income rental housing. This is especially difficult since low-income families' income is often unable to cover the operating costs of the rental unit.

The majority of the allocation that we received is going out to NeighborWorks organizations to fund the development of mixed income properties that house families with incomes below 30 percent of median income. The organizations will employ a variety of strategies. We will gather information on how these properties and others will financially support a wide mix of incomes. We appreciate the opportunity to examine viable options in this important area and to report our results to you.

Our most visible laboratory effort to date is the NeighborWorks Campaign for Home Ownership. In fiscal year 1998, Congress seeded our home ownership efforts with a $25 million set-aside. That funding has helped produce some remarkable results. The average income of the families we serve is nearly half of the national average, $29,300. Ninety-five percent of these folks are first-time home buyers. Fifty-two percent are ethnic minorities. Forty two percent are female buyers.

We have produced a series of integrated strategies, including comprehensive home buyer education, NeighborWorks Home Ownership Centers, and a financial literacy initiative. We are on target to surpass our 5-year goal to create 40,000 new home buyers.

Lastly, Neighborhood Reinvestment provides strategies for a range of housing and community development challenges. The one-size-fits-all approach does not work. We are addressing the needs of under-served communities and populations with a particular sensitivity to the needs of low-income families, immigrants, the disabled, and the elderly. This requires more than grants. We need strong organizations led by strong community leaders, local resident leaders, leading to greater civic involvement, which helps effectuate positive change.

CONCLUSION

Let me close by thanking Madam Chair Mikulski and Ranking Member Bond for the wonderful opportunity you and the subcommittee have given this organization to serve America's communities and by asking for your continued support.

At the $105 million level, we will leverage $1.6 billion in direct total investment in distressed rural, suburban, and urban communities. We will assist more than 71,000 families obtain and maintain safe and affordable rental and home ownership housing. We will provide pre-and post-purchase home ownership counseling and financial literacy to nearly 70,000 families.

You have encouraged us to be flexible, creative, nimble, and responsive in designing and delivering our services and resources.

And this flexibility and your demonstrated confidence in us has created remarkable results. We know that your investment in Neighborhood Reinvestment is an investment and expression of confidence in America's communities. And all of America benefits when its communities are healthy, strong, and safe.

PREPARED STATEMENT

Thank you. And I am happy to take any questions.

Senator MIKULSKI. Thank you very much, Ms. Lazar. And with unanimous consent of the committee, your entire testimony will be included in the record.

[The statement follows:]

PREPARED STATEMENT OF ELLEN LAZAR

Good morning, Chairman Mikulski, Ranking Member Bond, and members of the subcommittee. My name is Ellen Lazar and I am the Executive Director of the Neighborhood Reinvestment Corporation. I am here this morning to talk with you about the work that Neighborhood Reinvestment is doing to revitalize communities and help low- and moderate-income families achieve a personal stake in the renewal of their communities.

My testimony is based on the experience and considerable successes of 225 community development organizations serving more than 2,000 urban, suburban, and rural communities. These nonprofits are collectively known as the NeighborWorks® network and operate in 49 States, the District of Columbia, and Puerto Rico.

The Neighborhood Reinvestment Corporation was created by Congress in 1978. Since that time, Neighborhood Reinvestment and its affiliated NeighborWorks® network have continuously evolved to become increasingly effective and efficient in leveraging significant private-sector resources for community revitalization and affordable housing. This could not have been accomplished without this subcommittee's commitment of Federal funds. In fiscal year 2001, the NeighborWorks® system generated nearly $1.4 billion in direct investment, helping nearly 64,000 families obtain and maintain safe and affordable rental and homeownership housing.

I thank the subcommittee for supporting Neighborhood Reinvestment through the fiscal year 2002 budget appropriation of $105 million. Neighborhood Reinvestment's fiscal year 2003 Budget Justification outlines proposed activities at a $105 million budget level. This includes $10 million to further expand a groundbreaking effort to utilize the HUD Section 8 program in support of home ownership for low-income families.

Before I move further into the details, I would like to express my immense pride, and my good fortune, in leading a Corporation that works to build community and public-private cooperation as its fundamental, day-to-day business. Throughout the Corporation and the NeighborWorks® network, we feel an increased responsibility to the concepts of positive action, purposeful change, and communitywide commitment that is so critical to our country today.

THE NEIGHBORWORKS® SYSTEM

The NeighborWorks® system is three-pronged

Neighborhood Reinvestment Corporation.—Is a Congressionally chartered, public nonprofit corporation, headquartered in Washington, D.C., and staffed in nine regional offices. Neighborhood Reinvestment has five core activities:

We charter new NeighborWorks® organizations through an extensive educational and partnership-building effort, involving residents, business leaders and government representatives.

We provide funding for capital projects and operating grants to NeighborWorks® organizations, enabling them to create and build their own community-revitalization initiatives from a solid asset base.

We provide a high degree of management and technical assistance to NeighborWorks® members and the broader community development field, in order to expand their delivery programs and better serve their communities.

We conduct extensive reviews of NeighborWorks® organizations, focusing on their capacity to successfully manage their resources and programmatic risks. These program reviews monitor performance on an ongoing basis and serve as a platform for providing management and technical assistance. They also unearth best practices

at the street level. Our goal is to increase the health, performance, productivity and effectiveness of the entire NeighborWorks® network.

We conduct national Training Institutes in major cities throughout the United States for anyone interested in affordable housing and community revitalization, particularly private- and public-sector practitioners and community leaders. Typically, 70 courses centered on such topics as management and leadership, community building, community economic development, neighborhood revitalization and affordable housing are offered at each Training Institute. We conduct at least five Training Institutes each year, attracting up to 1,200 participants at each venue. We also offer other training opportunities such as specialized resident leadership workshops and regional trainings.

These activities individually and collectively help build the productivity and strength of local community development organizations.

The NeighborWorks® network.—Was founded by Neighborhood Reinvestment. This network of community-based nonprofits has evolved from 34 organizations operating in about a dozen States in the 1970s to the impressive 225-member network working today in more than 2,000 communities across the country. NeighborWorks® organizations operate in our Nation's largest cities and in some of its smallest rural communities. Regardless of their target communities, NeighborWorks® organizations function as partnerships of local residents, lenders and other business leaders, and local government representatives. They produce creative strategies, share best practices, and develop flexible financing mechanisms.

Neighborhood Housing Services of America (NHSA).—Is a secondary market for a range of investment vehicles originated by NeighborWorks® organizations. It is funded primarily by social investors that purchase loans made by NeighborWorks® organizations, thus replenishing local revolving loan funds and enabling them to finance even more homeownership, rehabilitation and multifamily housing. NHSA's services focus on lower-income borrowers; the median borrower income is $24,652. Over the years, NHSA has purchased more than $461 million in loans from local NeighborWorks® organizations and their local lending partners.

The NeighborWorks® system is the only coordinated effort of its type in the Nation. It is unique in that it:

—Provides a national delivery system built on locally-directed, community-based partnerships;
—Fosters local and regional leveraging of scarce Federal resources;
—Serves as a laboratory for developing and testing creative solutions to problems that impede affordable housing production and neighborhood revitalization;
—Sets high standards for participating in the network and maintains them through a strenuous approval process and a comprehensive system of ongoing performance reviews; and
—Facilitates a learning environment for benchmarking and disseminating best practices in the field.

The system's unique qualities pay off in increased reinvestment. Through the guidance of the Corporation's Board of Directors, the experience of Neighborhood Reinvestment staff, and the willingness of NeighborWorks® organizations to share the fruits of their labors, the NeighborWorks® system will, with your support, continue to strengthen communities and improve lives throughout America in the year ahead.

STEWARDSHIP OF FEDERAL RESOURCES

As a recipient of congressional appropriations, Neighborhood Reinvestment recognizes its responsibility for proper stewardship. Neighborhood Reinvestment has an established track record for using the resources granted to us by Congress in a productive and efficient manner. Further, Neighborhood Reinvestment extends its stewardship by maximizing the effectiveness and efficiency of the NeighborWorks® network in ways that strengthen communities, transform lives and bring more of America's families into the economic mainstream.

Neighborhood Reinvestment and the NeighborWorks® network use Federal funding to attract private resources. The typical NeighborWorks® organization receives most of its funding support from private sources and fees. Private investors have viewed the NeighborWorks® network as an increasingly sound investment. In fiscal year 2001, for every $1 appropriated to Neighborhood Reinvestment, the NeighborWorks® system generated more than $15 from private sector and other sources, resulting in a direct investment of nearly $1.4 billion in communities served by NeighborWorks® organizations. We can achieve this level of impact because our programs and services are highly flexible and tailored to fill credit and resource gaps.

Neighborhood Reinvestment bridges the gap between public and private funding by integrating public and private support. One critical financing vehicle that we provide to NeighborWorks® organizations is equity capital, for real-estate development and lending grants, and for local revolving loan funds. The NeighborWorks® organizations, in turn, use these funds to draw private capital in a variety of ways, including:

—Equity and gap financing for home purchase loans, including down payment and closing costs;

—Capital for property rehabilitation, micro-enterprise and small business loans; and

—Capital costs associated with the acquisition and development of residential and commercial real estate for long-term ownership by NeighborWorks® organizations.

Locally directed revolving loan funds are essential to the network's success. Revolving loan funds provide flexible funding for community priorities, such as homeownership, rehabilitation, multifamily housing, and commercial and economic development. Neighborhood Reinvestment Corporation supports these revolving loan funds through technical expertise, training, and funding. NHSA aids the liquidity of the local revolving loan funds by buying revolving loan fund loans.

Most of the funding for revolving loan funds comes from local sources—loans and grants made by banks, insurance companies, foundations, local governments and other local investors. Loan recipients are typically underserved families. Seventy-one percent of loans made through NeighborWorks® revolving loan funds are made to very low- or low-income households, 53 percent to minority-headed households, and 43 percent to female-headed households. Loans carry a rate and term that the borrower can afford to pay back.

The NeighborWorks® system is the only national nonprofit network with expertise in designing, originating and servicing small non-conventional loans to lower-income families. These loans help create first-time homebuyers, often prevent mortgage delinquencies, provide money for repairs, and may ensure accessibility for those with disabilities. Generally, the loans offered by local NeighborWorks® organizations provide a blanket of security for neighborhoods of modest means. By designing loans to fill the gap between the capacity of the borrowers and the parameters of conventional lenders, the NeighborWorks® organizations complete transactions that could not otherwise be prudently realized.

Neighborhood Reinvestment employs a grassroots-directed approach to our service design or service delivery. We ask each NeighborWorks® organization to identify the specific challenges they face in attempting to ensure strong, safe neighborhoods of choice. Neighborhood Reinvestment responds with a tailored and solution-oriented combination of training and technical assistance in balance with any necessary financial support, including:

—Our national Training Institutes, which provide education and practitioner-focused training, to ensure that local staff is well-equipped and informed. Last year, more than 4,200 community development professionals and others attended the Training Institutes.

—On-site specialized technical assistance in areas such as lending, loss mitigation, resource development and marketing, community revitalization, and business planning. This on-site assistance is coordinated with and augmented by the extensive array of formal training conducted at our Institutes and in other trainings.

—On-going and responsive program reviews through our Risk Management Unit that monitors the organizational and financial health of each NeighborWorks® organization. We make a site visit to each NeighborWorks® organization at least every 24–36 months.

Together, these supportive services help ensure that funding is used responsibly, efficiently and effectively at the local level.

Over the years, Neighborhood Reinvestment has earned a reputation for helping communities achieve their revitalization goals. I am convinced we can further improve. We have undertaken a corporate-wide strategic planning process that will better position our organization and our network to meet the challenges of America's communities with even greater creativity and success. Emerging goals for our future include bringing more private investment into our neighborhoods, building stronger community leaders and civic commitment, collaborating with new partners and building new alliances with long-standing friends, continuing our dramatic success in creating homeownership opportunities, and assisting in the effort to create safe, affordable, attractive housing for low- and moderate-income families.

The plan encompasses our commitment to do several things:

—Increase the capacity of NeighborWorks® organizations to help underserved communities meet their revitalization goals;
—Expand the impact and reach of the NeighborWorks® network;
—Increase private-sector resources for the work of the NeighborWorks® network;
—Provide responsive, integrated, seamless and efficient customer-oriented services; and
—Be in the vanguard of the community development field.

COMMUNITY DEVELOPMENT LABORATORY

Neighborhood Reinvestment continuously looks toward the horizon, seeking new opportunities to address persistent and emerging challenges facing America's communities. The constant evolution of communities did not escape the notice of Congress when Neighborhood Reinvestment was chartered and directed to serve as a laboratory for the community development field.

The flexibility of our dollars and the broad reach of the NeighborWorks® network allows the Corporation to directly tackle some of the serious issues that impact communities, as well as contribute to broader public policy discussions. Neighborhood Reinvestment and the NeighborWorks® network have played a creative, collaborative role in effecting positive community change—and we are well positioned to continue our efforts in fiscal year 2003 and beyond.

I would like to share with you some of the successes of our laboratory environment, and how they have helped strengthen the community development field and America's communities.

Section 8 Homeownership.—A good example of our laboratory environment can be seen in Neighborhood Reinvestment's work with HUD's new Section 8 homeownership option. With strong technical support from Neighborhood Reinvestment, local NeighborWorks® organizations have been able to serve as an efficient and effective bridge between private lenders and public housing authorities to make homeownership a reality for qualified Section 8 recipients. This subcommittee provided the resources that seeded our effort, allowing the NeighborWorks® network to provide high-quality counseling and small second mortgages that are paid off by the Section 8 voucher.

The $5 million that you allocated in our fiscal year 2001 appropriation allowed us to expand our efforts—from four to 21 NeighborWorks® organizations. The funds helped capitalize the revolving loan funds of these NeighborWorks® organizations, which served as a source for second mortgages. A portion of the set-aside was used for capacity building, which helped some NeighborWorks® organizations tailor their housing counseling services to the specific needs of their Section 8 population, and to work with public housing authorities.

Of the families assisted by NeighborWorks® organizations in fiscal year 2001, 85 percent of the borrowers are single, female-headed households, and 35 percent are very-low income. The median purchase price of the homes is $85,000.

The Administration and this subcommittee were supportive of the strides made in fiscal year 2001; subsequently this subcommittee allocated $10 million of Neighborhood Reinvestment's fiscal year 2002 budget to continue our work on helping Section 8 voucher holders move into homeownership. Over $9.2 million of this allocation is going to NeighborWorks® organizations as grants and we expect to announce grantees in early May. In fiscal year 2002, we expect to attract a number of new public housing authority partners to this option, as well as assist experienced Section 8 homeownership NeighborWorks® organizations in their partnerships to include additional public housing authorities. Through your support, Neighborhood Reinvestment and the NeighborWorks® network have become sophisticated in our approach to this option. We have and will continue to share or successful strategies with others in the field.

We have concentrated heavily on sharing what we have learned through our Section 8 homeownership laboratory with the broader field. We have developed a course for the Neighborhood Reinvestment Training Institute solely on this program that attracts many beyond the NeighborWorks® network. Through the Neighborhood Reinvestment Training Institute and other training partnerships, we have conducted over 28 outreach sessions, which educated more that 1,000 public housing authority professionals, nonprofit staff, and lender partners. We are also coordinating our training and information efforts with HUD and public housing trade groups. We will continue these efforts throughout fiscal year 2002 and 2003.

The NeighborWorks® system has made significant headway in establishing positive, productive relationships with public housing authorities across the country and has made scholarships available for public housing officials to attend Section 8 courses at our Training Institutes. The strong partnerships established between

NeighborWorks® organizations and their local public housing authorities is expected to open the doors of homeownership to more than 500 families that were previously dependent on ongoing Section 8 rental subsidies. With continued support from this subcommittee, Neighborhood Reinvestment will continue to play a leadership role in making the Section 8 homeownership option available to voucher recipients across the country.

Mixed-Income Rental Housing.—Last year, this subcommittee provided Neighborhood Reinvestment with a $5 million set-aside to support our work in establishing mixed-income, multifamily rental developments and explore ways to serve families with incomes below 30 percent of area median income. This allocation recognizes that the challenge of affordably housing this Nation's extremely low-income families is complicated. We appreciate the opportunity to test a range of approaches and eventually report our results to you.

Understanding the importance of multifamily rental housing in a comprehensive neighborhood revitalization strategy, a group of NeighborWorks organizations formed the NeighborWorks® Multifamily Initiative in 1999. Together, these organizations own more than 30,000 rental housing units that provide attractive and affordable housing for families where renting is currently a more appropriate option than owning. The members of the NeighborWorks® Multifamily Initiative make it their mission to provide sustainable multifamily homes, which are marked over the long-term by:

—Affordability;
—Well-maintained and attractive physical condition;
—Access to on-site learning centers designed to support the technological and social infrastructure of educational success; and
—Ongoing economic viability.

Research by the NeighborWorks® Multifamily Initiative has demonstrated that in all markets, the fundamental economics of serving families with incomes under 40 percent of area median income requires some level of on-going subsidy. A housing cost equal to 30 percent of this household's income yields a rent payment that is less than the operating expenses for their unit—leaving no funds for the payment of debt service. Similarly, in many markets, creating new housing for those at 60 to 100 percent of area median income is equally difficult, since many existing subsidies are targeted to households with incomes below 60 percent of area median income. Nevertheless, with creativity, tenacity and resolve, the Multifamily Initiative members are creating mixed-income properties that serve families under 30 percent of area median income in a variety of ways.

We have used the $5 million set-aside to promote mixed income properties that dedicate a portion of their units to extremely low-income families. The elements of this program include:

Mixed Income Property Development Grant Incentive Set-Aside. Our goal under this component of the allocation was to promote the production of units affordable to extremely low-income families within mixed-income properties. We have received 17 applications from NeighborWorks® organizations for this allocation, totaling $6.1 million for 191 units affordable to those at or below 30 percent of the area median income, in developments that total 1,400 units. We will select a set of demonstration projects that serve diverse market settings and employ a variety of subsidy strategies. Awards will be finalized by the first week of June 2002.

Neighborhood Capital Corporation. The Multifamily Initiative was the catalyst for creating the Neighborhood Capital Corporation (NCC), which provides affordable, short-term financing to NeighborWorks® organizations to acquire multifamily properties that are at risk of deterioration or of being lost as affordable units available in a community. NeighborWorks® organizations and other nonprofit developers find the primary obstacle to purchasing a property is the lack of flexible pre-development and acquisition financing that allows an organization to respond quickly when a property becomes available. Neighborhood Reinvestment responded to this problem by making an initial investment in NCC. NCC provides essential loans so that NeighborWorks® organizations can purchase multifamily properties, many of which are preservation properties. This funding will support the production pipeline of mixed-income properties by financing acquisition and preservation of existing properties. The Corporation expects that over the next 2 years, NCC will leverage $20 million from private sector investments.

Symposium on Mixed-Income Properties.—A symposium was conducted in April 2002 to foster dialogue among experienced practitioners from across the real estate development, finance, and public agency arenas, including housing finance agencies and public housing authorities. This symposium examined various real estate development models, operating strategies, existing finance tools, and the impact of State and local policy and regulations on achieving mixed income properties that can

house extremely low-income families. The Symposium, which attracted some of the best minds in our field, was held on April 4, 2002 during Neighborhood Reinvestment's recent Training Institute in Chicago.

Research Findings.—A portion of this set-aside will also allow us to prepare and present a report on strategies and financing currently employed to develop mixed-income properties. This report will examine properties already in the NeighborWorks® portfolio and will make observations on those funded through Neighborhood Reinvestment's special set-aside for mixed income housing. We expect to have a full report to share with you by the end of the year.

Advanced Training for Experienced Practitioners.—Our national Training Institutes are widely acknowledged to be at the cutting edge of training for housing and community development practitioners. As we have monitored the capacity of the professionals in this field, it has become apparent that there are huge benefits to be gained from additional training and coaching of the most experienced housing and community development practitioners. To respond to this capacity need, we are collaborating with Harvard's Hauser Center to develop state-of-the-art training for seasoned leaders in an intensive learning environment. Our goal is to advance the quality of community development leadership, analyze more thoroughly the challenges facing America's neighborhoods, and develop even more powerful strategies to strengthen our communities.

New Homeowners.—Perhaps our best-known laboratory effort to date is the NeighborWorks® Campaign for Home Ownership, our very successful effort to assist families of modest means become successful long-term homeowners. In fiscal year 1998, Congress seeded our homeownership efforts with a $25 million set-aside. That funding has helped produce remarkable results—the average income of the homebuyer is nearly half of the national average, $29,300; 95 percent are first-time buyers; 52 percent are ethnic minority buyers; and 42 percent are female buyers. Currently, we are on target to surpass our 5-year goal to create 40,000 new homebuyers.

The NeighborWorks® Campaign for Home Ownership has identified a series of well-integrated strategies to help lower income Americans become homeowners. These strategies include comprehensive homebuyer education, Full-Cycle Lending℠, NeighborWorks® HomeOwnership Centers, and an emerging financial literacy pilot. We are currently planning for the next 5 years of the Campaign, and I know we will continue to strive to help lower-income Americans successfully achieve the American dream.

SOLUTIONS TO A RANGE OF CHALLENGES

No "one size fits all" approach can match the wide range of economic markets, housing stock, and employment challenges experienced in this Nation's urban, suburban and rural communities. Older rural communities vary significantly from first-ring suburbs, which differ distinctly from Native American lands.

The flexibility that you have allowed us in designing strategies and targeting our resources has given us the ability to devise extraordinarily successful tools and strategies, as well as build a network of strong and diverse local community development organizations. The power and impact of our grants are directly attributable to their flexibility. We are in the business of helping develop a network of strong nonprofit organizations that can respond to vulnerable neighborhoods in a changing environment. Underserved populations need to be connected—to private markets, mainstream lenders, and conventional products. Since its inception, Neighborhood Reinvestment has always been about addressing the needs of underserved communities and populations. This focus has allowed the Corporation and its affiliated NeighborWorks® organizations to develop a particular sensitivity and approach to the specialized needs of low-income families, immigrants, minorities, the disabled, and the elderly. Serving the needs of these populations requires more than grants. We are committed to building strong organizations, led by strong community leaders. We are especially committed to developing local resident leaders because we believe greater civic involvement helps effectuate positive change in communities.

Resident leadership development continues to be a core value in the NeighborWorks® network's approach to community revitalization. To respond to a need for enhanced resident leadership development, we sponsor regional Community Leadership Institutes. These programs enable resident leaders to share their experiences, hone their leadership skills and bring innovative ideas back to their communities. This reflects the Corporation's conviction that while new homeowners, improved housing and increased investment are essential to revitalization, the most essential ingredient for long-term success is informed, effective and motivated resident leaders.

To examine the strategies and best practices of outcome-based community organizing, the NeighborWorks® network has recently developed a community organizing pilot. Twenty NeighborWorks® organizations have developed action plans and will be documenting their progress toward their goals. Over the next year, this pilot will develop best practices as well as produce a framework for evaluation of community organizing. Our increased focus on the needs of rural communities is an example of Neighborhood Reinvestment's commitment to diverse communities. In 1990, three NeighborWorks® affiliates identified their primary service areas as rural communities. By fiscal year 2001, that number had grown to 59 organizations, which is 27 percent of the total number of organizations in the NeighborWorks® network. The network has proven its efficiency in addressing housing needs in rural communities, particularly through our partnership with a peer organization, RNA Community Builders. With seed funding from Neighborhood Reinvestment and the Northwest Area Foundation, rural NeighborWorks® organizations have transformed this peer-to-peer membership organization into a shared revolving loan fund that provides bridge financing for local housing or economic development projects at below-market rates.

Last year, we worked closely with our rural members to deliver a week-long sequence of courses at our Training Institute specifically focused on the unique barriers to community development in rural areas. While the challenges in rural, suburban and urban settings are, in many instances, similar, the means to effectively address them are often very different. We are engaged in a similar effort to design courses that address the very acute barriers to creating homeownership and economic development opportunities for Native Americans.

In fiscal year 2000, more than 50 NeighborWorks® organizations provided housing for non-elderly persons with disabilities, assisting more than 800 families. More than 45 organizations provided housing services for the elderly, benefiting more than 3,300 households. And as the needs in these communities grow, our capacity to serve them responds in tandem.

As you can see by the vast network of services that Neighborhood Reinvestment provides—either directly or through integrated channels and partnerships—we are committed to building strong communities. The needs of underserved communities are as diverse as the Nation itself. Therefore, our approach to revitalization must reflect those diverse needs.

CONCLUSION

For fiscal year 2003, we are requesting an appropriation of $105 million, which includes $10 million to further Neighborhood Reinvestment's and the network's pioneering efforts in using Section 8 vouchers to purchase a home. At this funding level, Neighborhood Reinvestment will be able to maintain its current level of services to the NeighborWorks® network and produce modest increases to the outputs and measures.

A $105 million appropriation will assist the NeighborWorks® network to:

—Leverage nearly $1.6 billion in direct total investment in distressed rural, suburban and urban communities;

—Assist more than 71,000 families obtain and maintain safe and affordable rental and homeownership housing;

—Provide pre- and post-purchase homeownership counseling and financial literacy training to nearly 70,000 families, including many potential Section 8 buyers; and

—Continue to educate the public housing industry and potential partners on the homeownership option.

To support and expand these significant accomplishments, the Neighborhood Reinvestment Corporation and NHSA expect to:

—Add 12 new organizations to the network, increasing the NeighborWorks® network to 245 organizations serving 2,200 communities;

—Conduct 240 reviews of member organizations;

—Provide over 190,000 training contact hours to community development leaders and practitioners, not only through the Neighborhood Reinvestment Training Institute but also through local and district training opportunities; and

—Purchase $60 million in loans from NeighborWorks® organizations.

Let me close by thanking the subcommittee for the wonderful opportunity you have given Neighborhood Reinvestment and the NeighborWorks® network to serve America's communities, and by asking for your continued support. Because Neighborhood Reinvestment is efficient in the services it provides, communities and residents benefit. Because our systems continually evolve to address ever-changing needs, communities and residents benefit. And because the communities and resi-

dents are many in number and need, we are continually aware of ground-level challenges across this great Nation.

With your assistance, we will continue to strengthen underserved communities and populations across this country. You have encouraged us to be flexible, creative, nimble and responsive in designing and delivering our services and resources, and this flexibility and your demonstrated confidence in us has created remarkable results. In addition to transforming lives and neighborhoods in incredibly diverse settings, the NeighborWorks® network now serves as an increasingly effective laboratory for testing new ideas and solutions to new and long-standing problems. We know that your investment in Neighborhood Reinvestment is an investment and expression of confidence in America's communities. And all of America benefits when its communities are healthy, strong and safe.

Neighborhood Reinvestment Corporation is committed to building healthy, strong and safe communities all across America. Your continued support is vital to us in accomplishing this goal.

DEPARTMENT OF THE TREASURY

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

STATEMENT OF TONY T. BROWN, DIRECTOR

Senator MIKULSKI. We want to welcome for his first time Mr. Tony Brown, who began his tenure at CDFI in August. Prior to that, he was a senior vice-president for Bank of America in Jacksonville, Florida. And he is a graduate of Xavier University in Ohio with a master's in business, with a specialty in finance and a degree in international affairs in business. So he comes with a very strong background, educational background, in the area of finance, as well as considerable private sector experience, particularly in the field of banking.

And we do know that Bank of America is one of the real recognized banks in reaching out, in fulfilling its obligation on the Community Reinvestment Act.

So you come with a lot of experience. And we really do need it. So we welcome you for your first time. We look forward to getting better acquainted with you. And this is a good way to do it. So we ask you to please proceed.

Mr. BROWN. Thank you, Madam Chair, Senator Bond, and members of the subcommittee. I thank you for the opportunity to testify before you today on behalf of the Department of Treasury's CDFI Fund and in support of the President's fiscal year 2003 budget. I do apologize. We did not submit a formal oral statement. I do request respectfully that the written testimony be included for the record. And I will keep my remarks brief.

As Chairwoman Mikulski indicated, I come to the government with 20 years' prior banking experience and with over a decade of community development experience. Community development has been a career. Community development is a passion. And I thank the President and Secretary O'Neill for the opportunity to be part of the CDFI team. And I know, and I have witnessed firsthand, the remarkable work of CDFIs and the value of community development lending and investment services in improving our low income communities.

And so when the Secretary asked us to find ways to help show how CDFIs improve and have impact in our Nation's low income communities, I knew, I know, from firsthand experience that that would be an easy undertaking from the standpoint of the things I have witnessed firsthand. And I will share some of those with you as I speak.

As you know, the CDFI Fund is a wholly owned government corporation within Treasury that promotes access to capital and local economic growth in distressed communities and with under-served populations through community development finance. And it is

that statement, community development finance, that I think best highlights what the value of the fund is and what we do.

CDFIs support and provide loans and investments in financial services to improve the economic vitality of our low income communities. And they do it in ways that are more flexible and innovative than regulated financial institutions. To date, we have certified 565 CDFIs covering all 50 States. These CDFIs provide a wide range of investment and lending activities. And I would like to just highlight a few.

Our leading fund categories are those that we categorize as housing and facility loan funds. These entities provide loans, as an example, to nonprofit housing developers to help them secure site control or conduct due diligence. Our partnership with NeighborWorks and NRC is an example. We have certified 66 NeighborWorks organization of 565 CDFIs. And as Ellen has indicated, they show a tremendous record of providing housing loan funds to improve our low income communities.

Other examples in the housing and facility loan category would include loans to nonprofit healthcare providers in order to provide healthcare centers in low income communities. And again, the distinction is that they do it in ways that are innovative and more flexible than our regulated financial institutions. They may take second and third mortgage positions in order to make those facilities happen.

Our second leading category are business loan funds.

Senator MIKULSKI. What page are you working on?

Mr. BROWN. As I said, I apologize, I did not submit an oral statement. So——

Senator MIKULSKI. No, but it would helpful if you were following in order from your written testimony. It is very informative, but it is hard for us to follow, Mr. Brown. If you could work off the outline of your testimony, so we know at least the topic, sir.

Mr. BROWN. I will do that, then. I will speak from——

Senator MIKULSKI. Sure.

Mr. BROWN [continuing]. The written testimony.

Senator MIKULSKI. We appreciate that.

Mr. BROWN. Okay. The first two pages.

As I was explaining, on the first page of my written testimony in talking about the CDFI Fund being a wholly owned government corporation in that second paragraph, I am highlighting information about 565 certified CDFIs by giving you a few examples of what they do. I just highlighted information on the housing loan funds.

Another example of the 565 certified CDFIs, 25 percent of those CDFIs are engaged in business loan funds. They provide financing to low income immigrant, minority, and women populations, again with innovative and flexible underwriting guidelines.

Our third category of the CDFIs that I have highlighted in that second paragraph on page one are community development credit unions. These credit unions are specialized neighborhood-based financial service centers. Many of them have been formed out of the basement of churches and have come together as a result of faith-based initiatives.

The remaining category of funds are those that have been formed by bank holding companies, those that are engaged in micro-enterprise lending, and then we have venture capital funds.

On page two of my written testimony, as I indicated, our vision for the CDFI Fund is to become a leading vehicle and best practice government agency for financing economic and community development activities. Our mission is to help make America a place where all of its people have affordable access to credit, capital, and financial services. This administration is committed to shifting the fund from merely a grants-making organization to one that addresses the economic ills of low income communities through targeted investments and community development finance.

Also on page two, I talk about the vision of the fund for 2003 and beyond. And in that we make mention of our New Markets Tax Credit Program. And highlighting that is the fact that the opportunity for the fund to achieve major impact is not isolated or sporadic, when you consider that 40 percent of the Nation's low income—40 percent of the Nation's census tracks are low income areas that qualify for our major programs. What that means for the State of Missouri is that nearly half, 48 percent, of your census tracks qualify for our major programs. And in Maryland, that number compares to the national average at about 38 percent. So I share that information to let you know that we understand how important the CDFI program is to you and your constituents. And we are committed to making it a world-class organization.

Some of our successes this past year have included, as you indicated, release of the Native American Lending Study. And along with that was the first year that we provided our Native American CDFI Technical Assistance Program. We are quite pleased at both products. And the fact that our NACTA Program, our Native American CDFI Technical Assistance Program, has brought in 45 applications totaling nearly $6 million in requests. And it is a program that we are committed to and that, though our budget does not contain a set-aside, it is included for 2003. And we do plan to issue another NOFA related to our NACTA Program.

Also, this past year was the first year of our SECA program. This is the investment program that we make to small and emerging CDFIs. We are pleased to announce that we awarded over $8 million to 70 small and emerging CDFIs throughout the country.

NEW MARKETS TAX CREDIT PROGRAM

Last year we received comments on the New Markets Tax Credit Program. This year, and within the next 30 days, we will be issuing our Notice of Allocation Availability, which will officially start the application process for the New Markets Tax Credit Program. And we are certainly pleased to have the opportunity to use tax credits as an incentive to see an increase in private sector capital, a goal of $15 billion in private sector equity, flowing into low income communities.

Now our budget does respectfully request $68 million in appropriations. This comes in recognition of tight budget concerns related to tough priorities for international and homeland securities. We feel that the reduction in the budget will be made up through increased private sector investments, through our New Markets

Tax Credit Program. We have retooled our organization, and we think that more efficient operations with quicker disbursement processes will also aid in providing the dollars that our communities so vastly need to work in improving their low income neighborhoods.

Senator Bond, to your question of the value of New Markets Tax Credit relative to our other Programs, we see it as being an integral part of what we do. I often say that our strategy at the Fund is a three-part strategy. One is the investments we make, our traditional investment programs, our Core and SECA Programs and what we do to help our communities create specialized loan funds. It is an important part of the strategy and one that we are committed to maintaining.

The second part of that strategy is the Bank Enterprise Award Program. We have substantial financial institutions that are willing to leverage their balance sheet, their income statements, to make a difference in the communities we serve. And many have been the major investors to many of the CDFIs that have been formed on the local level.

And then, obviously, the third part of that strategy is the New Markets Tax Credit Program. In order to have sustaining economic activity, we must have an increased flow of private sector dollars into our low income communities.

PREPARED STATEMENT

So with that, I will end my opening remarks. And, again, thank you for the opportunity to testify. And I am available to answer any questions you may have.

[The statement follows:]

PREPARED STATEMENT OF TONY T. BROWN

INTRODUCTION

Madam Chair, Senator Bond and members of the subcommittee, I appreciate the opportunity to testify before you today on behalf of the Department of Treasury's Community Development Financial Institutions (CDFI) Fund and in support of the President's fiscal year 2003 budget. I am Tony Brown, the new Director of the CDFI Fund. The Secretary of the Treasury selected me as Director in August of last year. I bring a 20-year prior experience in banking to the CDFI Fund with a decade of service in community development where I managed the community development program for the largest financial institution in the State of Florida. Joining me today are Fred Cooper, Deputy Director for Policy and Programs, and Owen Jones, Deputy Director for Management/CFO.

As you know, the CDFI Fund is a wholly owned government corporation within the United States Department of the Treasury. The Fund promotes access to capital and local economic growth by directly investing in and supporting community development financial institutions (CDFIs) that provide loans, investments, financial services and technical assistance to underserved people and economically distressed communities. CDFIs are specialized financial institutions operating in market niches that have not been adequately served by traditional financial institutions. Included in the various types of CDFIs are community development banks, credit unions, business loan funds, housing/facilities loan funds, microenterprise loan funds, and venture capital funds. As of February 15, 2002, the Fund has certified 565 institutions as CDFIs. These CDFIs operate in all 50 States.

Our vision for the CDFI Fund is to become a leading vehicle and the best practice government agency for financing economic and community development activities in low-income areas to improve the standard of living for Americans living in distressed and underserved communities. Our goal is to help make America a place where all of its people, including those in such communities, have access to affordable credit, capital and financial services so that they too can realize the American

dream. We characterize fiscal year 2003 as a transition year where the Fund shifts from an organization seen primarily as a grants-making organization to one that addresses the economic ills of low-income communities through targeted investments and community development finance.

By so doing we will help the Department of Treasury achieve its economic mission of a prosperous and stable America. This ambitious undertaking is explained in this testimony.

My testimony will focus on four key areas: the performance of the CDFI Fund in 2003 and beyond; the President's fiscal year 2003 budget; management and operations; and CDFI Fund programs.

PERFORMANCE OF THE CDFI FUND: 2003 AND BEYOND

Treasury Secretary O'Neill has challenged all employees of the Department to make the Treasury a world-class organization. Additionally, he has instructed the CDFI Fund to develop procedures to provide a meaningful measurement of the impact and results of taxpayer dollars awarded through CDFI Fund programs. In order to successfully work toward the goals set by the Secretary, I have asked CDFI Fund staff to help me establish the CDFI Fund as a leading vehicle for the delivery of community development finance, capital and service activities within the Federal Government as well as in the Nation, so that we have a demonstrable impact on low-income communities. I envision the CDFI Fund becoming an "expert" source in this regard.

As we reported last year, Treasury Secretary O'Neill intends that performance measures of the CDFI Fund and all Treasury activities be more useful and relevant to the decision-making process, and improve the timeliness and accuracy of the information systems that capture and report performance data. To move forward on this commitment, the Secretary has called for a fundamental review within all Treasury bureaus of what we do and why we do it, resulting in a determination of what measures of outputs and outcomes best capture what we are trying to achieve. This points out the need for consistent ways to evaluate the effectiveness of the various incentives for investment in low-income communities so that we have a better understanding of what works and what does not work. The CDFI Fund is committed to working with the Secretary in this important initiative. Our budget includes $500,000 in additional administrative funding so that we can collect loan-level data to report performance and impact of CDFI activities similar to the administration of the Community Reinvestment Act and the Home Mortgage Disclosure Act.

This initiative will, I believe, enable us to measure the types of impact of our funding that Secretary O'Neill is seeking. The CDFI Fund is working with the community development industry to build a set of performance measures and establish a "performance matrix" for our awardees. This matrix will rate financial stability and community development impact. By using financial and economic factors, we intend to assess how CDFIs improve economic conditions of communities that are underserved by traditional financial institutions.

Our plan is to use this rating system to better manage the CDFI Fund's portfolio of investments and to identify under performing entities and create a compliance "watch list." We believe a significant investment to collect and analyze loan-level data will enhance our ability to report impact in various forms. These initiatives will be incorporated into the CDFI Data Project, making that industry-wide data collection effort even more useful to the CDFI Fund and others interested in CDFIs.

Turning to the impact that CDFI Fund awardees are having in their communities, the CDFI Fund is keenly interested in the issue of impact and how it is measured. The Fund is on the forefront of improving data collection and reporting in the CDFI industry and is one of the founders of the CDFI Data Project (CDP), a collaborative effort of 13 entities—including the Ford and MacArthur Foundations and the six major CDFI trade associations—to develop a standardized data collection system for the CDFI industry. The goal of the CDP is to produce comprehensive, high-quality activity and performance data on CDFIs. The CDFI Fund and other CDP participants issued their first collaborative annual survey last spring; selective results for CDFI awardees are described below.

Measuring community development impact has been a challenge to the CDFI Fund and the industry overall. The General Accounting Office (GAO) recognized this in its 1998 report, entitled "CDFI Fund Needs Better Systems to Measure, Monitor, and Evaluate Awardees' Performance." In the next 2 years, the CDFI Fund increasingly will focus on identifying additional measures of impact. For example, the Fund has begun an initiative to collect loan-level data from CDFIs. This data will show exactly where CDFIs are lending relative to more traditional lenders and thus give us a better idea of the role CDFIs play in filling the gap in affordable financial serv-

ices. The MacArthur Foundation has embraced this initiative, and the CDP has incorporated loan-level data collection as well as broader impact measurement research into its strategic plan.

Internally, the CDFI Fund is reviewing the way we collect outcome information from our awardees. To date, each awardee's performance goals and measures have been tailored to their specific activities. While these measures were rich in their uniqueness, the outcomes they measured could not be aggregated across CDFIs because they were not comparable. The CDFI Fund plans to revise its awardee performance goal and measurement system so that it produces standardized information on all CDFIs. To the extent possible, we will incorporate the CDFI Fund's reporting requirements in the annual survey in order to minimize reporting burdens on CDFIs and facilitate data analysis at the Fund.

Finally, the CDFI Fund is beginning to conduct peer analyses in an effort to develop industry performance benchmarks for each type of CDFI. We will use this information to "risk rate" our portfolio of awardees. Once it is tested and proven, we will consider other uses such as incorporating it into our award decision-making process. All of these efforts respond to findings and recommendations in the 1998 GAO report.

It is incumbent upon the CDFI Fund to continually improve its processes and develop a system for accurately measuring the real impact of CDFI Fund dollars in the communities served by our customers.

PRESIDENT'S FISCAL YEAR 2003 BUDGET

The President's fiscal year 2003 budget requests $68 million in appropriations for the CDFI Fund. This is the same funding level as requested in last year's Presidential budget. The Administration request should be considered in light of several factors.

First, the proposed budget for the CDFI Fund reflects overall Federal budget priorities for increased National Security and Homeland Security.

Second, the fiscal year 2003 budget level of $68 million maintains a basic level of funding to support CDFI Fund programs and assumes significant improvements in how we process applications. To do this we hope to successfully streamline our award approval and disbursement processes. We believe substantial savings in staff time will occur through streamlined efforts. This will enable us to provide the much needed community development capital to qualifying organizations with a quicker disbursement of funds for those organizations who meet all program criteria at the date of application.

Third, the enactment of the Community Renewal Tax Relief Act of 2000 will devote substantial additional resources to new incentives for investment in low-income communities. This includes the New Markets Tax Credit (NMTC) Program, to be administered by the CDFI Fund. The NMTC Program is a new and, we believe, an exciting program for the CDFI Fund. The NMTCs are expected to generate $15 billion in investments in low-income communities over the next 7 years. We are working diligently to allocate credits this year and measure their impact in fiscal year 2003, or as quickly as these credits are used, as an incentive to attract equity capital. Although the allocations for NMTCs are expected to be announced in the fall of calendar year 2002, we may not see the effect of the NMTC-leveraged equity investments in low-income communities before calendar year 2004. Obviously, the first year of this program will be a work in progress since we have a limited sense of the demand or actual appetite of investors for these types of tax credit allocations. The successful implementation of the NMTC Program is one of our highest priorities. The NMTC Program offers us a unique opportunity to measure the increased flow of private capital into low-income communities. Our resources are mobilized to ensure a successful introduction of the NMTC Program this calendar year.

Lastly, we anticipate that approximately $30 million of the proposed fiscal year 2003 budget will be used to fund the Core and Intermediary Components of the CDFI Program and Training Program; approximately $11 million (including the carryover from the prior year) will be made available for the Small and Emerging CDFI Assistance (SECA) and the Native American CDFI Technical Assistance (NACTA) Components of the CDFI Program; and $20 million will be used to fund the Bank Enterprise Award (BEA) Program. The remainder will be used to cover the CDFI Fund's administrative costs, including the costs of administering the NMTC Program.

The CDFI Fund will continue to focus efforts on serving those markets, including rural and Native American communities, that have relatively low levels of CDFI activity and inadequate access to financial services. In these areas, we will continue to conduct workshops (both in-person and via satellite broadcasts) detailing the

CDFI certification and funding application processes. We also expect that the SECA Component, the NACTA Component, and the Training Program will be of particular benefit to CDFIs and CDFIs in formation that serve these difficult markets.

MANAGEMENT AND OPERATIONS

The CDFI Fund has implemented effective financial and management controls as verified by our independent auditors (KPMG, LLP). These controls have allowed the CDFI Fund, for the fifth consecutive year, to receive an unqualified (clean) audit opinion. Additionally, this marks the fourth consecutive year that the independent auditors have identified no material weaknesses or reportable conditions. KPMG's opinion affirms the CDFI Fund's Statements of Financial Position, Operations, and Changes in Net Position and Cash Flow are fairly presented. These findings reflect the commitment of the CDFI Fund to sustaining and improving upon its internal controls, operating policy and procedures, and awards management.

The CDFI Fund continues to comply with the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA). The CDFI Fund's system of internal management, accounting and administrative controls are operating effectively.

During my 7 months as Director, I have spent a significant amount of time reviewing the internal operations at the CDFI Fund. It is my intention to make necessary changes, which will streamline and make more efficient our processes and procedures. It is my hope that, once implemented, these changes will accomplish four key goals. First, as mentioned above, we need to reduce the amount of time currently required for our award processes. This includes reducing time used for application reviews, awards obligation and disbursement of funds. Second, our plan will successfully integrate the NMTC Program within our existing operations without significantly increasing the number of new employees above fiscal year 2002 levels. Third, we need to enhance the CDFI Fund's ability to perform research, market and portfolio analysis to measure the availability of financial services in underserved markets and critique the financial and program performance of existing CDFIs. Finally, I want to position the CDFI Fund to be better prepared and anticipate future responsibilities.

CDFI FUND PROGRAMS

The CDFI Fund supports its economic development mission of providing capital to underserved persons and in underserved markets by investing in CDFIs, and by providing incentives for mainstream financial institutions to invest in CDFIs and increase their activities in distressed communities. In addition to three traditional programs (the CDFI Program, the Bank Enterprise Award (BEA) Program, and the Training Program), the CDFI Fund has introduced two new programs. We anticipate these programs will provide additional capital in the markets served by our customers. These new programs are the New Markets Tax Credit (NMTC) Program, described above, and the Native American CDFI Technical Assistance (NACTA) Component of the CDFI Program.

CDFI Program

The CDFI Program provides financial assistance in the form of grants, loans, equity investments or deposits to CDFIs. Since its inception, the CDFI Fund has made over 780 CDFI Program awards totaling $357 million. The CDFI Program is composed of three separate funding components, each attempting to reach a different type of CDFI or market: the Core Component; the Small and Emerging CDFI Assistance (SECA) Component (formerly the Technical Assistance Component); and the NACTA Component.

CDFIs also provide their clients with training and technical assistance that help organizational clients to better manage community development projects and help individual clients to improve their financial decision-making skills and increase their options for accessing credit. This type of borrower education is the foundation for mitigating losses in the CDFI industry overall. In fiscal year 2000, the CDFI Fund's awardees provided business training, financial management education, credit counseling, and homebuyer training to 51,059 individuals and 6,298 non-profits and other organizations.

In addition to financing activities, CDFIs are also depository institutions; 159 of the 553 certified CDFIs are regulated financial institutions (banks, thrifts, and credit unions). In a survey completed in 2000, 21 depository awardees—primarily low-income designated credit unions and community development banks—provided 141,440 checking and savings accounts, with $257 million on deposit for an average of $1,815 per account. Each of these institutions has a mission of reaching low-in-

come and underserved populations, and some provide products specifically designed to help low-income individuals build wealth, such as Individual Development Accounts. In all, 985 Individual Development Accounts held savings of $388,545, an average of $395 per low-income account holder.

Finally, CDFI Fund awardees have leveraged significant additional capital. A sample of non-depository CDFIs estimated that they were able to raise an additional $69 million over and above the required 1:1 match due to being a CDFI Fund awardee or certified CDFI, representing an additional $1.48 raised for every CDFI Fund award dollar. This capital has come from banks, foundations, State and local government, and others.[1]

The Core Component is directed at building the financial capacity of CDFIs by enhancing the capital base. Awardees of the Core Component represent some of the Nation's largest loan funds and financial institutions. At the end of fiscal year 2000, 122 Core awardees reported $2 billion in outstanding loans and investments.

For the fiscal year 2001 funding round the CDFI Fund provided 51 Core Component awards totaling $48 million. These 51 awardees are based in 27 States. There are now CDFI Program awardees in 49 States, the District of Columbia, Puerto Rico and the U.S. Virgin Islands. Of these 51 awardees, 10 have multi-State or national service areas; 38 serve rural markets.

In addition to geographic diversity, the types of CDFIs assisted and the array of loan or investment products provided is broad: 26 provide loans for housing development or ownership; 20 have micro- or small-business loan products; five are credit unions; three are community development bank holding companies; and two are venture capital funds.

Entities selected for Core Component awards typically have business strategies that support economic stabilization or building wealth in low-wealth markets. A few examples include:

Homeward Inc. of Allison, Iowa, was formed out of a consortium of eight rural electric cooperatives to provide loans for housing development and for economic development activities.

Home Headquarters of Syracuse, NY helps to stabilize distressed neighborhoods and build assets in Onondaga County through home purchase financing targeted to lower income households.

Kentucky Highlands Investment Corporation is a nonprofit business development firm founded in 1968 to provide venture capital and debt financing to start-up and expanding businesses. In a nine-county region of Appalachia, Kentucky Highlands, through its financial products, has helped to create or retain 7,000 jobs. This means that, on average, 12 percent of the households in this rural nine-county region have a family member employed by a company that Kentucky Highlands assisted. In the local Empowerment Zone, which is located within the nine-county region, this CDFI's impact is even greater: since 1994, Kentucky Highlands helped create or retain 3,086 jobs in the area that is now part of the Empowerment Zone. This translates into an average of 39.7 percent of EZ households with a family member employed by a company that Kentucky Highlands helped.

On September 24, 2001, the CDFI Fund published a Notice of Funds Availability (NOFA) announcing the availability of $36.9 million in Core Component awards for fiscal year 2002. The application deadline was December 11, 2001; we received 136 applications, requesting a total of $198 million.

The Intermediary Component allows the CDFI Fund to invest in CDFIs through intermediary organizations that support other CDFIs and emerging CDFIs. These intermediary entities, which are also CDFIs, generally provide financial and technical assistance to small and growing CDFIs. Like Core awardees, Intermediary awardees are required to obtain matching funds in comparable form and value to the financial assistance they receive from the CDFI Fund.

Since inception, the CDFI Fund has obligated awards totaling over $20 million to 11 different intermediary institutions. Beginning with the fiscal year 2001 funding round, the Intermediary Component has been announced and evaluated as part of the Core Component and CDFI Intermediaries now compete directly with other Core Program applicants.

The Small and Emerging CDFI Assistance (SECA) Component was initiated in fiscal year 2001. It replaces the Technical Assistance (TA) Component, which was first introduced in 1998 to build the capacity of CDFIs to serve their target markets—particularly "start-up," young and small institutions. Under the TA Component, the CDFI Fund directed relatively small amounts of funds—generally $50,000 or less—to CDFIs that could demonstrate significant potential for generating community development impact, but whose institutional capacity needed to be strength-

[1] Source: CDFI Fund Fiscal Year 2000 Annual Survey of Core Awardees.

ened in order to fully realize this potential. Some typical uses of TA grants included: computer system upgrades and software acquisition; developing loan underwriting policies and procedures; evaluating current loan products and developing new ones; and training staff. Under the SECA Component, the CDFI Fund has augmented the range of assistance provided under the predecessor TA Component. In addition to TA grants, eligible applicants can also request Financial Assistance, generally used for enhancing the applicant's lending capital, up to $150,000. Small and emerging CDFIs generally have less than $5 million in assets and have never received Financial Assistance from the CDFI Fund. Requests for Financial Assistance must be matched dollar-for-dollar with other non-Federal funds.

In fiscal year 2001, the Fund provided 70 SECA/TA Component awards totaling $8 million. Of the fiscal year 2001 awardees, 32 (45 percent) are start-ups. We are pleased to report that the SECA Component has been particularly responsive to the needs of community development credit unions: 20 (or almost 30 percent) of the fiscal year 2001 SECA awardees are credit unions. The SECA Component also has proved to have national reach: the 70 SECA awardees are located in 26 States, Washington, D.C., and Puerto Rico. Of these 70 awardees, about half (37) include rural markets within their service areas.

On September 24, 2001, the CDFI Fund published a NOFA announcing the availability of $5.6 million under the SECA Component for fiscal year 2002. A total of 120 applications was received, for $18 million.

SECA Component awardees are serving some of the Nation's most economically distressed and hardest to serve markets and are exhibiting important programmatic innovations. The CDFI Fund's SECA Component awards are helping to build the organizational infrastructure to increase the flow of capital in economically distressed areas and to low-wealth populations:

The Bushwick Federal Credit Union is a recently chartered start-up serving the economically distressed Bushwick neighborhood of Brooklyn, New York. It provides financially literacy to a largely unbanked population. It proposes to use its award to capitalize a micro loan product and to expand its ATM services.

Nevada Microenterprise Initiative, based in Reno, provides training and financing to lower income entrepreneurs that lack sufficient collateral for conventional financial institutions and proposes to use the award to obtain staff training and to refine its business plan.

Azteca Community Loan Fund of San Juan, Texas, proposes to build its capacity to help build assets among very low-income people through development services and loans that will increase the rate of homeownership in colonias in the south Texas border region.

The Bank Enterprise Award (BEA) Program

The Bank Enterprise Award (BEA) Program is the principal means by which the CDFI Fund achieves its strategic goal of expanding financial service organizations' community development lending and investments through regulated institutions. The BEA Program recognizes the key role played by mainstream depository institutions in promoting the growth of CDFIs and the revitalization of distressed communities.

The BEA Program provides monetary incentives for banks and thrifts to expand investments in CDFIs and/or to increase lending, investment and service activities in distressed communities. BEA Program awards vary in size, depending upon the type and amount of assistance provided by the bank and the activities being funded through the bank's investments. In general, banks that provide equity investments to CDFIs are likely to receive the largest awards relative to the size of their investments.

Through 2001, 577 BEA Program awards totaling over $182 million have been provided to banks and thrifts. Banks and thrifts receiving BEA Program awards have provided $959 million directly to CDFIs, and $2.5 billion to distressed communities[2] in the form of direct loans, investments and services.

Of the fiscal year 2001 funding round awardees, the CDFI Fund made 139 BEA Program awards totaling $46 million. On September 24, 2001, the CDFI Fund published a NOFA announcing the availability of $16.5 million in BEA Program funds for fiscal year 2002. The application deadline for this NOFA was November 13, 2001.

The CDFI Fund has made BEA Program awards to 386 different institutions since 1996. The average Total Assets of the 386 BEA Program awardees is just under $10 billion. BEA Program awardees range in size from $585 billion in assets to $8 mil-

[2] Distressed Community is a defined area that must have a poverty rate of at least 30 percent and an unemployment rate that is at least 1.5 times greater than the national rate.

lion. BEA Program awardees have an average Return on Assets of 1.1 percent and average Tier One Capital of $407 million. The BEA Program award as a percentage of Tier One Capital is less than 3 percent on average. All BEA awardees whose BEA Program award represents more then 10 percent of Tier One Capital are certified CDFIs.

All but two BEA Program awardees have Satisfactory or Outstanding Community Reinvestment Act (CRA) ratings. About one-third have Outstanding CRA ratings and about 60 percent have Satisfactory ratings. The BEA Program awardees with Outstanding CRA ratings have an average size (in terms of assets) of $17 billion, while awardees with Satisfactory Ratings have an average of $6 billion in Total Assets.

A few examples of BEA Program awardees include:

AmSouth Bank of Birmingham, Alabama received an award of $221,600 for providing $300,000 in grants and $1.6 million in loans to ten CDFIs: Affordable Housing Resources; Community Equity Investments; Enterprise Corporation of the Delta; Florida Community Loan Fund; Local Initiatives Support Corporation; Neighborhood Housing Services; Southern Development Bancorporation; Nashville Housing Fund; Chattanooga Neighborhood Enterprise; Structured Employment Economic Development Corporation; and Technology 2020 Finance Corporation. The awardee is a State chartered bank with total assets of $39 billion.

Providian National Bank of Tilton, New Hampshire, received a BEA Program award of $1,110,000 for making a $7.5 million equity like loan to the National Community Capital Association, a certified CDFI. Providian's investment will help fund the first national childcare facilities fund, which will provide financial assistance to childcare providers and thereby increase the availability of affordable childcare slots for disadvantaged families and communities in New Hampshire and throughout the country. The awardee is a national bank with total assets of $15 billion.

Since first participating in the BEA Program in 1996, KeyBank, a national bank based in Cleveland, Ohio, has received a total of $2.3 million for providing over $22 million in financial support (including grant, equity-like loans, and loans) to several CDFIs: Cascadia Revolving Loan Fund, Coastal Enterprises, Coastal Ventures Limited Partnership, Coastal Ventures II, LLC, Cincinnati Development Fund, Columbus Growth Fund, Community Capital Development, Capital District Loan Fund, Community Preservation Corporation, Denver Neighborhood Housing Fund, The Enterprise Foundation, Funding Partners for Housing Solutions, the Housing Partnership Development Fund, Growth Finance Corporation of Oxford Hills, Housing Partner Development Fund, Impact Capital, Jubilee Community Loan Fund, Local Initiatives Support Corporation, Mutual Financial Services, NHS of Toledo, Northern Community Investment Corporation, Progressive Neighborhood Federal Credit Union, Rural Opportunities Enterprise, Vermont Community Development Loan Fund, and Western Maine Finance. The awardee is a national bank with total assets of $76 billion.

The Training Program

The Training Program, begun in fiscal year 1999, is aimed at supporting the CDFI Fund's strategic goal of strengthening the organizational capacity and expertise of CDFIs and other Financial Service Organizations. The Training Program provides funds that support the development and delivery of training products to CDFIs and other entities engaged in community development finance. Training is addressed via classroom instruction, web-based distance learning, and other electronic formats. The CDFI Fund is particularly excited about providing the support to help build the electronic teaching capacity of the CDFI industry. Through distance learning, the cost of accessing training is reduced for the CDFIs (elimination of the time and cost of travel) and the ability of CDFIs that are either of limited resources or of remote locations to access training is enhanced.

In fiscal year 2001, the CDFI Fund awarded contracts to four training providers for curriculum development and the delivery of three courses: How to Do a Market Analysis; How to Prepare Financial Projections; and How to Develop and Operate a Community Development Lending Program. Training has already begun under each of these courses. Through February 2002, there have been 60 offerings of the three courses supported by the Fund. Each class usually serves up to 30 participants. Through February 2002, it is estimated that 1,200 individuals will have participated in Fund-supported training. Of the four training providers, two providers (the National Community Capital Association and the National Federation of Community Development Credit Unions) are CDFI trade associations. Support to their members and others is provided through advisory services, which is now enhanced through these training products. The CDFI Fund has found these trade associations and other contractors to be good partners in helping to build the capacity of CDFIs

in serving their communities—they couple a deep knowledge of the circumstances of the industry with a mission to serve.

New Markets Tax Credit (NMTC) Program

Congress enacted this program in December of 2000 to attract private sector investment in businesses located in low-income communities to improve economic conditions in such communities. Under the NMTC Program, taxpayers will be provided a credit against Federal income taxes for qualified investments made to acquire stock or other equity interests in designated Community Development Entities (CDEs). In turn, substantially all of the proceeds of qualified investments must be used by the CDE to make qualified investments in low-income communities. These qualified low-income community investments include loans to or equity investments in, businesses or CDEs operating in low-income communities. The credit provided to the investor covers a 7-year period. In each of the first 3 years, the investor receives a credit totaling 5 percent of the total value of the stock or equity interest at the time of purchase. For the final 4 years, the value of the credit is 6 percent annually.

This calendar year, NMTCs will be allocated annually by the CDFI Fund to for-profit CDEs under a competitive application process. These CDEs in turn will pass the credits to investors (such as banks, corporations, mutual funds, and/or individuals). To qualify for CDE designation by the Fund, an entity must be a domestic corporation or partnership that: (1) has the primary mission of serving, or providing investment capital for low-income communities or low income persons; and (2) maintains accountability to residents of low income communities through representation on a governing or an advisory board.

On April 20, 2001, meeting its statutory mandate, the CDFI Fund issued Guidance relating to the certification of CDEs and the competitive allocation of NMTCs. The Guidance was published in the Federal Register on May 1, 2001—the same day that the IRS issued an Advanced Notice of Proposed Rule Making (ANPRM) announcing its intention to develop regulations covering all tax-related aspects of the NMTC Program. Both the Guidance and the ANPRM requested public comments, which were due to the Fund and IRS, respectively, on July 2, 2001. The CDFI Fund received public comments from over 40 different organizations and trade associations.

On December 20, 2001, less than 1 year after Congress enacted the NMTC Program, the CDFI Fund released application materials enabling organizations to apply to the Fund for designation as CDEs—effectively launching the NMTC Program. The CDFI Fund has fully implemented rules to permit entities to becoming certified CDEs. To date, approximately 211 organizations have been certified as CDEs or currently have CDE applications pending with the CDFI Fund.

The CDFI Fund's objectives for the remainder of the year are to publish an NMTC allocation application, select qualified CDEs to receive an allocation of tax credits, and complete the awards allocation process for 2001/2002 tax credits. The CDFI Fund expects to issue a Notice of Allocation Availability (NOAA) next month announcing the availability of tax credits supporting up to $2.5 billion worth of equity investments in CDEs. The CDFI Fund will review applications from CDEs under a competitive review process, with the goal of finalizing award decisions by the fall of 2002. In this manner, investors making equity investments into eligible CDEs would be able to claim tax credits during this calendar year.

By offering a tax credit, the NMTC Program encourages private investment in underserved communities. If investors embrace the program, it will be a significant source of new capital that could help to stimulate new industries and entrepreneurs, diversify the local economy, and generate new jobs in low-income communities. Our fiscal year 2003 budget requests $2.7 million in administrative funds to operate this program. This request accounts for 24 percent of our administrative budget.

Native American CDFI Technical Assistance (NACTA) Component

A second recent initiative at the Fund is focused on Native American communities. This initiative includes the Native American CDFI Technical Assistance (NACTA) Component of the CDFI Program and the Native American CDFI Training Program. The CDFI Fund's fiscal year 2001 and 2002 appropriations bills each include a $5 million set-aside for this effort. The purpose of this initiative is to increase access to capital in Native communities. In response to the set-aside contained in the fiscal year 2001 budget, the Fund issued a Notice of Funds Availability (NOFA) on September 24, 2001, requesting applications under the NACTA Component. Approximately $3.5 million of the $5 million set-aside will be available for this round.

The CDFI Fund has received 46 applications for assistance under the NACTA Component. The applications, which are currently under review, represent 21 States. A second NACTA NOFA will draw from the set-aside contained in the fiscal year 2002 CDFI Fund appropriations. Funds will be allocated under the NACTA Component through direct grants to Native CDFIs, Tribal organizations, and other financial institutions and organizations serving these communities. It is anticipated that these funds will: (i) enable financial institutions to enhance their capacity to provide access to capital and credit to these communities; and (ii) assist such communities in establishing their own CDFIs.

Another $1.5 million of the set-aside is being used to develop a training program. This training program will be designed to help Native American communities build leadership skills enabling them to create and manage CDFIs.

The need for this new initiative was identified during the workshops organized by the CDFI Fund in conjunction with the development of the Native American Lending Study/Action Plan. This Study examines the key barriers to accessing debt capital and equity investments in Native American communities. Numerous actions that could be taken by Tribes, lenders, and local and national policy makers were identified. These ranged from the adoption of the Uniform Commercial Code by Tribal governments to the capacity-building efforts now underway at the CDFI Fund. The final report was distributed in December 2001 to the House and Senate Committees who hold jurisdiction over the CDFI Fund and Native American issues, as well as to the President.

In developing this study, the CDFI Fund conducted 13 regional workshops across the country and two roundtable meetings. The CDFI Fund also administered a national survey of 860 tribal organizations and 750 financial institutions located near Indian reservations, Alaska Native Villages, and Native Hawaiian Communities. The survey collected data such as barriers to accessing capital, accessibility of bank services and products, availability of technical assistance, industrial sector financing gaps and strength of internal tribal resources and policies. The CDFI Fund also administered an equity investment research project to assess the gap and potential opportunities for Native Americans to access this kind of investment.

Rural Community Assistance

Lastly, the fiscal year 2002 appropriations for the CDFI Fund contained report language requesting an update on rural lending practices as part of the fiscal year 2003 budget submission. Core Component and BEA Program awardees are indeed reaching rural areas. Of 123 surveyed Core awardees, 21 (17 percent) estimated that 100 percent of their activities went to rural areas and an additional 15 (12 percent) estimated that 51 to 99 percent of their activities went to rural areas. Out of 160 surveyed BEA awardees, 11 (7 percent) said that 100 percent of their business activities went to rural areas, and an additional 18 (11 percent) said that 51 to 99 percent of their business went to rural areas. Considering that 22 percent of U.S. households reside in non-metropolitan areas, the percentage of Core awardees that target more than half their activities to rural areas (29 percent) compares favorably, while BEA falls slightly short at 18 percent.

The CDFIs focusing on rural areas tend to be smaller than their urban counterparts and the actual dollar amount that awardees' lend to rural areas is proportionally less than the percent that serve rural areas. An estimated 17 percent ($351 million) of Core Component awardees' lending and 11 percent ($161 million) of BEA awardees' lending went to non-metropolitan counties[3]. The CDFI Fund has identified several options that may increase the flow of CDFI Program and BEA Program awardees' dollars to rural areas. For the BEA Program, the most significant of these would require changes to the Fund's authorizing statute. For example, under the BEA Program, a "distressed area" must have a population of at least 4,000. Distressed areas are composed of census tracts. Many rural census tracts do not have 4,000 people, which in many cases precludes their eligibility as BEA distressed areas. Eliminating the BEA Program population requirement for rural areas would result in more people becoming eligible for consideration under the BEA Program.

In addition, almost all of the new NACTA Component dollars are expected to flow to rural areas: 46 of 47 current NACTA applicants target rural areas.

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[3] Core Component awardee dollar amounts were estimated by applying the awardees' estimated percentage of fiscal year 2000 customers located in rural areas to the awardees' total financing closed in fiscal year 2000. BEA Program awardee dollars were estimated by applying the awardees' estimated percentage of total lending in rural areas to the sum of their total community development and service activities, and CDFI support activities during the BEA assessment period.

SUMMARY

Treasury Secretary O'Neill and the Administration have set the bar high for the expected performance from us at Treasury as well as the entire Federal Government. As you can see, I have laid out a blueprint for the CDFI Fund to enable us to reach goals that will improve and enhance our performance and service to our customers. These goals will hopefully provide an increased efficiency in the use of taxpayer dollars. Our goals are numerous and in some instances, very ambitious. It undoubtedly will require a very focused and conscientious effort by all of us at the CDFI Fund. During my short time at the CDFI Fund, I have developed the utmost confidence in the commitment of our staff toward our customers and the communities that they serve. I am certain that we will all rise to the occasion to meet our goals and do so in a timely and professional manner. I look forward to working with the members of this subcommittee towards achieving these goals. Again, I thank you for the opportunity to present my testimony in support of the President's 2003 budget request and look forward to answering any questions you may have for me.

Senator MIKULSKI. Well, thank you. You did very well, Mr. Brown and Ms. Lazar.

Let us move right to the questions. And I am going to start first with really the President's budget. Ms. Lazar, you talked about in your testimony what you would do with the $105 million, which, of course, are both the goals and specific objectives that you wish to achieve. What can you not do that you would like to do this year?

Ms. LAZAR. We would like to do more the multi-family work. I am cognizant of how desperately we need more rental housing opportunities in this country for low-income people. Our groups, through our multi-family initiative, have capacity, and their capacity is growing, to explore a variety of means of developing and preserving affordable rental housing. So that is certainly a piece that we only have limited funds to explore.

Senator MIKULSKI. And what would it take to keep that momentum going? Because one of the issues that both the Chairman and I share is our great concern for the lack of production in the area of rental housing for people of very modest incomes. And also, the success in some neighborhoods means that people no longer really want to take Section 8. We keep funding Section 8 and now there is a backlog of unused vouchers in many of our communities, because people just will not accept them.

Do you have—so is it——

Ms. LAZAR. I have——

Senator MIKULSKI. Go ahead.

Ms. LAZAR. I have a sense that if we were to receive an additional $5 million to $10 million for multi-family housing, for the work that we began this year, we could continue to expand that activity. I would want to make sure, before I gave you a firm number, that that money would really be able to be——

Senator MIKULSKI. But that is generally the area of the priority that you would like to continue to keep the momentum going——

Ms. LAZAR. Yes, absolutely.

Senator MIKULSKI [continuing]. That you have undertaken. And I am going to come back to some of the policy questions, but I wanted to get that on the record.

Ms. LAZAR. Sure.

Senator MIKULSKI. Mr. Brown, in your first appearance before the community, you certainly are a good administration soldier.

You said 15 percent does not bother you a bit. It is going to be made up in private sector investment. And you outlined the 3 priorities. So Secretary O'Neill, he did the right thing.

But let us go to really the CDFI and two issues that arose that I would like to raise in both the expenditure. First of all, we want to compliment you on focusing on internal controls. And there has been a lot of issues in the transition over the last year.

And the second issue that you raised, though, is CDFI is now involved in funding healthcare centers. This is something the committee was not aware of. We want to hear your views. Number one, what are you talking about? Number two, why did you get into this? And are you being a healthcare bonding authority by proxy? And number three, why do you think this is an appropriate role for CDFI, because just the demands in housing, micro-enterprise, and that venture capital that we have talked about, where you, too, are an incubator agency?

Could you share with us this healthcare? And then I will go on to some other questions, if my time permits.

Mr. BROWN. Senator, what I was merely doing was giving you an example of the types of things our CDFIs do. I think that the value of the CDFI program, and one of the things that I think is remarkable about the program is that our funds are driven based on what the needs are in the local community.

And in the category of housing and facility funds, obviously the major needs in our communities, low income communities, are what we call community facilities. Examples of community facilities could be a retail shopping center that our CDFIs may fund. Some have provided assistance to helping create charter schools. Others in my example I gave have helped to see that there is the availability of healthcare centers. One in particular that has demonstrated what I consider to be a world-class example is in New York City. And we highlighted them in our last newsletter, that they have played a leading role——

Senator MIKULSKI. Tell me what you did. And why did you do it?

Mr. BROWN. We did it because we matched the funding, because there was a need to provide services to low, very low, income people who are in dire need of medical or healthcare services. The money——

Senator MIKULSKI. But what did you do? Did you provide funds for a building? Did you match funds?

Mr. BROWN. We matched funds for the financing of the building. In several examples, the organization provided financing to a nonprofit healthcare provider who renovated a grocery store that had left the community. So it provided the value of turning a vacant storefront facility into a medical center for residents that were in need of healthcare services.

Our money was matched to help that organization to continue to provide financing for nonprofit healthcare providers, in this case in New York City.

Senator MIKULSKI. So just to be clear, this was one initiative. But it is not one of your core things. This is just an example of trying to be creative and respond to local community need.

Mr. BROWN. Yes.

Senator MIKULSKI. And where really the conversion of that grocery store into a supermarket of healthcare, if you will, I mean, this is not like a hospital, like a Hopkins or a Mercy or a Sinai going to get bonding authority to build a new wing.

Mr. BROWN. That is correct.

Senator MIKULSKI. This is really very small. It is almost like a micro-enterprise healthcare. Am I correct?

Mr. BROWN. And in this example, maybe to clarify further, in the example that I am giving in this case, the organization helped finance what I would consider a full-care medical service center in not only providing family care, but they had an office for dentistry, psychiatric assistance.

Senator MIKULSKI. Yes. I understand the services that would go on. I just wanted to know what CDFI was doing.

Mr. BROWN. Yes.

Senator MIKULSKI. I have other questions that I am going to pursue on predatory lending and so on. But let me turn to my colleague for his questions.

Senator BOND. Thank you, Madam Chair.

Mr. Brown, following up on that question, there is no question that many of our communities need accessible healthcare. As a matter of fact, one of my major initiatives in another subcommittee has been to, along with Senator Hollings, double the funding for community health centers, because community health centers are the ultimate safety net. We are trying to make sure that those are robustly funded, that we have funds available for capital improvements.

So I do not doubt that a community needs, health centers. And we are working hard to fill more of the gaps. But I get a little concerned when I try to figure out what your focus is. And you are getting over into other areas.

I think that we need to get a better handle on what the focus will be. You have said that it is all part of one strategy. We are going to be handing out grants, and we are going to be allocating tax credits. But which do you see as the main focus? Do you need more staff? What do you have on board? Do you have the staff that is proficient in allocating credit? What is going to be your focus?

This is a small agency. There is a lot of work to do. To make an impact, you have to focus and do a job well. What job are you doing? And what is the staff you are utilizing to do it?

Mr. BROWN. And Senator, again, to clarify, our primary mission, our core competency is to help eliminate impediments that deal with the flow of capital, and particularly the flow of capital in low income communities. So if the need in your community is jobs and small business, and the flow of that capital has been an impediment to help businesses with their financing needs, then our role at the CDFI Fund and working with your local communities is to provide the cash by which those loans can be made to small businesses.

Senator BOND. I have another hat. I also am ranking member on the Small Business. What is the difference between the 7A program and the micro-loan program and the small business investment company? You are in that area now.

Mr. BROWN. You are asking the same type of questions that Secretary O'Neill has asked. How does our mission and the mission of the fund, relative to the Treasury, coincide with SBA, with HUD, who does housing, NRC and their community-based——

Senator MIKULSKI. The community development block grant money.

Mr. BROWN. All the above. But if you have been engaged in community development, you understand that you need equity, you need bank financing, you may need the SBA. And then maybe in some cases, that is not enough. You might need the financial assistance of your local CDFI, or the loan may have been done in a way, as I mentioned in my opening remarks, that is more innovative and flexible than perhaps the SBA guidelines, as well as what you may get from your local lender.

So that is in general the best way I can categorize the unique role that our specialized, certified, community development financial institutions play. And they have created a niche, a market, in providing the type of financing that is needed to get the types of specialized services in low income communities.

The second part of your question relative to our budget and our staffing needs is one that we have concentrated on here at the fund. As I mentioned earlier, we have reorganized our staffing in order to take on a very important program of new markets tax credits. Our budget request includes a significant amount to help with our performance measuring systems and our ability to collect low level data to report on the types of loans in rural communities, in prominent areas, et cetera, that CDFIs are doing in conjunction with and complementary with traditional financial institutions.

We are currently undergoing our strategy plan in preparation of our 2004 budget that, when I come to you next year, will be more directional in terms of what we need in order to maintain compliance with the New Markets Tax Credit program, as well as other programmatic changes we may propose at that time.

Senator BOND. Thank you very much, Mr. Brown. I am delighted that you would come and testify before our committee. We may have to have you testify before the full committee. It seems that your breadth of activity is as broad as Governor Ridge. And we are certain to have a coordinating entity like CDFI that covers the waterfront from Health and Human Services and CHCs to small business to lending.

So, Madam Chair, I am impressed.

Mr. BROWN. Senator, I would add it seems that was the vision of the fund when it was formed. As a reminder, our advisory board does include representatives from Commerce, HUD, SBA, Interior, and Treasury.

Senator MIKULSKI. Mr. Brown, we are not being critical. You have $16 million. HUD has $32 billion. And both of you are meant really to be incubators. And I think what Senator Bond is saying is, how do we get maximum coordination and yet not for CDFI become these other programs by proxy because of a variety of reasons. We pass no judgment on it. We just are looking for focus.

But let me go to a focus that this committee has had. And I must, again, thank my colleague for his bipartisan support on this. And that is the issue of predatory lending.

As you know, for a number of years now I have been raising the issue of predatory lending and also on the issue of what we call in Baltimore flipping, where someone buys a house, even a HUD house, for a very low, flips it with just a patina of repair, sells it to the poor at really exaggerated prices, but they think they are paying $500 a month. And then they end up with like balloon payments at the end of 15 years of $70,000.

I would like to know from both of you what is the leadership, as well as concrete action that you are taking to deal with the issue of predatory lending. The committee is particularly interested in where you are promoting home ownership. So that home ownership, when people enter into that, like the Section 8, that they can sustain it.

So we really want to know what you are doing and your view of the problem. What are you doing about it? And do you have the adequate resources to really do this, because it gouges the poor. It gouges the taxpayer.

Ms. LAZAR. I am happy to start and tell you about what we are doing, both through the NeighborWorks organizations and what Neighborhood Reinvestment is doing in partnership with others. We have been very, very focused on public education, as well as product development. And we are working on both paths to make sure that we can address predatory lending issues.

Neighborhood Reinvestment has established a national financial literacy pilot to promote financial literacy education for consumers in 24 cities across the country. This work will help us establish baseline for financial literacy training for individuals, which we hope will give them the——

Senator MIKULSKI. What do you mean by that?

Ms. LAZAR. What I mean by that is the resources to understand what their obligations are as a homeowner.

Senator MIKULSKI. How will this work? How will this work at the neighborhood level?

Ms. LAZAR. At the neighborhood level, our NeighborWorks organizations have classes on a regular basis, financial literacy classes. People sign up for them. They make a commitment to come. We also do fairly intensive training of the trainers for those classes. We just entered into a partnership last week with the Federal Deposit Insurance Corporation to use their Money Smart curriculum as part of our financial literacy training.

Through our HomeOwnership Centers, we have the facilities where there is always ongoing classes to help get people better acquainted with their——

Senator MIKULSKI. Okay. Now how does this work with your Section 8 program? Secretary Martinez has a great passion for promoting home ownership as well. And he has been really great to work with on many of these issues. Again, how does this go to the Section 8 program that you have.

Ms. LAZAR. Sure.

Senator MIKULSKI. And how does that work?

Ms. LAZAR. For the Section 8 program, we again bring families into our HomeOwnership Centers for financial literacy and other home ownership counseling services. What we have been finding is that we have to work much more directly on a one-on-one basis

with the individuals who have already gotten some training through the Family Self-Sufficiency Program, through the PHAs that they have been working with.

So we bring them in and really get them acquainted with the housing, housing finance, home ownership maintenance issues, the long-term obligation——

Senator MIKULSKI. How are you different than HUD with what they want to do on such Section 8?

Ms. LAZAR. Our home ownership campaign has developed a set of counseling curricula that we use on a regular basis. It has been fairly well recognized around the country as a strong basis and a strong curriculum for bringing families into home ownership and helping them maintain sustainability over the long term.

Senator MIKULSKI. Well, I would like to be able to come back to that. But, Mr. Brown, could you just comment on predatory lending? Because I know you do not want to inadvertently end up underwriting it.

Mr. BROWN. Yes. Well, as you know from Treasury, addressing predatory lending is one of Secretary O'Neill's highest priorities. In fact, his focus is on financial literacy, and how do we make credit education an integral part of our education system in that regard, as well as Assistant Secretary Bayer has been promoting a national code of ethics in addressing a lot of the lending ills related that could lead to predatory practices.

What we have done at CDFI has been a number of different things. Many of our certified community development financial institutions, banks, thrifts, credit unions provide IDA type of accounts. Many of our CDFIs provide, as part of their service, credit counseling to potential borrowers.

One particular leading example is an organization out of North Carolina, a self-help credit union, which has been on the forefront of addressing predatory lending practices and getting legislative changes in North Carolina that have led to other State——

Senator MIKULSKI. We appreciate North Carolina, but what do you at your headquarters do in terms of having an organized, systematic message out to all CDFIs on this issue of predatory lending? I know you are big on data collection. And we love that. Do you have a watch list that you are watching trends? And are you doing training for CDFIs and so on?

Mr. BROWN. Senator, specifically to that question, we have not collected data specifically to how CDFIs have addressed the impact of predatory lending. But what we have measured and recovered is the types of loans that our organizations make to provide affordable credit to low income communities.

Examples, our bank enterprise award program provides a major incentive for financial institutions to target their mortgage products in low income communities. And many do provide those loans at below market rates in order to get loans to low income people at affordable rates. The example I was going to provide with self-help is that one of the issues of some of the traditional financial institutions that, as they underwrite these loans, a typical subprime loan historically has not met the underwriting or the secondary market guidelines for Fannie and Freddie. So as a result,

many of the CDFIs have perhaps negotiated with local banks to do portfolio lending.

In the self-help example is that they have created a secondary mechanism so that those banks that are doing portfolio lending, in order to provide affordable mortgage loans to low income communities, have found a way to buy those loans and to put those loans out in the secondary market. And I think that that is an example of a model that we are looking at. And, in fact, we are currently conducting a study to see if there is a way that we can create a whole loan or a secondary market mechanism that could allow for loans that do not meet Fannie or Freddie guidelines, as well as other community development loans, if they can be sold in the secondary market.

Senator MIKULSKI. I have to think about this. First of all, I am going to come back to my original point. Number one, I would encourage you at CDFI to have some type of national way of watching the trends on predatory lending that the CDFIs might inadvertently be getting into or become aware of, because predatory lending has the right name. It is about predators. And they look at every opportunity to gouge. They are predators. And we have gotten lots of programs that I find the predators have really milked, squeezed, and so on, that then did not result in value for the poor, a different way of life, a different opportunity.

We need you to really be watching this. So that is number one.

Number two, CDFI was meant to come into small areas where banks or others would not have come in. And what I want you to be very careful about what you underwrite that does not meet other guidelines, so we do not end up with a whole set of bankruptcies on our hand or defaults. I really am going to insist on this, because we have gone down the line of promoting home ownership. We have gone down the line of FHA. And we have been pushing FHA and home ownership.

And I have in Baltimore City in FHA 50 percent of the people in default. Now something is real wrong somewhere. So before we get into how do we underwrite and so on where there are not even usual and customary guidelines, I just want you to be very careful because the predators will come in. That is number one. Or number two, the whole issue of financial literacy, which I really think could be one of the most important areas for both of you to pursue, using the appropriate tools available to you.

And I know this goes to the civil rights organizations are interested in it. Reverend Jackson and others have spoken to this. Financial literacy is the way to have people clean up their credit, get ready for another opportunity, make sure that opportunity is sustainable.

But anyway, I have gone over my time. Senator Bond, why do you not——

Senator BOND. Thank you, Madam Chair.

Ms. Lazar, to follow up on a question that the Chair asked earlier about production, what kind of experience has NRC had in producing rental housing for extremely low-income families while maintaining the property's long-term viability? Is it possible to structure properties with only up-front capital so that ongoing subsidy needs are not necessary? And how much money is NRC dedi-

cating to the multi-family activities? And what other resources are you using?

Ms. LAZAR. Senator, as you know, last year this committee provided us with $5 million to look at the possibility of maintaining, and creating mixed income properties that serve some families below 30 percent of area median income. We have just received the applications for the grants that we are going to make in June. Some of the uses that have been proposed include reducing a property's mortgage debt, which will then allow the property to charge lower rents for percentage of units, rents that are affordable to extremely low-income people.

Other applicants are working with local housing authorities to make a percentage of units available to extremely low-income holders of housing choice vouchers and using the grants to support the additional resident services and more intensive management as appropriate to support a mixed income profile.

We are continuing to look through the applications for funding that we received this year at a range of options to create mixed income housing. We just sponsored a symposium in Chicago a couple of weeks ago, where we brought the best thinkers around the country to think and talk——

Senator BOND. You are still in the planning stage.

Ms. LAZAR. We are still in the planning stage on pursuing——

Senator BOND. You have not done it.

Ms. LAZAR [continuing]. The work that we had been funded for this past year. We are working on a study that we will have probably for you later in the fall, early winter, on mixed income housing opportunities. We are doing a wide range of activities that will help us develop more of an educational base of what is possible.

Senator BOND. In sum, it is all planning.

Ms. LAZAR. Most of it is in the planning stage right now. We will be getting grants out in June. And it will start going into real properties in the summer.

Senator BOND. Well, being from Missouri, I would like for you to show me.

Ms. LAZAR. I will.

Senator BOND. Planning is great.

Ms. LAZAR. I will be glad to.

Senator BOND. Yes. Planning is fine and all that, but we want to know not what you plan, but what you do.

Ms. LAZAR. We expect to have the grant list available in June. We will come up and share it with you, so that you know what is on the board.

Senator BOND. Okay. Appreciate that.

Let me turn back to an area that is very closely related to the problems that my colleague has indicated may be existing in Baltimore. NRC and other organizations are involved in disposition of HUD assets located in designated distressed neighborhoods called asset control areas. Recently you conducted a review of the program. One of the studies' major findings was that the use of other Federal programs, such as HOME, CDBG, HUD, neighborhood initiative grants, and Hope 3, went into the ACA program.

At least from my standpoint, I do not know about anybody else in Congress, but I never contemplated that this disposition pro-

gram would involve the use of other funds. We put the other funds out there for other programs.

What has been NRC's experience with HUD's asset control program? Do you have any suggestions on how to improve it? And why is there a need for other Federal subsidies? Something is amiss here.

Ms. LAZAR. I think I could answer that question concisely. The asset control area program has been an effective tool, particularly for our NHS organization in Chicago, to gain back positive momentum in the Back of the Yards and the Chicago Lawn neighborhoods. There has been an increase in sub-prime and predatory lending in that community. And there has been some very serious resultant foreclosures.

When neighbors see rehab activities on homes that have been vacant for months or even years, they are more inclined to invest in the upkeep of their own properties. This activity has helped preserve the values of other homes in the neighborhood rather effectively.

Now the ACA program in Chicago had some additional funding put in it to help close the appraisal gap. When we are rehabing houses throughout the NeighborWorks network, we want to make sure that the rehabilitation creates a safe, sound unit that is going to be housing for that family over the long term. What we were finding was that the cost of the house, plus what was necessary for the rehab costs, went beyond the appraised value of the property. The additional funding that the NHS was able to negotiate through Congressman Gutierrez's office has really helped bridge that appraisal gap.

Saying that, I think if my colleague, Bruce Gotchall from the NHS, were here, he would say that if he had gotten the house for $1, had been able to make the necessary repairs to it and then split the proceeds with HUD, they would have had a much more successful transaction.

Senator BOND. Yes. I think that is the 50-percent requirement. That seems to be the real problem.

Madam Chair, if I may just ask one final question.

Senator MIKULSKI. Please keep going.

Senator BOND. I would like to hear from both of you what your agencies are doing in rural communities and how are you working with USDA and HUD and other Federal agencies. Let us start with Mr. Brown. How is your rural effort?

Mr. BROWN. Our rural effort is a significant part, Senator, of what we do. And it is important to the CDFI Fund. What we have done in the past is we have surveyed our core recipients to get an understanding specifically of the markets that they serve and the types of services that they provide into our rural communities.

What we do know is that when we surveyed our core recipients from 1996, the lending activity between 1996 and 1999, they reported that over half of their products and services were in rural communities. And when we surveyed the banks that are participating in our bank enterprise award program, they indicated that 60 percent of their services and loans were made in rural communities.

We are putting the finishing touches on our rural findings and survey as part of the appropriation language that was attached last year. And we will provide you and staff a full copy of that report.

[The information follows:]

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND ACTIVITIES: TRACKING RURAL OUTCOMES

The conference report for the fiscal year 2002 VA, HUD, and Independent Agencies appropriations bill requested that the CDFI Fund report on its rural activities:

The Committee remains concerned about [the CDFI Fund's] lending activities in rural areas, especially the Fund's use of its Bank Enterprise Award (BEA) Program. The Committee urges [the CDFI Fund] to increase its activities in rural areas, especially in light of the abundance of Federal programs already dedicated to urban areas. Further, CDFI is directed to include details on its rural lending activities in its fiscal year 2003 budget justifications. These details should include the number of CDFIs approved [for funding] in rural areas by State and the amount of funds provided to each rural area by program activity [Core/Intermediary Component, Small and Emerging CDFI Assistance (SECA) Component, and the Bank Enterprise Award (BEA) Program].

Findings

Thirty-two percent ($73.5 million) of all the CDFI Program dollars awarded to the 121 1996–2000 Core Component Awardees went to CDFIs for whom a majority of their customers are located in rural areas.

Seventeen percent of the 542 certified CDFIs (as of December 2001) are headquartered in rural areas.

The CDFI Fund has made $62.5 million in awards (12 percent of 1996–2001 total awards) to CDFIs and banks headquartered in rural areas.

Eligible Census Tracts

Forty-one percent of the Nation's census tracts qualify as eligible Target Markets under the CDFI Program's Investment Area test.[1] Of these total eligible tracts, 25 percent are defined as non-metropolitan areas (see Table 1). Large expanses of rural areas are eligible, including most of central Appalachia, the Mississippi Delta, most of the non-metropolitan counties along the Mexican border, and Native American lands. Certified CDFIs provide services to a minimum of 38 percent of the Nation's eligible tracts, including 25 percent of eligible tracts in non-metropolitan areas. It should be noted that these coverage figures understate the actual coverage of certified CDFIs because they include only the 355 CDFIs that designated Investment Areas. It does not include the 187 CDFIs that designated a Low-Income Targeted Population or an Other Targeted Population. Neither does it include the 18 CDFIs that report a national service area. If the national service areas had been included, the table would show 100 percent coverage in both non-metropolitan and metropolitan areas. We did not include these because we cannot validate that the national CDFIs have had actual lending or investment activity in every eligible census tract in the country.

The Fund recognizes the importance of tracking the precise location of CDFIs' lending activity. Therefore, in fiscal year 2003 the Fund plans to collect detailed loan-level data that will show which census tracts CDFIs are lending and investing in. When the Fund has that loan level data, it will be able to report exactly how many loans and investments CDFIs made in eligible census tracts, which resulted from the leverage of our direct investments.

CDFI Fund Awards

The Fund can provide a more detailed analysis of rural coverage for a subset of all awardees. These are the 121 CDFIs that received Core Component awards from 1996 through 2000. These awardees respond to a detailed annual survey, from which this data is analyzed. As Table 2 shows, nearly one-third of all the CDFI Program dollars awarded to these 121 CDFIs went to CDFIs for whom a majority of their customers are located in rural areas. An additional 8 percent went to CDFIs

[1] This does not include those non-metropolitan census tracts that, based on the census data for those census tracts, do not qualify on their own but would qualify if included in a county that qualified based on county-wide census data. (CDFI Fund regulations allow non-metropolitan counties or census tracts to qualify as Investment Areas; however, metropolitan areas may only qualify based on census tracts).

for whom 25 percent to 50 percent of their customers are located in rural areas. For a complete list of surveyed CDFIs and their locations by State, see Table 3.

The 121 Core Component Awardees report that an estimated 24 percent of their financing went to customers in rural areas. This estimate is based on the percentage of customers that each CDFI reported as located in rural areas and the CDFI's financing outstanding at the end of fiscal year 2000. This estimate is the closest the Fund can get given the data we now collect. Once loan-level data is collected, the Fund will be able to report exactly how many loans and investments CDFIs made in rural areas and what the total dollar amount was.

Another, less accurate, measure of rural activity is the location of the institutions' headquarters. As Table 4 shows, 17 percent of all certified CDFIs are headquartered in rural areas. From 1996 through 2001, 19 percent of all SECA/TA Component award dollars went to rural-based CDFIs. 15 percent of Core Component and 4 percent of Bank Enterprise Award (BEA) Program dollars have been awarded to institutions headquartered in rural areas. However, many CDFIs that are headquartered in urban areas provide services to rural areas and may even have rural branch offices. Table 4 does not include that data.

We cannot estimate BEA Awardee services provided to rural areas because of the unavailability of data. The statutorily prescribed definition of "Distressed Community" under the BEA Program restricts award dollars to rural communities. First, rural areas have difficulty meeting the program's 30 percent poverty requirement because populations in rural areas are often scattered, with Low-Income households mixed with households of higher incomes, and have fewer concentrations of poverty than is often found in urban areas. Second, over 40 percent of the Nation's rural population resides in communities with fewer than 2,500 people but located in metropolitan areas. These communities are too small to meet the BEA Program's statutorily required population minimum of 4,000 people in metropolitan areas. Further, in non-metropolitan counties there is a minimum population requirement of 1,000 people in a qualifying census tract. This figure also precludes otherwise qualifying economically distressed rural areas from BEA Program eligibility.

Senator BOND. Well, we look forward to seeing that.

The other, for the NRC, Ms. Lazar, what do you——

Ms. LAZAR. We have a rural initiative, which is one of our four major initiative programs, that has had steady growth. Fifty-nine of our 225 NeighborWorks organizations, or 27 percent of the network, is serving rural areas. We are a resource for training and technical assistance provider to these organizations.

We provide them with grant funding. We established an organization called RNA Community Builders, which is a national CDFI intermediary, which is supporting the work of rural practitioners around the country.

We are working closely with the Department of Agriculture, through the Department of Agriculture's 504 program. We are looking at other ways of using Agriculture's programs in helping to deliver services to these rural communities. We do a great deal of work through our education programs. Next week we are hosting a conference in Oak Ridge, Tennessee, for our rural organizations, to help them do some problem solving together. We do specialized courses and programs of study at our training Institute. And we have actually a very unique partnership in Montana, which is a model for statewide activity, where we work with our organization in Montana to increase home ownership through a statewide counseling program. We have gone from 134 home buyers in 1998 to 409 new home buyers in 2001.

As you know, Montana is a good example of great geographic distances and a very, very hard place to do community-based work. The Great Falls NHS has done a fabulous job partnering with a variety of agencies and with a variety of players on the State and local level to really provide services all across the State.

Senator BOND. Thank you very much, Ms. Lazar.

Thank you.

Senator MIKULSKI. I want to support those initiatives that you have just discussed and also my colleague's area of questioning in that area. My observations as a Senator, having been a city councilwoman and a congresswoman from one of the poorest areas of our State, is that rural poverty is so different. And often, people in rural areas do not have the resources, as I said, to technical assistance, foundations, the kinds of things that are available in a St. Louis or a Baltimore or a Bethesda. And so we really want to encourage you on this.

I want to ask a question about faith-based engagement. Wherever I go in my State, people are saying to me, particularly institutions, where the leadership are people of color, are saying, "Senator, what is this faith-based initiative, and how can I get in on it?" That is one thing.

The second thing is, everywhere I go I am seeing the merging of community development corporations, which were a very important tool at the grassroots, but they are popping up like flowerbeds and that they vary in capacity. And I am concerned about the issue of capacity building, is that new people coming into new organizations, with new access to funds, without the capacity to move into sound financial management.

My observation of community development is often it is a charismatic leader, who gets involved in solving a neighborhood problem. The people come together in a very dynamic and exciting and wonderful, energetic way. They become a CDC. They start to get grants. And that charismatic leader's experience has been on household finance, not organizational finance. And then we get into all kinds of other issues.

Could you share with the subcommittee, because both of you are there, what you see, number one, in your work in faith-based organizations, because these will not necessarily be the big churches. They might be mid-sized. And for whatever we do, we want it to work. We really want it to work and not have either homeowners in default or CDCs in default.

As you know, Washington, D.C., has had some really bad experiences of late. And we do not want this to be throughout the country. Could you share with us that?

Ms. LAZAR. I will be glad to get started.

Senator MIKULSKI. And am I raising very real issues?

Ms. LAZAR. Oh, absolutely. I would like to invite Margo Kelly, my deputy, to join me, because she has had a great deal of experience with this and how we have been working with faith-based organizations over time.

When the administration came in last year and brought a lot of focus on faith-based organizations, our first reaction was, so what is new? Those of us working in the CDC field for many years had had experiences with leaders, particularly through Catholic Charities and other faith-based organizations, for very many years. I know that the earliest organizations I worked with were all an outgrowth of faith-based organizations.

Within our network, we have a number of organizations that are rooted in faith communities. We treat them like we treat everybody else wanting to make sure——

Senator MIKULSKI. Well, what do you do about capacity building? We are really talking about the African-American churches, the Latino communities. Because the big associates, like the Catholic Charities associations, they know how to work with agencies. They are constitutionally compliant. But this is a new thing that the President wants to start. And we think it is worth taking a look at, as long as there is constitutional compliance and capacity, particularly because these are new startups.

Ms. KELLY. I began my career in this organization doing start-up organizations. I know that one of the first places you go when you are in a new community is to the churches, because that is where the leadership is.

I think Neighborhood Reinvestment has provided four aspects of capacity building that have worked, both with the faith-based organizations that are in our network and with our other organizations. The first one is technical assistance. When an organization is interested in joining the network, we take a close look at their performances in six key areas that we refer to as PROMPT planning, resource development, oversight, management system, financial systems, et cetera. We help them to develop in the areas where they are weak.

The second place we provide assistance is in training through our national training institutes and on-site. This is another critical aspect of building capacity. We also, in conjunction with our training and technical assistance, provide grants. In some cases with a small organization, one of the critical needs that they have is for financial management systems. Sometimes it is for computers, hardware or software. Sometimes it is for training for their staff who need to learn those systems and how to operate them.

And our fourth area, which is very critical, is an area that we refer to as risk management or program review. This is an annual process, where a unit that works with Clarence Snuggs, our other deputy, spends time on-site reviewing these organization and gives them a report card. It tells them how they are doing in these areas. If there are serious shortcomings, we ask them to develop a corrective action plan with our assistance and to address them.

So it is a multifaceted approach. It works very well on the ground. And I think it has kept our network quite strong.

Senator MIKULSKI. Well, that is outstanding. I am going to turn to Mr. Brown. But does HUD do this, also?

Ms. KELLY. Madam Chair, I do not know exactly what HUD does. I think that the training, the resources and the tools that we use are available. Actually, our training institutes are a really good opportunity for people to access those tools and apply them for themselves.

Senator MIKULSKI. Thank you very much. What we like to have is really that specific description of PROMPT. I like that. And I think we want to also discuss this with Secretary Martinez. We do not want the taxpayers gouged and, you know, the capacity—Mr. Brown, and then I am going to turn to Senator Bond. This will then conclude our testimony.

Yes?

Mr. BROWN. Senator Mikulski, building capacity and technical assistance is the cornerstone of the CDFI program. As I mentioned

earlier, 100 of our 550-some-odd certified community development financial institutions are community development credit unions. Our SECA program this past year, 20 percent of the awards were made to community-based credit unions.

And as I stated in my opening testimony, many of the credit unions were formed and came out of church basements. And so our SECA program, as an example, particularly in your State, we funded the Faith Fund of Baltimore, which is a startup, multi-faith entity with a technical assistance award.

So we dedicate 20 percent of our budget to building capacity and expertise of CDFIs. And our SECA program has been one of the ways in which local community-based, faith-based initiatives have been able to take advantage of our funding.

Senator MIKULSKI. Well, thank you. We could pursue this. The little white light means that there is a vote.

But we will let this point of light ask his questions here.

Senator BOND. Well, my bulb is dimmed. And I am going to put the rest of my questions in for the record, Madam Chair. We have miles to go before sunset. And we have another couple things going.

So I appreciate very much your testimony. It is two small agencies with very big responsibilities. And we appreciate your dedication to trying to bring all these things together. You certainly have broad scopes of interest that mirror in many ways this committee. And we thank you for your testimony and look forward to reading your written responses to the questions we submit.

Thank you, Madam Chair.

ADDITIONAL COMMITTEE QUESTIONS

Senator MIKULSKI. I, too, will have written questions. We want to thank you, first of all, for appearing today and the work that you do in every way. I think we have articulated the areas that we have concern about. But most of all, it is that American dreams really are American dreams, whether they are an individual buying a home or a community development corporation.

And we will be having further discussions with you. And we look forward to working with you in this year's appropriation.

[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 NEIGHBORHOOD REINVESTMENTS CORPORATION

QUESTIONS SUBMITTED BY SENATOR BARBARA A. MIKULSKI

PREDATORY LENDING

Question. Describe what your membership is doing to combat predatory lending?

Answer. We have been increasingly concerned with the growth of predatory lending practices. The concern focuses on protecting new homebuyers the NeighborWorks® network has assisted, but our concern also extends to the threat predatory lending poses to entire communities and to the safety and soundness of regulated financial institutions and its impact on their ongoing work in expanding responsible ownership opportunities for low- and moderate-income families. We have pursued a number of efforts to document and analyze predatory-lending practices and create a series of strategies to combat abusive lending practices.

Financial Literacy Training

Neighborhood Reinvestment has established a national pilot program to promote financial literacy education for consumers in 24 cities across the country using the

FDIC's Money Smart curriculum. The purpose of this program is to assist the NeighborWorks® network to establish a high-quality financial literacy training program for lower-income families across the Nation. In 2001, the 24 NeighborWorks® organization participating in this pilot accomplished the following:

—2,491 graduates of program;
—Average of 10 contact hours per participant (total of 27,400 contact hours);
—Average income of participants is $22,927;
—93 percent of program participants are renters;
—67 percent of participants are female;
—39 percent of participants are very-low income households;
—36 percent of participants are African-Americans; and
—21 percent of participants are Latino or Hispanic.

"Don't Borrow Trouble" Campaign

Neighborhood Reinvestment is participating with Freddie Mac to expand a consumer education program called "Don't Borrow Trouble". With Freddie Mac's support, the campaign has been expanded to 12 major cities to launch local campaigns that will alert millions of Americans about the dangers of predatory lending and set up special hotlines they can call to get advice and report problems. The innovative campaign uses a combination of ads, billboards, Web sites, and public service announcements in English and Spanish to educate borrowers about predatory lending practices and encourage them to call a toll-free number for referrals to local government and non-profit agencies to help them understand and resolve specific lending problems.

NeighborWorks® HELP Program

In response to an increase in predatory lending activities, Neighborhood Reinvestment Corporation has worked with Freddie Mac to develop a product that is currently being tested in 10 communities. The NeighborWorks® Home Equity Loss Prevention (HELP) product offers victims of predatory lenders an opportunity to refinance out of their predatory mortgage to a reasonable and fair mortgage product, thereby helping targeted homeowners avoid imminent foreclosure.

The product is designed to help homeowners with impaired credit and excessive debt to refinance on affordable terms. Freddie Mac is using the HELP initiative to buttress the "Don't Borrow Trouble" ad campaign in select cities, where the HELP program is introduced as a possible refinance program with local government participating in the marketing effort.

Through this pilot effort, Freddie Mac will purchase up to $20 million in HELP loans, which will be originated by Wells Fargo Mortgage Corporation and insured by Mortgage Guaranty Insurance Corporation of Milwaukee and PMI Mortgage Insurance Company. The NeighborWorks® HELP loan is a fixed-rate, 30-year market rate mortgage.

As part of the refinancing, homeowners will obtain intensive and personalized financial counseling and may use up to 10 percent or $10,000 of the new refinanced mortgage—whichever is greater—for property improvements or debt consolidation, provided borrowers meet certain requirements. Borrower debt-to-income ratio is limited to 42 percent and may go up to 50 percent provided that the borrower's overall monthly payments after the debt consolidation are less than before the refinance.

Research and Education

Neighborhood Reinvestment has funded and participated in research studies of the growth of subprime lending and foreclosures in several cities and regions. The studies have been conducted in Atlanta, Chicago, Boston and Connecticut. Abt Associates, the research firm that conducted some of these studies, has done follow-up research and analyses with HUD on the impact of subprime lending in Baltimore, Atlanta, Chicago and Boston.

Neighborhood Reinvestment also conducted a symposium—"Tools and Tactics to Combat Predatory Lending: A Practitioners' Forum." Major speakers represented Fannie Mae, Freddie Mac, Atlanta Legal Aid Society, Center for Community Self-Help and the Office of Thrift Supervision. Workshops presented a range of cutting-edge tools on prevention, education, analysis and intervention. More than 200 community-development practitioners attended.

Neighborhood Reinvestment and the Joint Center for Housing Studies of Harvard University together published a research paper, "Understanding Predatory Lending: Moving Toward a Common Definition and Workable Solutions," that explored the range of predatory-lending practices and proposed three potential regulatory and legislative solutions.

Post-Purchase Services

Counseling prospective buyers and following up new homeowners with post-purchase education are key elements of the proven system for promoting affordable home ownership that local NeighborWorks® organizations pursue, in partnership with residents, local business and government. Post-purchase services build the capacity of new homebuyers, strengthen the neighborhoods they move into, and reinforce the effectiveness of their local NeighborWorks® organizations.

In Chicago, for instance, Neighborhood Housing Services of Chicago has initiated a comprehensive neighborhood stabilization program that fights predatory lending and its almost-inevitable consequence, foreclosure. The Neighborhood Ownership-Recovery Mortgage-Assistance Loan (NORMAL) program is a partnership among lenders, the city and Neighborhood Housing Services of Chicago. One main goal is to create a loan fund to refinance qualified borrowers who have been victims of predatory-lending practices.

Question. What success has Neighborhood Reinvestment Corporation had in its collaboration with Freddie Mac? How many loans have you restructured? Is the program replicable on a national scale?

Answer. The HELP program is an aggressive, innovative mortgage product that can provide relief to those who have been victimized or are vulnerable to the practice of predatory lending. It is the first national program that incorporates the assistance of the secondary market to combat predatory lending.

In order to restructure loans, a lender partner had to be identified at a national level; after a concerted search, Wells Fargo Mortgage Corporation was selected as the loan originator nationally. All partners recognized that this was a groundbreaking effort—one that would include changing systems, and labor-intensive counseling that could last up to a year.

The customer service system is currently being refined, and the pipeline homebuyers in need of refinancing is being built. Under HELP, 225 homeowners have received credit counseling and foreclosure intervention services. Unfortunately, the number of owners that have closed on a HELP loan is negligible. We continue to work with Wells Fargo and Freddie Mac on customer service, and NeighborWorks® organizations on technical assistance and best practices. We are hopeful that HELP will provide an appropriate route for victims of predatory lenders in keeping their homes, and it will be readily replicable nationally; however, at this time, we continue to work with our partners in refining the product.

Question. Are you developing any training materials on predatory lending, or putting together a report for use in other communities?

Answer. Since 1999, a total of 184 practitioners have completed a special course offered at our national Training Institutes on preventing predatory lending called "Helping Homeowners Avoid Delinquency and Predatory Lenders." This two-day course covers:

—Delinquency prevention and financial trends;
—Debt warning signs for homeowners;
—Outreach and programs for debt management;
—Post-purchase delinquency and debt management counseling;
—Recognizing lending abuses; and
—Strategies for success.

Additionally, over the past year we have been working with a number of NeighborWorks® organizations to assess their ability to act as mortgage brokers in their communities. Many of these organizations are pursuing this activity as a way to prevent further predatory lending from occurring in their markets. The "NeighborWorks® Network Mortgage Broker Handbook" publication details a range of issues that organizations should consider prior to launching a mortgage brokerage. In particular, the Handbook contains two assessment tools that help organization measure the feasibility of assuming the broker role.

The broker feasibility tool was created to assist NeighborWorks® organizations with initial planning activities for an in-house mortgage brokerage. The feasibility tool uses a series of questions to help network members evaluate issues related to the mortgage operation. The resolution of these questions provides the organization with a framework to pursue the mortgage broker activity, or the justification to decline it.

We developed the broker production tool to assess the financial benefits of developing an in-house mortgage brokerage. The production tool projects income, expenses, and production for a 24-month period. It is meant to provide nonprofit organizations with projections that supplement the decision-making process.

AFFILIATION OF NEIGHBORWORKS® ORGANIZATIONS

Question. Explain the process, step-by-step, that Neighborhood Reinvestment Corporation uses to make a non-profit a part of the NeighborWorks® network?

Answer. Interested organizations must apply to Neighborhood Reinvestment for membership. Since the application process is a competitive and membership is extended to a limited number of organizations every year, meeting all national criteria and district priorities does not automatically guarantee an organization will be extended the opportunity for membership in the network.

The national threshold criteria for membership include:

—The organization must be a partnership of residents, the private sector, and the public sector;

—The organization must be resident led;

—The organization must engage in community revitalization and housing production;

—The organization must have garnered broad support in the community;

—Potential affiliates must have the organizational capacity to accomplish the mission, strong financial support from local sources, and a high quality financial management and internal operating systems.

Neighborhood Reinvestment reaches under-served communities and populations by bringing organizations into the NeighborWorks® network. In all cases applicant organizations must have a clear understanding of the expectations and benefits of membership and have a demonstrated enthusiasm for becoming an active network member.

The average length of time from submission of application to charter eligibility is 12 to 18 months. The length of time does vary depending on the scope of development work that an organization must do to comply with all of the chartering requirements. The length of time is also dependent on the capacity—staff and resources—of Neighborhood Reinvestment to work with the organization throughout the process.

Once interested organizations have submitted an application, the review process for membership in the NeighborWorks® network begins with a careful evaluation and screening of all applications. At present, the current growth strategy for the NeighborWorks® network is focusing priority attention on:

—States and cities with populations over 500,000 where we have no current presence,

—Sites that are significantly underserved in terms of community development efforts and resources,

—A blend of organizations representing single and multi-family producers who work within the context of neighborhood or community revitalization,

—Sites where the specific needs identified are a good match for the specific resources we currently offer, and

—A geographic mix that represents rural, small city, large city and suburban sites.

A select group of applicant organizations that meet specific membership criteria and are considered to be competitive for membership participate in a rigorous review and assessment process. The assessment process may include an initial site visit, a detailed field assessment, and an analysis by Neighborhood Reinvestment.

Requirements of NeighborWorks® membership include an unqualified annual audit and compliance with a variety of other operating standards that we regularly review. We are the only network of community development organizations that has implemented a series of formal conditions and standards of operations as a prerequisite for membership. Any NeighborWorks® organization that wishes to benefit from the Corporation's resources must subscribe and continue to meet these conditions and standards.

CAPACITY BUILDING

Question. How do you increase the capacity of non-profits?

Answer. Neighborhood Reinvestment Corporation engages in five key activities specific to increasing the capacity of NeighborWorks® organizations:

We charter new NeighborWorks® organizations through an extensive educational and partnership-building effort, involving residents, business leaders and government representatives.

We provide funding for capital projects and operating grants to NeighborWorks® organizations, enabling them to create and build their own community-revitalization initiatives from a solid asset base.

We provide a high degree of management and technical assistance to NeighborWorks® members and the broader community development field, in order to expand their delivery programs and better serve their communities.

We conduct extensive reviews of NeighborWorks® organizations, focusing on their capacity to successfully manage their resources and programmatic risks. These program reviews monitor performance on an ongoing basis and serve as a platform for providing management and technical assistance. They also unearth best practices at the street level. Our goal is to increase the health, performance, productivity and effectiveness of the entire NeighborWorks® network.

We conduct national Training Institutes in major cities throughout the United States for anyone interested in affordable housing and community revitalization, particularly private- and public-sector practitioners and community leaders. Typically, 70 courses centered on such topics as management and leadership, community building, community economic development, neighborhood revitalization, home ownership and community lending and affordable housing are offered at each Training Institute. We conduct up to five Training Institutes each year, attracting up to 1,200 participants at each venue. We also offer other training opportunities such as specialized resident leadership workshops and regional trainings.

We are undertaking advanced training to build capacity of the most seasoned practitioners for the future. We have accepted 45 executive directors into an Achieving Excellence program, which includes coursework at Harvard that is specifically focused on community development and application of that learning when those directors return to their communities.

These activities individually and collectively help build the productivity and strength of local community development organizations.

Neighborhood Reinvestment also increases organizational capacity by bridging the gap between public and private funding through integrating public and private support. One critical financing vehicle that we provide to NeighborWorks® organizations is equity capital, for real estate development and lending grants, and for local revolving loan funds. The NeighborWorks® organizations, in turn, use these funds to draw private capital in a variety of ways, including:

—Equity and gap financing for home purchase loans, including down payment and closing costs;

—Capital for property rehabilitation, micro-enterprise and small business loans; and

—Capital costs associated with the acquisition and development of residential and commercial real estate for long-term ownership by NeighborWorks® organizations.

Locally directed revolving loan funds are essential to each organization's and the collective network's success. Revolving loan funds provide flexible funding for community priorities, such as homeownership, rehabilitation, multifamily housing, and commercial and economic development. Neighborhood Reinvestment Corporation supports these revolving loan funds through technical expertise, training, and funding. Neighborhood Housing Services of America aids the liquidity of the local revolving loan funds by buying revolving loan fund loans. With this increased loan fund capability, NeighborWorks® organizations experience a tremendous surge in their capacity, and the increase is ultimately felt at the community level.

Network capacity is further enhanced through the flexibility that you have allowed us in designing strategies and targeting our resources. This has given us the ability to devise extraordinarily successful tools and strategies, as well as build a network of strong and diverse local community development organizations. The power and impact of our grants are directly attributable to their flexibility.

Question. What is your strategy for working with members who are having problems?

Answer. We manage risk through our standing Risk Analysis Committee, which meets quarterly to review NeighborWorks® members classified as "vulnerable." The Risk Analysis Committee examines the results of data collection and analysis, on- and off-site program reviews and the ongoing technical assistance and capacity building efforts of Neighborhood Reinvestment. The Risk Analysis Committee reviews thoroughly all data on targeted organizations and maintains an approved risk ranking system.

Based on an on-site review, organizations failing to meet performance standards in any of the eight PROMPT℠ dimensions will receive a request for "corrective actions." We require organizations to file a corrective action plan; Neighborhood Reinvestment's technical assistance and grants will be targeted toward resolving the conditions underlying the organization's vulnerability. Neighborhood Reinvestment staff then ascertain whether corrective action has been taken and whether a recommendation can be made to the Risk Analysis Committee for a stable or exem-

plary ranking. We also provide many other forms of technical assistance to build capacity in organizations. This may be in the areas of financial management and accounting, fund-raising and marketing, funding, partnership building and the development of resident leaders. Staff may also work with an organization's partners to explore mergers with other community development organizations in their community. The Corporation also provides scholarships to staff and board members of NeighborWorks® organizations to participate in the Neighborhood Reinvestment Training Institute.

Ultimately, the responsibility for the continued viability and successful management of risk in an environment of growth lies with the skills and commitment of an organization's board and staff. Neighborhood Reinvestment provides strategic funding and assistance for organizations to pursue strategies in preserving affordable housing and revitalizing communities.

BOARD OF DIRECTORS

Question. Do you train the boards of these non-profits? How? Why is this important?

Answer. Each of our nine districts has at least one staff member whose expertise is in organizational development, including training and orientation of nonprofit boards of directors. As community development organizations have become more complex, we find that to maintain an informed, partnership-based board with engaged resident participation is a growing challenge. However this kind of board composition—one that includes the private, public and community sectors—is a cornerstone of Neighborhood Reinvestment's beliefs about how credible community development needs to be accomplished.

We continue to prioritize board orientation, training and leadership development as a key area for technical assistance. While our national Training Institutes provide an outstanding venue for training, it is difficult for many board members to devote time during the week, out of town, to take advantage of the courses available. Presently we are seeking new ways to provide training to board members, including designing joint trainings of several boards at the district or regional level.

In addition to helping board members understand their appropriate roles and responsibilities, we also work closely to assist them to understand and exert conscientious oversight of program operations. The check-and-balance system that can be achieved by an informed and empowered local board of directors is irreplaceable. While we wish we had more resources to devote to this increasingly challenging and time-consuming effort, it is an area of endeavor that we will never abandon. We will continue to seek new, more effective and efficient ways to use our staff skill and resources to create positive, measurable outcomes in this area.

CERTIFICATION OF NONPROFIT ORGANIZATIONS

Question. Do you think other Federal agencies that partner with nonprofits should be certifying them?

Answer. Neighborhood Reinvestment utilizes a process that combines both:

—A formal chartering process; and

—A methodology for monitoring the ongoing health of an organization, through program reviews and risk evaluation procedures.

We have developed this system in order to protect the investment of the Corporation in local organizations—grants, as well as training, technical assistance—to mitigate exposure to risk encountered by individual organizations and the NeighborWorks® network as a whole, and to increase the confidence level of other investors in the activities of these organizations.

This process has worked well for Neighborhood Reinvestment. However, for other Federal agencies, circumstances and capacity vary greatly. Certifying nonprofit organizations is a labor- and cost-intensive process. Therefore, the question of other agencies' ability and willingness to certify nonprofits would seem to depend on a number of considerations, including issues such as:

—The level of funding being provided;

—The type of funding relationship—one time funding or a long-term funding arrangement; and

—The maturity of the organization receiving funding—a more mature, sophisticated organization might take less time to certify, versus an upstart, emerging organization that might not meet certification standards, or might require slight technical assistance to achieve those standards.

Most Federal programs, particularly those available to nonprofit organizations, fund specific programmatic initiatives. In contrast, Neighborhood Reinvestment emphasizes underwriting the nonprofit organization through its certification process.

With a paradigm shift, Federal agencies could embrace this model as the first step to certifying and more efficiently funding nonprofit organizations. More specifically, Federal agencies' underwriting and oversight of any specific project could be commensurate with their level of funding in that project.

As an example of today's practices, HUD provides a fairly consistent degree of underwriting and oversight for any project utilizing HUD grant funds—regardless of whether the total project cost includes two percent of its funding from HUD, or 80 percent. In the conventional lending environment, it is commonplace for several lenders to participate in financing a real estate project. Typically, one lender functions as a lead lender. The lead lender typically provides the highest percentage of funding in the transaction, and the other participating lenders agree to accept the underwriting and project oversight decisions and actions provided by the lead lender.

Similarly, Federal agencies could view their funding in specific projects as participation with other investors in the project. If another investor is providing a higher level of funding to the project, the Federal agency should regard that investor as the lead-lender and reduce their level of underwriting/oversight involvement accordingly—commensurate with their reduced financial exposure and risk.

To summarize, Neighborhood Reinvestment would not fund an organization without thoroughly reviewing the ability of that organizations to execute the activities for which its seeking funding. While up-front costs would be high, if other Federal agencies were to follow the Neighborhood Reinvestment model, the long-term benefits would include a reduced risk of fraud, waste, and abuse of Federal funds, and a more efficient, streamlined, and user-friendly process for certified organizations seeking Federal funds.

NEIGHBORWORKS® MULTIFAMILY INITIATIVE

Question. Does Neighborhood Reinvestment Corporation's multifamily initiative have lessons for communities like Prince George's County, that have dilapidating multifamily developments because of delinquent landlords?

Answer. Members of the NeighborWorks® Multifamily Initiative believe that multifamily properties should be cornerstones of community health. To achieve this end, the property must be both capitalized and owned/operated according to principles of "sustained excellence." We believe the key markers of sustained excellence in affordable rental properties should include:

—Ongoing economic viability
—Well-maintained and attractive physical condition; and
—Resident access to learning centers for the technological and social infrastructure of educational success.

Guided by these principles, NeighborWorks® organizations attempt to make units affordable without sacrificing the long-term economic viability of the property. These principles do not happen without a dedicated owner—one who is committed to making the property a long-term neighborhood asset, and not solely an income stream. Often the choices made by the latter sacrifice the long-term viability in favor of short-term gain.

The lessons of the Multifamily Initiative include:

Select owners not just properties.—The ownership of multifamily properties is critical. Property owners must be motivated to provide a long-term housing resource to their community. Strong property owners can demonstrate successful portfolio performance over time, have a strong track record with regards to capital expenditures on their properties, and pay close attention to management and resident selection at their properties. These owners are beginning to be called "preservation owners". They stand in stark contrast to those motivated strictly by real estate depreciation tax shelter, who are not apt to be strong long term owners.

Capitalize properties for long term success.—We focus on what we call "sustainability" planning, structuring and financing properties so that they will not need future subsidies. One important principle is reserves that are adequate to cover the property's expected future capital replacement needs—for appliances, carpets, roofs, and so forth. The second important principle is to be realistic about what it will really cost to operate the property, over the long term, realizing that in some years operating conditions may be difficult. This requires being particularly careful in our underwriting. However, in practice, it is very tempting to under-fund properties, in the name of producing more housing right now.

Services can be an important enhancement.—Depending on the target market, services such as employment training, after school academic support, or financial literacy and homeownership preparation can go a long way to building a resident base as committed to the neighborhood as homeowners.

Use restrictions can protect the public sector investment.—As cities, counties or States invest tax credits, HOME or CDBG, the use restrictions and liens that are established can establish important long term oversight in the hands of the public sector investor. In addition to long term affordability restrictions, periodic property inspections, crime reviews, and occupancy compliance reviews can be required as part of the public investment and can help ensure that the community is getting what it was investing to obtain.

The price of better housing is somewhat deeper equity subsidies.—To achieve this type of sustainable housing and long-term "preservation owners", public funders may need to fund properties so that less mortgage debt is needed. This will mean the units produced are far more desirable, and are designed, overseen, owned and operated to provide a cornerstone housing resource in the community.

Question. Can you share the results of the fiscal year 2002 mixed income demonstration program? What have you learned?

Answer. We would like to thank you again for the additional $5 million to fund the demonstration program in mixed-income housing that will serve extremely low-income households. We issued our request for grant proposals in February, and funded 14 proposals to produce 1,364 units, 120 of which would be affordable to extremely low-income families. A full analysis of the "lessons learned" that can be obtained from our demonstration applications will be completed by the end of June.

We also sponsored a national symposium on mixed income rental developments in April. This symposium included nationally recognized and respected participants from the various parties needed to develop and maintain high-quality, affordable rental properties—from State housing finance agencies, to nonprofit, for-profit and PHA owners and developers, to lenders. Participants explored how to develop and sustain these properties in five different market environments. Each market environment had its own advantages and challenges. We came away from the symposium with a healthy respect for the high level of flexibility that is needed to make mixed-income communities work across our very diverse country. A primary theme that emerged was that mixed income neighborhoods "trump" mixed-income properties—implying that if the neighborhood has a strong income mix, then the property itself might bring (or preserve) a more deeply skewed income mix (more lower-income residents) and still produce a very healthy property and community. In other words, there is no one "right income mix" to attain the benefits of mixed-income and sustainability. Participants also identified a number of areas in which existing programs do not promote mixed-income properties as we would want. Our research will yield a paper later this summer on the leading barriers to the development of mixed income housing.

The initial feedback on the applicants is that, as we hoped, the grant applicants want to pursue a wide variety of approaches.

Some applicants propose to use the grant to reduce a property's mortgage debt, thereby allowing the property to charge lower rents for a percentage of the units—rents that are affordable to extremely low-income households.

Other applicants are working with the local Housing Authority to make a percentage of units available to extremely low-income holders of Housing Choice Vouchers, and using the grant funds to support additional resident services and more intensive management, as appropriate to support a mixed-income resident profile. Using Housing Choice Vouchers seems particularly useful in areas in which the Housing Authority reports a shortage of units available to voucher holders.

One applicant is seeking to extend the income range upwards as well as downwards—to incorporate additional higher-income households as well as additional extremely low-income households, to provide for both a healthier income mix, and create a cross-subsidy aimed at reducing the housing cost burden of the extremely low-income families.

Applicants have identified a variety of management and operations innovations, to provide the more intensive management that mixed-income communities often require. We are very excited about putting this money to work to serve extremely low-income households, and about using the demonstration grants to learn more about what it takes to develop and sustain successful mixed-income communities in a diverse range of communities.

Question. Will the lessons learned in the mixed-income demo be applicable to HOPE VI developments?

Answer. We believe most of the lessons learned from the $5 million demonstration will have broad application, including to projects such as HOPE VI.

AGING

Question. What sort of strategies are your members using to address the needs of our aging population?

Answer. NeighborWorks® organizations plan, develop and execute programs based on the needs of local populations. Their work involves people from all backgrounds, genders, ages and abilities. The NeighborWorks® network is primarily "place-based", rather than "population-based"; in other words, Neighborhood Reinvestment does not typically seek particular populations such as the elderly or the disabled. The focus for our attention and resources is on strengthening communities— and most of the communities served by our network include the elderly and the disabled. While working with the aging or with disabled populations may not be a planned initiative, NeighborWorks® organizations routinely provide rehabilitation counseling, work write-ups and loans to elderly homeowners on fixed incomes and to disabled homeowners who are seeking to make their units more accessible.

Other than when required by Federal or State eligibility standards, NeighborWorks® organizations respect the privacy of customers and do not require applicants to disclose physical disability as a condition of service. Because of this sensitivity, NeighborWorks® organizations may be underreporting their involvement with disabled populations and the elderly. Nonetheless, we know that in 2000, more than 30 NeighborWorks® organizations provided housing for non-elderly persons with disabilities, assisting more than 1,000 families. More than 30 organizations provided housing services for the elderly, benefiting nearly 2,800 households.

Neighborhood Reinvestment provides financial resources, leadership, research and information that benefit the aging and the disabled. Expendable and capital grants help fund housing and support NeighborWorks® organizations' efforts to assist residents. Neighborhood Reinvestment publishes information, such as a recent paper written in conjunction with the Joint Center on Housing, Aging and Health Care and "Winning Strategies", best practices from the NeighborWorks® network. The Corporation convenes forums for discussion such as the upcoming Neighborhood Reinvestment Training Institute that will include a symposium on "Aging in Place". Neighborhood Reinvestment is also exploring opportunities for collaboration with AARP.

The following is merely a sampling of the ways that NeighborWorks® organizations are assisting the elderly and persons with disabilities to meet their particular housing needs.

Chattanooga, Tennessee

Chattanooga Neighborhood Enterprise in partnership with the Alexian Village of Tennessee has begun construction on a $4.5 million conversion of the St. Elmo Elementary school into an apartment complex for the elderly to be known as the Alexian Court apartments. Financing the conversion of the 95-year old building is one of the most complex deals Chattanooga Neighborhood Enterprise ever put together, which included eight sources of funds. Funding includes historic preservation and low-income tax credits, partners' equity, grants and a mortgage. Neighborhood Reinvestment's flexible $200,000 capital grant covering a portion of the predevelopment and development costs was critical to making the deal work. The City of Chattanooga donated the school property (vacant since 1989) for the project, but did not provide any tax money to the effort.

Alexian Court, future home of residents age 62 and older, will contain 47 units. Rents will range from $450 to $600. Resident income will be limited to a maximum of 60 percent of median income. The development was planned with input from neighborhood residents, who wanted to preserve the structures and bring back the original look of this Victorian neighborhood. The complex is composed of two school buildings plus eight duplex bungalows. A third building, formerly the cafeteria and gymnasium, will become a community center for residents of the entire St. Elmo neighborhood.

New Haven, Connecticut

The Mutual Housing Association of South Central Connecticut (MHA) is committed to developing economically, ethically and culturally diverse communities that are accessible and affordable. This commitment adheres to the principles of equal-opportunity housing, which ensures access and inclusion for people with disabilities. MHA strives to comply with and exceed regulations set forth by the Americans with Disabilities Act to accommodate people with disabilities at Mutual Housing properties. This is reinforced through organizational policies that include an affirmative fair housing marketing plan and fair housing policy, an affirmative-action policy, and an ADA notice and grievance policy that provides prompt and equitable solu-

tions to complaints. In addition, MHA's resident-selection process was approved by the Connecticut Department of Housing in 1994.

MHA staff, board members and residents participate in ongoing training to keep apprised of fair housing developments, and planning, monitoring and evaluation to insure accessibility for people with disabilities at Mutual Housing properties. Current activities include evaluation and audit of structural design and compliance with housing code, marketing to people with disabilities, and supporting disabled residents in securing rental assistance through Section 8. Because of coordination with social service, church and community agencies such as the Center for Disability Rights, and Shoreline Association for Retarded and Handicapped Citizens, MHA receives guidance in ensuring properties are accessible, marketing to people with disabilities and providing support for disabled residents.

Chicago, Illinois

Roseland Ridge Apartments is a $6.4-million, affordable-housing development in Roseland, a neighborhood on the far South side of Chicago. Roseland Ridge provides 40 units of high-quality housing for people making less than 60 percent of the area median ($40,750 for a family of four). The development contains one- and two-bedroom, garden-style units and two- and three-bedroom duplexes. Each unit features such amenities as central air conditioning, washers and dryers, off-street parking, security systems, and patios or balconies. Rents range from $525 to $665.

The development was a collaborative effort of Neighborhood Housing Services of Chicago, government agencies, other nonprofits and business partners. The city Department of Housing provided more than $2 million in low-interest loans and $445,270 in Federal low-income housing tax credits, which generated nearly $3 million in equity. The project received additional financing and support from Bank of America, the Illinois Department of Commerce and Community Affairs, State Farm Insurance, and others.

Rutland, Vermont

Rutland West Neighborhood Housing Services won a Housing Preservation Grant from Rural Development in 2000 to rehabilitate 20 homes belonging to very low-income residents in a tri-county region. The grant proposal featured a partnership between Rutland West Neighborhood Housing Services and the Vermont Center for Independent Living and gives immediate priority to very low-income individuals/households with special needs. Examples of typical projects include access modifications for individuals discharged from the regional medical center and for mentally retarded/mentally ill individuals attempting to live independently.

SECTION 8 HOMEOWNERSHIP OPTION

Question. The Administration's 2003 request funds the Section 8 to Homeownership program at nearly 10 percent of Neighborhood Reinvestment Corporation's budget. Is it working? What will be achieved with the new funds?

Answer. Overall, we consider the initiative to be going very well and there continues to be great interest among the NeighborWorks® network as well as public housing authorities and lender partners.

Nationally, through the end of December 2001, HUD's Section 8 Homeownership Option had assisted 135 Section 8 families to purchase a home using the Section 8 homeownership option. Ninety-two of those families—representing 68 percent of all of the Section 8 families assisted nationally—were in sites where there was assistance from a NeighborWorks® organization. Nearly 1,600 Section 8 families are in the homeownership pipeline of the 21 NeighborWorks® sites, and 560 of these families have already completed a pre-purchase counseling course. The 21 funded NeighborWorks® organizations have partnered with 27 public housing authorities in providing this option to Section 8 families, with an additional 15 NeighborWorks®/public housing authority partnerships currently under development. Certainly, the 2003 request would enable us to cast our net even further to more communities, more public housing authorities and more Section 8 families.

We are meeting our established production goals for this initiative. We are also collecting data on the families assisted by NeighborWorks® organizations and developing best practices. Our most important work is reaching out to public housing authorities, to inform their decisions on this option and to encourage partnerships among local public housing authorities, community-based nonprofit organizations and lenders in implementing the homeownership option. Our experience has demonstrated that to be successful at creating sustainable homeowners through this option, such partnerships are critical.

There have been a number of challenges that we would like to share with you.

There are limited opportunities for our NeighborWorks® organizations to recapture the higher administrative and counseling costs associated with this initiative. High-quality pre- and post-purchase counseling is important to creating successful and sustainable homeowners. This is particularly true for families of modest means. NeighborWorks® organizations have invested substantial resources thus far in preparing a pipeline of mortgage-ready Section 8 buyers. In some markets it is taking up to three times longer in preparing a Section 8 buyer than what we find with a typical NeighborWorks® first-time homebuyer.

Lenders have responded positively to providing the first mortgages, which are accompanied by a second mortgage provided by another source, such as a NeighborWorks® organization, and paid down by the Section 8 voucher. However, few national lenders are positioned to manage multiple payments for mortgage—e.g., one from the public housing authority and one from the family. Loan servicing is more complicated—and therefore more costly—with two payments for one mortgage, which poses a challenge for most conventional lenders.

Knowing the growing expertise among selected NeighborWorks® organizations, public housing authorities have approached NeighborWorks® organizations for assistance in developing and implementing a Section 8 homeownership option. Neighborhood Reinvestment is challenged to help NeighborWorks® organizations address these exciting opportunities and expand where appropriate.

We feel it is important that we share the learning of the funded sites with other interested NeighborWorks® organizations and the broader community development field. We developed a course offered at the Neighborhood Reinvestment Training Institute on the homeownership option. Further, we distribute best practices on this option.

QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER S. BOND

MULTIFAMILY HOUSING

Question. What kind of experience has your organization had in producing rental housing for extremely low-income families while maintaining the property's long-term viability? Is it possible to structure properties with only up-front capital so that on-going subsidy needs are not necessary? Lastly, how much money is Neighborhood Reinvestment Corporation dedicating to its multifamily activities and what other resources it is using?

In 1999, Neighborhood Reinvestment and the NeighborWorks® network launched the NeighborWorks® Multifamily Initiative in order to bring high standards in asset management and peer learning to those NeighborWorks® organizations that own or manage multifamily rental properties. The members of the Multifamily Initiative own nearly 30,000 units and make it their mission to provide multifamily homes, which are marked over the long-term by:

—Affordability;
—Well-maintained and attractive physical condition;
—Access to learning centers for the technological and social infrastructure of educational success; and
—Ongoing economic viability.

Guided by these principles, NeighborWorks® organizations attempt to make units affordable without sacrificing the long-term economic viability of the property. In support of these principles, Neighborhood Reinvestment grants are provided, which help increase the equity position of the NeighborWorks® organizations in the properties, thereby reducing the need for debt. Lower debt is key to these goals, freeing the operating budget to support higher levels of replacement reserves, asset management fees, and much needed services.

The following are some observations NeighborWorks® organizations and Neighborhood Reinvestment have found in serving extremely low-income families.

Forty percent of area median income is the "breaking point".—In most markets, the fundamental economics of serving families with incomes under 40 percent of area median income is infeasible without subsidy. A housing burden of 30 percent of household income yields a rent payment that is less than operating expenses—those costs necessary to maintain the unit and keep it on-line—leaving no cash to repay loans.

Market areas vary widely.—The communities served—rural, low-income urban, and higher-income suburban, for example—vary in character and social dynamic, which therefore affect the property's market appeal and market rent. Development and operating costs vary greatly across markets. Designing a Federal program that

fits the varied markets of this country and the varied needs of families is exceptionally difficult.

Mixed income strategies can be used.—To house families in this income range some form of subsidy is essential. Theoretically, a property with a 100 percent capital grant for development enables internal cross subsidization—having units with higher rents cover the operating costs and debt service for those units rented to extremely low-income families—to some degree. This may be one solution for smaller properties in lower income markets, which is often the case for revitalization areas. Larger properties in higher income markets may need a smaller grant, since it can support perhaps up to 50 percent of the development cost of the property.

Rental subsidy approaches serve as a solution as well.—Section 8 vouchers and rental assistance from USDA Rural Development enable properties to house extremely low-income households in all markets. This operating subsidy over the long term also enables use of debt, instead of grants.

Feasibility of older, smaller properties demands realistic maintenance, replacement and utility budgeting.—NeighborWorks® properties represent all types of rental housing—1 to 3 unit houses, small apartments, and large. They tend to be older (over 20 years old), and many of the properties are smaller, 30–60 units in size. As with all existing, older stock, they carry higher expenses in the areas of maintenance, replacements, and utilities. Property—and therefore neighborhood—success depends upon realism in budgeting for these critical cost areas.

When housing extremely low-income families, a modest operating investment in an amenity package targeting personal asset building supports the long-term viability of the properties.—Most extremely low-income families have access barriers to the "economic ladder". These barriers include night jobs, which require older children to step into oversight roles for younger children after school; language barriers; transportation; and lack of post-secondary or even complete high school education at the parental level. As the percentage of extremely low-income residents increases in a property, access to resident-directed, personal asset-building services becomes critical. In addition to advancing resident goals, these services have been shown to enhance the long-term viability of the property, in terms of improved occupancy and collections; reduced turnover; and lowered security and maintenance costs. These costs are built into the budgets of a number of the "live properties" in amounts which may exceed the "minimum levels" allotted for in the "model properties". The experience of our NeighborWorks® organizations shows that an additional operating expense of approximately $25 per unit per month, while inadequate to support an intensive welfare-to-work package, is adequate to maintain services important to a viable apartment community serving extremely low-income households.

Short-term acquisition loans are needed.—Because the vast majority of NeighborWorks® properties are existing, NeighborWorks® organizations are often purchasing them to either prevent the loss of affordability or to reverse years of neglectful ownership. In either event, the seller oftentimes requires a 90 to 120 day acquisition timeframe. In such cases, the acquisition may need to occur prior to all subsidy layers being in place. Short-term acquisition funding has been historically missing from the marketplace, and therefore properties that could be preserved have been lost. To fill this historic gap in funding, Neighborhood Reinvestment and the NeighborWorks® network formed the Neighborhood Capital Corporation, which provides subordinate loans for up to 25 percent of the purchase price. These loans will leverage up to nine times the capital from the conventional lenders in the first mortgage position.

Because of this Subcommittee's leadership on multifamily rental issues, we were able to nearly double our planned budget for multifamily activities in fiscal year 2002. Combined with the $5 million set-aside, Neighborhood Reinvestment allocated nearly $10.4 million to multifamily activities, 85 percent of which were distributed in the form of equity grants.

ASSISTANCE FOR NATIVE AMERICANS

Question. Please describe Neighborhood Reinvestment Corporation's activities on Indian Lands. Also, please describe the major impediments to homeownership you have found.

Answer. When Neighborhood Reinvestment was created by Congress in 1978, we primarily focused on urban areas. However, the Corporation's commitment to serving underserved markets and populations led us into Indian Country. Although the environments are different, the inability of low- and moderate-income individuals to gain access to homeownership lines of credit is similar.

Individual NeighborWorks® organizations have developed programs to meet the needs of local Native American populations. These programs are varied according

to the geographic region served by an organization, the needs of each community, and the organization's capacity. At least ten NeighborWorks® organizations have developed specific programs to assist Native Americans, though many more work with Native Americans on a case-by-case basis.

The Neighborhood Reinvestment Training Institute has offered training opportunities for Native Americans and those working in Indian Country. One course, "Developing a Homeownership Program in Indian Country," was offered at the Minneapolis Institute in October 2001. Numerous scholarships have also been offered for Native Americans attending other institute classes.

Neighborhood Reinvestment was a catalyst behind the One Stop Mortgage Center Initiative in Indian Country, a 2-year study sponsored by HUD and Department of the Treasury that paired Federal agencies, financial institutions, and Tribal representatives to jointly identify the barriers to mortgage products and solutions to lending in Indian Country.

Focusing exclusively within tribal land, the Navajo Partnership for Housing, in Window Rock, Arizona, was created by Neighborhood Reinvestment at the request of the Navajo Nation in 1996 to increase homeownership opportunities throughout the Navajo Nation, working in partnership with a variety of lending institutions and government agencies.

Most NeighborWorks® organizations that serve native communities also work with non-natives. For example, over 53 percent of Fairbanks Neighborhood Housing Services' clients are Alaskan native, to whom they provide important and culturally-relevant homebuyer education and housing counseling services in partnership with the local Indian Housing Authority. Partnerships are critical to these programs. Neighborhood Housing Services of Santa Fe is working with four Pueblos in northern New Mexico—Santa Ana, San Juan, Santo Domingo and Jemez—to build the capacity of the tribes to offer high quality homeownership opportunities. In Montana, the newly formed statewide Montana Homeownership Network, an initiative started by Great Falls Neighborhood Housing Services, has included the Assiniboine and Sioux Tribal Enterprise Community.

Neighborhood Reinvestment has provided financial support to Sicangu Enterprise Center, an affordable housing and loan provider, for the past 13 years. Sicangu Enterprise Center provides services to the Rosebud Reservation in southern South Dakota. The Rosebud Reservation experiences a 74 percent unemployment rate, and the average income is just over $10,000 per year. Housing is at such short supply that the Housing Authority on the Reservation maintains a waiting list of 1,000 families.

Native American housing and economic development issues are fundamentally different than affordable housing needs of other populations. Most native communities suffer from very weak economies, with few job opportunities and critically low incomes. When these market challenges are coupled with unfamiliarity or incompatibility with conventional mortgage models and lands held in trust by the Bureau of Indian Affairs, the housing needs and issues grow severe and complicated.

Our NeighborWorks® organizations also report the impact of non-streamlined mortgage lending process across various Federal agencies and Government Sponsored Enterprises. The lack of standard lease and loan documents presents confusion and breeds distrust and reluctance among uninformed buyers.

NeighborWorks® organizations are currently enhancing the readiness of Native Americans to become homeowners through financial literacy, culturally sensitive homebuyer education, credit repair and savings programs. However, other private and public entities need to contribute to these efforts in order to significantly improve the prospects for homeownership among Native Americans. For example, the home-buying process would be eased through the increased availability of title insurance and appraisals for Native American buyers, and through reducing lender transaction costs, largely a function of the time it takes to process loans. Finally, NeighborWorks® organizations have witnessed the need for local municipalities to encourage land use planning and infrastructure development, and for more training and support of private non-profits and Indian Housing Authorities to deliver mortgage based homeownership programs.

SECTION 8 HOMEOWNERSHIP

Question. Neighborhood Reinvestment has received $15 million over the past 2 years to expand partnerships between NeighborWorks® organizations and PHAs in implementing the Section 8 homeownership option. For fiscal year 2003, you are requesting another $10 million set-aside.

Answer. Why are the NeighborWorks® organizations participating in the Section 8 option and what value do they add? Do you have any suggestions, based on your

early experience, to improve the program? Lastly, do you anticipate that after you have established a track record for the program that conventional lenders may provide financing?

We believe that NeighborWorks® organizations bring three competencies to this option that will help make it a long term success—the deep expertise in preparing families of modest means for the responsibilities to be homeowners, the experience of bridging the gap between the private market and public funding, and the dedication to the long term success of neighborhood revitalization and individual family stabilization.

Neighborhood Reinvestment Corporation and the NeighborWorks® network bring years of experience in helping families of modest means become successful long-term homeowners. For the past 10 years, many NeighborWorks® organizations have consciously focused on homeownership as a strategy to further neighborhood revitalization. And we have done so with remarkable results—since 1992, the NeighborWorks® network has created more than 53,000 homebuyers of modest means.

Since 1998, the median income of the typical buyer through a NeighborWorks® organization is $29,472, while the median income of the typical U.S. buyer is $51,642. Ninety-five percent of the NeighborWorks® buyers are first-time buyers, over 52 percent are ethnic minority—compared to 19 percent by the conventional mortgage market—and 43 percent are female buyers.

As a result of assisting so many underserved families, the NeighborWorks® system brings with it a unique set of tools that are targeted to families similar to those found in the Section 8 homeownership program. The Section 8 homeownership option allows the NeighborWorks® system to apply its deep experience to lower income population.

The foundation of NeighborWorks® organizations' significant experience and success in creating homeownership opportunities for those of modest means is their expertise in Full-Cycle Lending℠, which emphasizes pre- and post- purchase counseling. Neighborhood Reinvestment has set rigorous standards in terms of curriculum content and hours. NeighborWorks® organizations also have experience with nontraditional mortgage products, such as USDA Rural Development and State housing finance agency products, and second mortgages—all of which have proven to be critical pieces in building successful Section 8 homeownership programs across the country.

Many NeighborWorks® organizations have as their mission to provide homeownership opportunities for low- and moderate-income families—often acting as a bridge between the public and private sector in order to meet their mission. This long-standing partnership approach is critical in the success of Section 8 homeownership programs.

The under-girth of neighborhood revitalization and employing homeownership as a strategy is that of long-term stability. Neighborhood Reinvestment and the NeighborWorks® organization network believe that homeownership is a successful revitalization strategy only if it is sustainable. As such, intensive and, at times, lengthy homebuyer education and counseling are necessary. We have developed partnerships to begin a financial literacy pilot to further ready potential homebuyers and strengthen the existing asset base of existing homeowners. We believe the Section 8 homeownership option will be as successful as the individual homebuyers themselves.

A key to making successful homeowners is intensive preparation and counseling. In some markets NeighborWorks® organizations have had to triple their pre-purchase education and counseling efforts, in comparison to the time a typical first time homebuyer requires. To the extent that more resources could be dedicated to sustaining counseling services, we believe that the need for aggressive post-purchase counseling will be necessary. Certainly assisting new Section 8 homeowners maintain the asset of their new home and avoid any predatory lending risk is as critical as the time and effort put into the pre-purchase efforts.

Already the private market has been a strong and essential partner in this effort. In some cases, the private market is providing the entire mortgage and accepting the Section 8 voucher as income. In many cases, we have seen smaller, regional banks becomes the first lending institutions to participate, as they seem to be more nimble in responding to the unconventional mortgage structures. We hope that the activity from these banks will spur bigger financial institutions to become active partners in this program. Although the single mortgage model is fairly rare in our experience, it is an important step toward higher privatization of the financing for the Section 8 clients. Fannie Mae has been particularly accommodating with its guidelines, particularly in considering the voucher income in progressive ways.

Freddie Mac has also been responsive to this program in looking for new ways for Section 8 mortgages to be originated.

OVERLAPPING FEDERAL PROGRAMS

Question. I am concerned about overlapping Federal programs. It is clear that Neighborhood Reinvestment Corporation works with the same communities and institutions that HUD and other Federal agencies work with.

Answer. Please tell me about any informal and formal efforts to coordinate Federal activities in assisting distressed communities. How do your organizations ensure that its activities are not duplicative of other Federal activities?

Neighborhood Reinvestment has worked to establish and maintain strong working relationships and communication with senior staff at HUD, Department of Agriculture, various offices within the Treasury Department, and other appropriate Federal agencies. Neighborhood Reinvestment staff also serve on various work groups, task forces and committees established by Federal agencies around specific issues. Through these communications, we are able to keep representatives of the appropriate Federal agencies informed of corporate directions and initiatives, and abreast of successes and challenges being encountered by its local affiliates at the community level. The Corporation also disseminates information to its affiliates regarding proposed statutory and regulatory changes that might significantly affect their work and/or the communities they serve. The Corporation submits, as appropriate, written comments to various Federal agencies regarding the impact that proposed statutory or regulatory changes may have on our affiliated NeighborWorks® organizations or the communities they serve.

Other Federal activities provide important complementary support to the work of Neighborhood Reinvestment and its local affiliates, but the NeighborWorks® system is the only coordinated effort of its type in the country.

While it is true that like HUD, Neighborhood Reinvestment focuses on expanding affordable housing opportunities for low- and moderate-income households and on community revitalization, there is in fact a tremendous level of difference between the mission and programmatic approaches of Neighborhood Reinvestment and HUD—and other Federal programs. Most Federal programs, particularly those available to nonprofit organizations, essentially fund projects or specific programmatic initiatives.

Neighborhood Reinvestment does not fund freestanding projects. We support a national network of community-based nonprofit organizations through a tapestry of services. Other Federal entities may provide some of these services, but Neighborhood Reinvestment is the only entity that provides, in a systematic way:

—A formal chartering process that requires adherence to an established set of vigorous requirements regarding things as diverse as board make-up, financial management and internal controls, programmatic delivery and production standards, quarterly reports and annual audits;

—Comprehensive training, through the nationally recognized Neighborhood Reinvestment Training Institutes and other vehicles;

—On-site technical assistance to staff and boards of local NeighborWorks® organizations;

—Quality control of all NeighborWorks® organizations, through on-site program reviews, risk management approaches and review of annual audits;

—Connectivity among NeighborWorks® organizations through actualized peer-to-peer initiatives—such as the NeighborWorks® Campaign for Home Ownership; the Rural NeighborWorks® Alliance; the NeighborWorks® National Insurance Task Force; the NeighborWorks® Multifamily Initiative; the NeighborWorks® Resident Leadership Initiative—and through publications, a members-only Web site, computer-based listserves, and other vehicles; and

—Access to a specialized secondary market that enables NeighborWorks® organizations to sell loans that they have made from their own revolving loan funds.

Woven throughout the various organizational and programmatic tactics supported by Neighborhood Reinvestment is a steadfast belief that approaches that dictate to communities, or decide what is in the best interest of communities, or attempt to "parachute" help into communities, are inevitably doomed to failure. The Corporation firmly believes that community residents, armed with appropriate information and tools, are the only ones who truly have the ability to change their neighborhoods.

By statute, our Board of Directors includes representatives from the five Federal banking regulators—Board of Governors of the Federal Reserve System, Comptroller of the Currency, National Credit Union Administration, Federal Deposit Insurance Corporation, and Office of Thrift Supervision—and HUD. This relationship uniquely

situates Neighborhood Reinvestment to act as a bridge between the all-too-separate worlds of housing and the financial services industry, as well as between government, the for-profit and nonprofit environments. For example, a recent partnership with the Federal Deposit Insurance Corporation resulted in the NeighborWorks® network using the FDIC's Money Smart financial literacy program. This curriculum will help train adult educators and teach money management skills to thousands of people. In addition, our work with HUD on the Section 8 homeownership option allowed for coordination of efforts, and created a delivery system for advancing the homeownership option.

As a result of these and other efforts, no organization can match the demonstrated track record of Neighborhood Reinvestment and its affiliates when it comes to leveraging Federal resources—and attracting private capital in support of distressed urban, suburban and rural communities across America.

After more than two decades of experience, the NeighborWorks® network now serves approximately 2,100 urban, suburban and rural communities across America—and is uniquely positioned to not only continue to serve as a laboratory, but also serve as a fast track implementation testing ground for new approaches.

Further, the Corporation has always believed its public responsibility goes far beyond the direct services we provide to the NeighborWorks® network—and as such, we have always attempted to share our learnings and experiences to support and strengthen the broader housing and community development field.

OVERSIGHT

Question. Ms. Lazar, could you tell us how Neighborhood Reinvestment Corporation is able to provide adequate oversight and ensure accountability within the NeighborWorks® system?

Could you also discuss what sort of risk-management system you have in place to monitor your affiliates?

Answer. We are strongly committed to promoting and maintaining a network of productive, well-managed, nonprofit community development corporations that deliver high quality services responsive to local needs and have a measurable impact on communities. One of the tools employed in doing this is a uniform program review and assessment system. The purposes of this system are to assist in:

—Enhancing the performance and productivity of network organizations;
—Assessing the health and risk-taking capacity of individual network organizations and the network as a whole;
—Determining organizational compliance with Neighborhood Reinvestment Corporation, Neighborhood Housing Services of America and related contract and network standards;
—Evaluating whether organizations are using Federal funding from Neighborhood Reinvestment appropriately; and
—Assessing newly developed or potential affiliate organizations to ensure their capacity to meet NeighborWorks® network membership standards and performance objectives.

The heart of the system is a set of performance standards used to assess a NeighborWorks® organization's health and how well it manages risk. Recognized by the PROMPT℠ acronym, organizations are evaluated using performance standards in eight areas:

P—PLANNING

How well does the organization's mission accord with Neighborhood Reinvestment's and to what degree does strategic and business planning support this mission?

R—RESOURCE DEVELOPMENT

Does the organization have sufficient operating and capital resources to support organizational needs and an active oversight process to monitor fund-raising progress and the status of the budget?

O—ORGANIZATIONAL OVERSIGHT

How well is the Board meeting its fiduciary responsibility in overseeing an organization's operations, its finances, its production and contract management, and its planning? How well is resident participation enabled through the Board?

M—MANAGEMENT

Financial Management.—How well does the accounting and financial management system provide current and accurate records of the organization? Does the Board receive timely financial reports that are understandable?

Contract Management.—Is the organization meeting its contractual obligations with funders including production and reporting and how satisfied are funders with the organization's performance?

Personnel Management.—Are there legally sound and updated personnel policies in place that are followed? What is the status of the performance appraisal system and is the executive director regularly appraised?

P—PRODUCTION/PROGRAM SERVICES

How congruent is production and provision of services with the wants of the community and is the level of production consistent with the resources available to the organization?

T—TECHNICAL OPERATING SYSTEMS

Are standard operating procedures and practices consistent with legal and funding source requirements and do they promote an effective and efficient delivery of services?

Through a system of continuous monitoring, each NeighborWorks® organization is subject to an annual risk assessment through either off-site or on-site program reviews.

Off-site reviews involve the collection and analysis of all data available about the organization from within Neighborhood Reinvestment and from Neighborhood Housing Services of America. Data for each organization is analyzed quarterly in terms of eight risk areas. If a risk alert is identified, we determine whether the organization has the capacity to manage the risk. In cases where more information is needed or where the risk is deemed to be serious, an on-site review is scheduled.

On-site reviews of organizations are conducted in addition to off-site reviews for approximately two-fifths of the NeighborWorks® organizations each year. There are several conditions that would lead to an on-site review. An on-site review may be an outcome of an off-site review where serious risk was discovered. All new applicants for membership are evaluated on-site before being offered a charter as a NeighborWorks® member. An on-site membership review is conducted for new network members within 2 years of chartering.

A typical on-site review involves three phases: preparing for a review, conducting the review, and reporting review results. In preparation for a review, the review team evaluates documents that have been requested from the organization, analyzes all available data within Neighborhood Reinvestment about the organization, and reviews outcomes from the previous on-site review. The actual site-visit involves typically one to three reviewers depending on the size and complexity of the organization. Most visits last three days and the review team employs interview, documentation, and observation techniques in assessing capacity and risk management in the organization. Finally, the review team prepares a site-visit profile that will be used by Neighborhood Reinvestment's Risk Management Unit in its continuous risk monitoring system until the next on-site review.

Question. When you identify an organization as "troubled," what actions do you take?

Answer. For a complete response to how we address troubled organizations, please see our response to the Chairman on page 8.

Question. I understand that you revoked the NHS of St. Joseph, Missouri. What happened to them?

Answer. Neighborhood Housing Services of St. Joseph has recorded many accomplishments over its 10-year history. It has done much to revitalize neighborhoods and offer homeownership opportunities to an under-served segment of the community. It can be proud of what it has created.

However, the last few years have been extremely difficult for this organization. The City of St. Joseph withdrew its financial support of the Neighborhood Housing Services in early 1999. Loss of a major funding partner can be a devastating blow to an organization working in a relatively small community. Along with this loss of funding came a continuing decrease in support from the insurance and lending institutions.

The organization had a number of directors who had served on the Board for many years. Their dedication allowed Neighborhood Housing Services of St. Joseph to significantly improve neighborhoods over the years. In spite of their fervor, the Board was unable to pull together and successfully compete for additional resources to fill the void left by the City's withdrawal of support.

Faced with seemingly overwhelming issues, the Board numbers continued to decrease to its present seven directors. Reduced revenues resulted in elimination of staff positions and, with them, significant reduction in programs and services. Neighborhood Housing Services of St. Joseph no longer provides lending services,

nor does it have the capacity to offer post-purchase counseling or foreclosure prevention.

Further, with a soft real estate market, the organization found itself in a situation in which it can no longer be assured of recapturing its investment in properties it purchased with the intent of rehabbing for resale. These uninhabitable properties are generating no income, but are a continuing drain on the organization's limited resources because of required maintenance and security.

Our last program review concluded the following:

—Neighborhood Housing Services of St. Joseph incurred a major budget deficit last year and lacks the capacity to provide adequate systems to monitor, control and resolve the impact on the organization.

—The Board's financial oversight and decision-making practices do not ensure compliance with their fiduciary responsibility to safeguard the organization's assets.

—The organization can no longer pay staff salaries, and medical benefits were withdrawn 2 months ago.

—Neighborhood Housing Services of St. Joseph no longer has the staff capacity or funds to ensure quality delivery of program services. There is no capacity/procedures to adequately mange rental/lease purchase programs.

Based on the findings of the review, it is our recommendation that the Board work quickly to dissolve Neighborhood Housing Services of St. Joseph. It is not an easy decision to make, but the Board can be assured that Neighborhood Reinvestment will work closely with them in this process. To continue to operate this agency with full awareness of its severe funding deficit only increases the continuing liability to the organization. The Board can no longer assure the quality of programs and services that the organization is providing. The Board also can no longer assure accurate and proper reporting or tracking of the organization's assets.

GEORGE KNIGHT SCHOLARSHIP PROGRAM

Question. Two years ago, we provided $2.5 million to endow a "George Knight Scholarship Fund," named after our good friend and former Executive Director, George Knight. This fund was established to allow local leaders, community developers, and residents to receive training from your training institute.

Can you give us an update on this program? Is there a large demand for this program?

Answer. The George Knight Endowment Fund has begun to fill a deep need within the community development field—that of providing financial support to worthy community development professionals who might otherwise not be able to attend the Neighborhood Reinvestment Training Institute. Since Congress' initial investment of $2.5 million is used as an endowment, the George Knight Endowment Fund will be able to provide access to high-quality training for years to come.

To date, George Knight scholarships have been awarded to 242 Neighborhood Reinvestment Training Institute participants for a total $134,612. As indicated in the chart below, the number of awards granted decreased for the Minneapolis and San Francisco Training Institutes when interest earnings on the endowment declined.

GEORGE KNIGHT ENDOWMENT FUND ACTIVITY SUMMARY—APRIL 2001–APRIL 2002

Neighborhood Reinvestment Training Institute	Dates	Scholarship Recipients	Awards
Chicago 2001	April 15–20	44	$22,534
Washington, DC 2001	August 19–24	54	32,925
Minneapolis 2001	October 14–19	23	14,770
San Francisco 2001	December 9–14	21	11,293
Atlanta 2002	February 17–22	38	17,540
Chicago 2002	April 2–6	62	35,10
Total		242	134,162

As a result of Congress' investment, we have secured $1 million from Washington Mutual to capitalize a similar scholarship endowment.

ELDERLY NEEDS

Question. Ms. Lazar, there are tremendous housing needs for the elderly and disabled populations in this country. In St. Louis, for example, there is a significant shortage of affordable housing that meets ADA requirements.

What are Neighborhood Reinvestment Corporation and its network doing to address these needs?

Answer. For a complete response, please see our answer to the Chairman on page 13.

CDC MERGERS

Question. I am excited about the merger of the St. Louis NHS and Beyond Housing. Not only will this merger combine the talents and skills of these successful organizations, it will enable them to take on larger scale projects.

What are your views about mergers? Why are mergers important?

Answer. We have encouraged and assisted an increasing number of mergers in our network over the last 5 years. There is no question that the proliferation of nonprofit community-based development organizations has led, in some instances, to potential duplication of effort and stretched resources. There are also instances, like St. Louis, where two strong organizations discover new opportunities by joining hands. Neighborhood Reinvestment is committed to supporting local solutions and local governance. However, we are also committed to deploying our precious resources as effectively and efficiently as possible. We will continue to respond very positively to inquiries about merger partners and we will continue to provide technical assistance, evaluation and support for member organizations who seek to create additional strength, health or efficiency through mergers. I should note that the amount of time, politics and negotiations involved in merger activities can never be underestimated.

LAND TRUSTS

Question. Ms. Lazar, one impediment to developing affordable housing is the cost of acquiring land. I am interested in the use of land trusts.

Do you see this as a viable tool for developing and maintaining affordable housing? To what extent is Neighborhood Reinvestment Corporation promoting the creation of land trusts?

Answer. While Neighborhood Reinvestment has not promoted the creation of land trusts as an affordable housing tool, we have actively supported applications from non-profit land trusts seeking to become network members. Land trusts appear to be most abundant on the east and west coasts. Several of the members of our network in the State of Vermont are land trusts, including one of our premiere Section 8 to Homeownership pilot sites, the Burlington Community Land Trust. Ultimately, the land trust concept appears to be suitable in some geographic locations and less appealing in others.

The Neighborhood Reinvestment Training Institute offers a course on "Community Land Trusts: A Tool for Neighborhood Revitalization." The course describes how community land trusts combine affordable private home ownership with community ownership of land to help turn deteriorating neighborhoods into neighborhoods of choice and help prevent displacement of low-income residents due to gentrification. It educates participants on the creation of a land trust, how land trusts can be used as part of a comprehensive neighborhood revitalization strategy, and how a land trust seeks to balance the seemingly competing goals of providing homeowners with a fair return on their housing investment while ensuring that housing is kept permanently affordable for future occupants.

RESIDENT INVOLVEMENT

Question. Neighborhood Reinvestment has always had a focus on developing resident leaders as a strategy that leads to neighborhood revitalization.

Can you tell us how you engage residents and develop leaders? Why is this an important component for your work?

Answer. Most community development efforts in this country grew out of problem-solving efforts by neighborhood residents at the local level. Early in this movement, resident leaders were regularly in the driver's seat in determining priorities and strategies for revitalizing their neighborhoods. As time passed and community development activities became more sophisticated, things began to change. Resident leaders on community Boards began to disappear to be replaced by professionals with finance, housing development and legal backgrounds. Staff recruitment that had once emphasized leadership development skills and neighborhood organizing experience, now focused on practitioners with the same finance and development skill sought for Boards of Directors. And as funders have increasingly emphasized unit production as a primary measure of organizational effectiveness, technical skill and expertise at the Board and staff level has been in even greater demand. The debate about the dwindling number of resident-led organizations has been fueled by the in-

creased complexity and attendant risks that characterize community development activity and the honest questions that have been raised about the kind of skill and oversight needed at the Board level to manage these sophisticated institutions.

Resident leaders are developed through a variety of strategies:

—Many NeighborWorks® organizations incorporate resident leadership development directly into their staffing and business plans.

—Our Community Leadership Institutes provide training for resident leaders. Residents return prepared for deeper leadership roles in local NeighborWorks® organizations.

—Our Resident Leadership Initiative is building resources to support community leadership development at the wider neighborhood level, bringing both homeowners and renters into community leadership forums.

—The Multifamily Initiative provides specialized resident leadership development resources, to ensure that rental residents are trained in asset management, so that they can be knowledgeable participants in Boards, committees, and resident councils.

Neighborhood Reinvestment grew out of a resident-led effort—one that started with residents, and grew to include public and private partnerships. This three pronged partnership ensures that the products and outcomes remain firmly grounded in and accountable to a legitimate customer base. The credibility of our work rests on our commitment to insuring that resident leaders are at the heart of the work of our network.

QUESTIONS SUBMITTED TO THE COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

QUESTIONS SUBMITTED BY SENATOR BARBARA A. MIKULSKI

Question. What criteria do you use for certifying new CDFIs?

Answer. The CDFI certification criteria are prescribed in the Fund's regulations and application materials. There are six criteria: (1) having a primary mission of community development; (2) serving an eligible Target Market;[1] (3) being a financing entity; (4) being accountable to the Target Market;[2] (5) providing development services (training or technical assistance) to borrowers and potential borrowers; (6) and being a non-governmental entity. CDFI certification does not entail a competitive process, applicants for certification are deemed to either meet the criteria or not.

Question. What is the process for certification?

Answer. An entity may apply for CDFI certification to the Fund at any time or it may do so in conjunction to applying for funding under the CDFI Program. Once a certification application is received, it is first reviewed for completeness. When deemed to be complete, a staff reviewer determines whether the applicant meets the six tests described above. The reviewer makes a certification recommendation, which is then reviewed for approval by a Program Manager. If the applicant is certified, it receives a letter that describes its Target Market and the end of the term of the certification (3 years from date of approval). If not certified, the applicant is sent a letter describing which of the tests it did not pass. CDFIs must be re-certified every 3 years. As of February 15, 2002, the Fund has certified 553 CDFIs in all 50 states, DC, USVI, and PR.

Question. How do you monitor the performance of CDFIs? Has the Fund ever revoked the certification of a CDFI?

Answer. *Annual Reporting.*—The Fund requires awardees to submit performance and financial reports on a semi-annual and annual basis. Performance reports indicates how well an Awardee is achieving the goals and measures that it negotiated with the Fund, as incorporated in its assistance agreement. Financial reports demonstrate the fiscal health of the overall operation of the Awardee organization and/or its affiliates. The Compliance Monitoring and Evaluation (CME) staff of the Fund reviews these reports.

Reports are reviewed and awardees rated as compliant, on "compliant watch", non-compliant but not resulting in an event of default, or non-compliant. Awardees are automatically deemed noncompliant if they fail to submit required reports by the deadlines stated in their Assistance Agreements.

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[1] Target Market is defined as an Investment Area(s) and/or a Targeted Population(s).

[2] Market Accountability is defined as having area and/or population representation on its governing board or otherwise.

If an Awardee is noncompliant under the terms and conditions of its Assistance Agreement, CME staff will contact it to discuss the noncompliance and its plans for improvement; CME staff then prepares and presents its recommendations to the Fund's Portfolio Committee. Corrective actions approved by the Portfolio Committee can range from an amendment of the assistance agreement so as to adjust for unforeseen conditions, to de-obligation of undisbursed funds, to (in the most serious cases) a demand that award funds be returned to the Federal Government.

On-site Reviews.—In the very near future, the CME unit will begin conducting on-site visits to examine certain organizations' operations more closely, and to ensure their compliance with the CDFI Fund's requirements. Organizations will be selected for on-site visits through a risk assessment process, with those deemed at higher risk being examined first. Some on-site visits are planned to organizations that are not considered at higher risk in order to balance the portfolio of on-site visits and to establish baseline procedures.

Program Suspensions.—In certain cases, the Fund has revoked the certification of CDFIs. A CDFI certification can be revoked when the Fund is notified of material changes in an organization, meaning that the entity no longer satisfies all six CDFI certification criteria. The manner in which the Fund learns of such changes occurs in several ways, including notification by a CDFI's regulator, notification by the CDFI itself, notification by an unrelated third party, or upon the Fund's review of reports submitted annually by the CDFI.

Performance Measures.—The Fund is reviewing its current methodology for developing performance goals and measures to incorporate a more quantitative analysis of the Awardee's community development impact, solvency, asset quality and management capacity (PLUM [3]). Analysis is being conducted to identify peer groups and benchmark data. Based on this information, acceptable levels of achievement will be determined and applied to awardees to achieve the following: identify CDFI Fund portfolio risk and to identify CDFIs that have achieved higher success in fulfilling its community development mission. Based on this information, the Fund can conduct targeted analysis of its portfolio, highlight best practices that can be shared with the CDFI field, and better assess CDFIs' abilities to expand or stabilize underserved market areas.

Yes, the Fund has revoked certification status of a CDFI. As the Fund is notified of material changes in a certified CDFI's organization, material enough so that the entity no longer satisfies all six certification criteria, certification statuses are revoked.

Question. What strategies have CDFIs used in preventing predatory lending?

Answer. CDFIs have been among the leaders in bringing attention to harm caused by predatory lending. For example, Self-Help, a CDFI serving North Carolina, was instrumental in documenting the results of predatory practices in that state. It measured the "equity-stripping" effect of predatory lending. An outcome of its efforts was the pioneering legislation passed by the state legislature in 1999. That legislation decreased the attractiveness of several predatory practices.

Other CDFIs have promoted public policies to reduce the corrosive effects of predatory lending on individuals and on neighborhood revitalization efforts. The Reinvestment Fund, a Philadelphia-based CDFI, launched a predatory lending strategy in that city in 2000; a year later the city council passed an anti-predatory lending ordinance. CDFIs also provide needed financial counseling to lower income households (which is one of the six requirements to be a certified CDFI). Knowledge gained from such counseling arms lower-income borrowers so that they are not victimized by predatory lending practices.

Question. What strategies have CDFIs used to help victims of predatory lending?

Answer. CDFIs, by definition, engage in consumer-friendly lending. They help provide low cost alternatives for financial services. The activities of a successful CDFI demonstrate that it is possible to lend in a manner that is not abusive. Those CDFIs that lend to individuals (rather than solely to businesses) are able to design loan products or financial services that either help correct for the damage done by a predatory lender or can demonstrate alternatives to abusive lending in low-income markets. For example, though "payday loans" can service a short-term financial need of some customers, Northside Federal Credit Union in Chicago developed an alternative to the "payday loan." It provides short term, small signature loans to its members that allow ready access to needed cash but with interest rates and terms that are manageable.

The Fund's awards have been used by CDFIs to capitalize anti-predatory loan products designed to help victims of abusive practices. NHS of New York is an ex-

[3] PLUM is defined to include P (performance effectiveness/community impact), L (leverage, liquidity, solvency), U (underwriting), and M (management).

ample of a Fund Awardee whose loan product will wrap in a single re-financing first and subordinated mortgage debt, as well as consumer debt. This is considered a risky loan in that it generally requires providing a loan well in excess of the value of the underlying collateral (the house). Without an investment source like the CDFI Fund, this entity may not have had sufficient resources to launch the product or meet demand without extensive long-term fund-raising at the local level.

The Reinvestment Fund, a Philadelphia-based CDFI, and the Neighborhood Lending Services, a Chicago CDFI, also have developed similar products to assist predatory loan victims. Such loans refinance predatory loans and are coupled with intensive counseling. Additionally, the work of Self Help (noted above) is creating a large-scale alternative to predatory loans. It has developed a secondary market for non-conforming mortgage loans, thus allowing low-wealth households to buy homes with conventional financial institutions providing financing, as opposed to meeting interest in ownership through the services of sub-prime lenders. Self-Help used the Fund's award to capitalize this effort and included a requirement that banks from which Self-Help purchased loans had to use the proceeds from these loan sales to continue making similar loans serving the low-income, first-time homebuyers.

Through the BEA Program the conventional financial institutions are encouraged to provide products and services that would create constructive alternates to predatory lenders. For example the BEA Program encourages banks to start First Account programs and adding ATMs or branches in underserved neighborhoods. Increased access to such services foster competition and provides low-cost alternatives to compete effectively with check-cashers or payday lenders. Additionally banks are rewarded for increased mortgage lending in lower income areas, another alternative to non-regulated predatory lenders.

Question. Do CDFIs ever work with FHA's inventory? Is there a role for CDFIs in property disposition?

Answer. CDFIs are lenders; many CDFIs lend to developers of housing that is affordable to lower-income households. Many CDFIs have lent to non-profit developers of housing that work with FHA inventory, either single family or multi-family. CDFIs can make logical partners for such housing developers. Many CDFIs understand working with troubled properties and in risky markets. Developers of FHA inventory often need such lenders. Further, CDFIs can provide debt with flexible terms, allowing for lease-up or marketing periods that may be longer than would typically be available for housing targeted to a more affluent market or terms more flexible than can be provided by a traditional lender.

Question. Do CDFIs help in restructuring bad loans? If so, what percentage of these was FHA insured?

Answer. CDFIs often serve the most difficult to underwrite customers. The provision of development services (credit counseling), required in order to be certified as a CDFI, helps to keep these loans from going bad. On occasion, a CDFI may need to re-structure its own loans, depending on the borrower and its overall portfolio policies and procedures. There are only a handful of CDFIs that are FHA-insured lenders. Most CDFI mortgage lending is in the form of second, or subordinated, mortgages. The first mortgage is typically the one with mortgage insurance. The number of CDFI-financed deals that have had some FHA lending is not known. The Fund anticipates collecting loan level data in the near future. However, until that form of data collection is attained, such information is anecdotal. More importantly, a CDFI is often the type of lender that would be turned to in order to help re-finance a property if the original financing was inappropriate or the borrower faced potential foreclosure.

Question. Explain the timing of the New Markets Tax Credits—when will they hit the street?

Answer. To date, the NMTC Program has achieved a series of critical milestones. We successfully launched the allocation application process that introduces the New Markets Tax Credit (NMTC) Program on June 7, 2002. The Fund anticipates that selection of applicants and the making of allocations will occur in early winter 2002, possibly allowing Allocatees time to secure investor funding and/or make investments in 2002 with the proceeds of investment in CDEs.

On April 20, 2001, the Fund issued guidance (which was published in the Federal Register on May 1, 2001 at 66 FR 21846) that provided general programmatic information, as required by the NMTC Program statute. On December 20, 2001, the Fund issued additional guidance in the Federal Register (at 66 FR 65806), which provided specific guidance on how an entity may apply to be certified as a "community development entity" (CDE). On December 26, 2001, the Internal Revenue Service (IRS) published temporary regulations in the Federal Register (at 66 FR 66307) that provide guidance to taxpayers claiming New Markets Tax Credits (NMTCs).

Also, on December 26, 2001, the Fund made CDE Certification Applications available through its website, *www.cdfifund.gov*.

Question. What activities will the New Markets Tax Credits finance? How are those activities different from what the CDFI Fund supports?

Answer. The NMTC Program permits taxpayers to claim a credit against Federal income taxes for Qualified Equity Investments (QEIs) made to acquire stock or a capital interest in designated Community Development Entities (CDEs). Designated CDEs must use substantially all of the proceeds from the QEIs to make Qualified Low Income Community Investments (QLICIs). The tax credit provided to the investor (either the original holder or a subsequent purchaser) is claimed over a 7-year credit allowance period. In each of the first 3 years, the investor receives a tax credit equal to 5 percent of the total amount paid for the stock or capital interest at the time of purchase. For the final 4 years, the value of the tax credit is 6 percent annually. The Fund certifies CDEs on an ongoing basis, and will allocate NMTCs annually to CDEs through a competitive application process.

The CDFI Program, in contrast, helps to capitalize community development lenders (CDFIs) through direct investments from the Fund. These investments, which take the form of grants, loans, equity investments and deposits, are made to qualified institutions that provide access to credit and capital in economically distressed and underserved markets. We believe that by providing financial investments and technical assistance support to CDFIs, they in turn will better serve their communities. Providing financial and other services in these communities helps low-income families to build wealth (through savings and use of financial services less costly than provided by non-regulated entities), increase economic self-sufficiency, and reduce dependence on transfer payments.

Question. What effect will this multi-billion dollar program have on the CDFI fund office? Do you have enough staff to adequately oversee this program in addition to the fund?

Answer. The cost to administer the New Markets Tax Credit Program is currently 24 percent of the Fund's administrative budget. It is anticipated that with full implementation of this program, from application review to NMTC allocation to compliance monitoring, the Fund's administrative costs to support NMTC Program will increase. The new FTEs requested in the fiscal year 2003 budget request are earmarked for the NMTC Program and additional administrative support staff. We believe that we have adequate resources to administer both the NMTC Program and our award programs through fiscal year 2003.

Question. Will your management of the Tax Credits take away from your focus on managing the CDFI core programs?

Answer. No. The Fund envisions that the NMTC Program will complement the Fund's existing programs that provide direct funds to community development financial institutions.

Question. What steps is the CDFI Fund taking to improve its outcome measures and data collection?

Answer. Our objective is to show how the investments we make in CDFIs, and the loans they make in turn, fill gaps in financial services for distressed areas and populations. Our program performance measures will show the impact CDFIs' loans made to stabilize or improve our Nation's underserved communities and target populations through community development financing activities.

The Fund is reviewing its current methodology for developing performance goals and measures to incorporate a more quantitative analysis of the Awardee's community development impact (improvement in community conditions), and it's financial capacity to sustain its lending activities—solvency, asset quality and management capacity.

Question. Do the grants and loans provided by the CDFI fund serve a unique purpose? How are they different from what is available through the Small Business Administration? Through Community Development Block Grants?

Answer. Yes, the awards administered by the Fund serve a unique purpose. Investments by the Fund serve a special purpose in that they help to capitalize specialized loan funds that fill voids in the conventional capital markets. Such loan funds must serve economically distressed places or underserved populations. CDFIs serve a wide array of such communities through a wide array of financial services. SBA's products generally are for a range of small business loan services with limited risk profiles for borrowers than a small business loan fund may provide.

CDFIs may lend in ways that banks, thrifts and other conventional lenders find too risky or unprofitable. They may lend in order to make major projects happen, such as by providing development loans to non-profit organizations; they may take subordinate (2nd or 3rd) loan positions to convince a bank to lend to bring a major grocery store or medical center into a distressed area. These institutions may take

the first credit risk to ensure that a bank's loan meets safe and sound underwriting. CDFIs are distinct from other financial institutions in that CDFIs may provide training and technical assistance (development services) to borrowers and potential borrowers. This is one way that CDFIs build markets where conventional lenders do not see opportunity. Support from the Fund may allow a CDFI to absorb the cost of development services delivery and innovation that it could not fully recover through its lending operations.

The CDBG Program provides local governments with grants, which they design, localized programs to meet needs of their low-income populations. It appears that the majority of HUD's CDBG funds are used for infrastructure redevelopment (such as installation of water and sewer lines and/or road and street improvements). Grants to low-income residents may be provided for housing development and rehabilitation. These grants sometimes are used in conjunction with loans from CDFIs and may be used to reduce the costs of meeting standard zoning requirements so as to make homeownership affordable to low-income people. A CDFI may make a loan to a non-profit affordable housing developer to help meet the project feasibility requirements for a CDBG grant or qualify for conventional financing from a traditional lending institution. CDFIs can help communities underwrite small-scale or scattered site affordable housing units, thus helping to improve and increase the Nation's stock of affordable and decent housing. Therefore, the capital provided by the Fund to CDFIs, which may in turn be used to make loans to non-profit housing developers, and the CDBG grants that developers may receive from HUD are in fact two complementary efforts that in many cases result in an increase of the Nation's stock of decent and affordable housing. CDFIs democratize the availability of credit and capital to scores of underserved communities and populations.

Question. What community development activities does the CDFI Fund most often fund or underwrite? Please break out the activities by type, and grant/loan amount.

Answer. As the following table shows, in terms of both number and dollar amount of awards, the Fund supports CDFIs that engage in housing/community facilities most frequently, followed by those engaged in business lending and consumer lending/financial services (the latter includes credit unions and banks). CDFI Intermediaries, the fourth category, support all types of CDFIs. Venture Capital CDFIs provide equity to businesses. Multi-bank CDCs are primarily business lenders, though some are housing lenders.

CDFI FUND AWARDS BY TYPE OF AWARDEE—1996–2001 CORE, INTERMEDIARY, & SECA/TA AWARDS

Type of Awardee by Primary Business Activity	Award Amounts		Number of Awards	
	Dollars	Percent of Total	Numbers	Percent of Total
Housing/Facilities	$152,294,696	42	210	32
Business	76,237,083	21	177	27
Consumer Lending and Financial Services	49,800,801	14	130	20
CDFI Intermediary	25,027,201	7	20	3
Venture Capital	20,664,301	6	23	3
Microenterprise	18,748,642	5	67	10
Multi-Bank CDC	16,490,987	5	22	3
Total	359,263,711	100	649	100

Question. What percentage of the loans that originate from the CDFI Fund go into default?

Answer. To date, no CDFIs have defaulted on loans from the Fund. A couple of CDFI borrowers have been late on interest payments but all have otherwise met the terms and conditions of their debt instruments with the Fund.

Question. Do private banks get CRA credit for investments in low-income communities that are also incentivized by Bank Enterprise Awards? Please document some cases in which this could happen.

Answer. The BEA Program is intended to encourage FDIC-insured depository institutions to go beyond just serving the "convenience and needs of the communities in which they operate" (as called for by the CRA). The BEA Program provides an incentive to banks and thrifts to serve areas or people that the institution may not necessarily have to serve in order to receive a Satisfactory CRA rating. The BEA Program award should therefore be seen as a complement to the CRA activities of an institution.

Generally, the types of activities that would qualify for a BEA Program award would also be viewed favorably by the regulatory agency in developing the CRA rating for the institution—provided the activities occurred within the bank's CRA Assessment Area.

For example, take a bank whose CRA Assessment Area is the Washington DC metropolitan area. This bank could apply for a BEA Program award for increasing its lending within the Anacostia area (which qualifies as a BEA Distressed Community). In the current funding environment, the bank would have to increase its activities significantly to increase the probability of receiving an award. (When the Fund lacks sufficient resources to fund all qualified activities for which BEA applications are submitted, it must follow statutorily prescribed priorities, which include ranking applicants by the ratio of activity level to asset size. Thus, the greater the activity level, the greater the probability of an award.)

These activities—because they are within a low-income community—would likely also receive positive CRA consideration. The regulator, in developing a CRA rating for the bank, would view these activities in the context of the bank's overall operations. Because the regulator is looking for a reasonable level of activity within the low-income areas of the Assessment Area, there is no incentive to maximize or exceed a certain the level of investment activity. The BEA Program regulations, on the other hand, encourage the institution to provide more lending in the Distressed Community than required for "Satisfactory" ratings under CRA. Moreover, areas must pass a more stringent level of distress to qualify for the BEA Program (which considers poverty rate and unemployment rate of the area) than under the CRA regulations (which just consider income level of the census tract). Financial institutions participating in the BEA Program manage some of the Nation's best CRA programs, as nearly one-third of BEA Program participants have received "Outstanding" ratings under CRA. According to bank regulators, only 10 percent of regulated institutions receive "Outstanding" CRA ratings.

QUESTIONS SUBMITTED BY SENATOR TIM JOHNSON

RURAL COMMUNITIES AND THE BEA PROGRAM

Question. The CDFI Fund has identified several options that may increase the flow of CDFI Program and BEA Program funding to rural areas. Your testimony notes that within the BEA program authorizing language would be needed to alter the definition of "distressed areas" which currently only applies to communities with a population of 4,000 or greater.

Could you provide me with a breakdown of obstacles you've determined would need to be address in authorizing legislation? Second: Could you provide us with any examples of administrative and regulatory modifications you intend to implement to better serve rural communities?

Answer. The statutorily prescribed definition of "Distressed Community" under the BEA Program is an obstacle and disadvantages rural communities. First, rural areas have difficulty meeting the program's 30 percent poverty requirement because populations in rural areas are often scattered, with Low-Income households mixed with households with higher incomes, and have fewer concentrations of poverty than is often found in urban areas. Second, over 40 percent of the Nation's rural population resides in communities with fewer than 2,500 people. These communities are too small to meet the BEA Program's statutorily required population of 4,000 people in metropolitan areas. Further, in non-metropolitan counties there is a minimum population requirement of 1,000 people in a qualifying census tract. This figure also precludes otherwise qualifying economically distressed rural areas from BEA Program eligibility. To best address the issue, statutory modifications would be necessary.

Background

According to the statute that created the BEA Program, a Distressed Community consists of contiguous Geographic Units (e.g., census tracts) located within the boundaries of one Unit of General Local Government (e.g., town, city, or country) that meet certain minimum population, poverty, and unemployment requirements, as follows:

Minimum Population Requirements.—Metropolitan Statistical Areas: The population of a Distressed Community must be at least 4,000 people if any portion of the area is located within a Metropolitan Statistical Area. Non-Metropolitan Statistical Areas: The population of a Distressed Community must be at least 1,000 people if no portion of the area is located within a Metropolitan Statistical Area. Indian

Reservations: If a Distressed Community is located entirely within an Indian Reservation, it is not required to meet the minimum population requirements.

Minimum Poverty Requirements.—At least 30 percent of the Residents of the Distressed Community must have incomes that are less than the national poverty level, as determined by the latest decennial census.

Minimum Unemployment Requirements.—A Distressed Community must have an unemployment rate that is at least 1.5 times greater than the national average, as determined by the Bureau of Labor Statistics' most recent statistics.

In addition, the BEA Program regulations allow that a Distressed Community may consist of Geographic Units that (1) individually meet the minimum population, poverty, and unemployment requirements discussed below, or (2) in the aggregate meet the poverty and unemployment requirements, provided that no designated Geographic Unit within the Distressed Community has a poverty rate of less than 20 percent.

NATIVE AMERICAN CDFI TECHNICAL ASSISTANCE PROGRAM

Question. Forty seven organizations have applied for awards in the first round of funding in that Native American CDFI Technical Assistance (NACTA) program, demonstrating very strong interest on the part of tribes and other organizations serving Native Americans in expanding the work of CDFIs in Indian country. Fiscal year 2002 will be the first year that monies will be awarded through the NACTA program.

What kind of priority will the NACTA program have to the Fund, if resources are limited to the President's budget request of $68 million?

Answer. It is the intent of the Fund to have a second round of the NACTA Component in fiscal year 2003.

PERFORMANCE MEASURES FOR RURAL AND RESERVATION COMMUNITIES

Question. With regard to performance measures. I am concerned that seemingly straightforward standards may in fact work to the detriment of some communities. Particularly where they may aggravate the barriers rural and Native American areas already face in securing CDFI investments.

For example, it is very straightforward to measure the success of an investment in terms of the number of jobs created and wages paid.

However, it's equally important to consider the services provided and the impact that a business may have on the quality of life in the community. This is particularly important in rural and isolated areas.

How do we measure the impact on a rural or reservation community by establishing a welding shop, a cafe, a grocery store, or a gas station? The business my only create 3 or 4 jobs, but area families no longer must drive 20, 30, 40 miles or more to utilize that service.

In developing the "performance measures" required by Secretary O'Neill, how can we make sure rural and Native American CDFIs are not penalized for investing in small main-street business that may only create a handful of jobs, but significantly enhance the community?

Answer. Performance measures will not disadvantage rural communities. The Fund's measure of impact will not focus on volume but will attempt to assess the local community improvement impact of each award made by the CDFI Fund. The Fund's Small and Emerging CDFI Assistance (SECA) Component, in particular, seeks to assist small lending operations that demonstrate that they are likely to achieve impact in the communities they serve.

QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER S. BOND

PERFORMANCE MEASURES

Question. I am pleased that Secretary O'Neill has recognized the importance of performance outcomes because it is still unclear to me if CDFI's programs make a significant difference in helping distressed communities and if its programs are more cost-effective and efficient than other similar Federal efforts.

For example, I would like to know to what extent the Bank Enterprise Award program motivate financial institutions provide capital in distressed communities, especially when they are required to perform these activities under the Community Reinvestment Act.

Answer. Congress, in passing the BEA Program legislation, intended the BEA Program to encourage FDIC-insured depository institutions to go beyond just serving the "convenience and needs of the communities in which they are chartered."

Congress wanted to provide an incentive to banks and thrifts to do business in highly distressed communities that may not necessarily be part of their Community Reinvestment Act (CRA) assessment areas or to serve as partners with local CDFIs that serve populations that the institutions may not necessarily have to serve in order to receive Satisfactory CRA ratings. A BEA Program award should therefore be seen as a complement to the CRA activities of an institution.

Question. In response to Secretary O'Neill's initiative, when do you expect to be able to provide this committee with data on program performance? Do you expect to collect and analyze data that will compare the performance of CDFI's programs to other Federal activities?

Answer. The Fund is able to provide program performance data now. Our objective is to show how the investments we make in CDFIs, and the loans they make in turn, fill gaps in financial services for distressed areas and populations. Our program performance measures will show these investments improve our Nation's underserved communities and target populations through community development financing activities.

The Fund is reviewing its current methodology for developing performance goals and measures to incorporate a more quantitative analysis of the awardee's community development impact, solvency, asset quality and management capacity (PLUM [1]). Analysis is being conducted to identify peer groups and benchmark data. Based on this information, acceptable levels of achievement will be determined and applied to awardees to achieve the following: identify CDFI Fund portfolio risk and to identify CDFIs that have had achieved higher success in fulfilling its community development mission. Based on this information, the Fund can conduct targeted analysis of its portfolio, highlight best practices that can be shared with the CDFI field, and better assess CDFIs' abilities to expand or stabilize underserved market areas.

The awards administered by the Fund serve a unique purpose. Investments by the Fund serve a special purpose in that they help to capitalize specialized loan funds that fill voids in the conventional capital markets. Such loan funds must serve economically distressed places or underserved populations. CDFIs serve a wide array of such communities through a wide array of loan products and financial services. The Fund differs from many other Federal activities in that the Fund invests in institutions not projects. CDFIs are local market-based institutions that respond to market demand in their communities. Support from the Fund may allow a CDFI to absorb the cost of development services delivery and innovation that it could not fully recover through its lending operations.

OVERLAPPING FEDERAL PROGRAMS

Question. I am concerned about overlapping Federal programs. It is clear that CDFI works with the same communities and institutions that HUD and other Federal Agencies work with.

Please tell me about any informal and formal efforts to coordinate Federal activities in assisting distressed communities. How do your organizations ensure that its activities are not duplicative of other Federal activities?

Answer. The Fund has a structured means of coordination with other agencies through the Community Development Advisory Board, which includes representatives from six Federal Agencies (USDA, Commerce, HUD, Interior, Treasury, and the SBA). The statute that created the CDFI Fund requires the Advisory Board. In addition, the Fund, by law, coordinates with the banking and credit union regulatory agencies while in the process of considering Fund investments in regulated entities.

Programmatically, the Fund regularly engages in discussion with other agencies. For example, there is current strategizing with HUD as to how to increase the level of resources available to the colonias in the U.S.-Mexico border region. The Fund has shared with HUD information about CDFIs serving these distressed areas in which the Fund has invested and described how CDFIs can help provide a permanent flow of capital in otherwise underserved areas. HUD in turn has shared its information regarding the concentrations of colonias. Both entities are interested in improving data-gathering to document the level of financial services activities in these areas. The Fund is also engaged in a dialog with Federal Reserve Board of Governors and the Federal Reserve Bank of Richmond as to the development of measurements that will serve to allow comparative classification of levels of finan-

[1] PLUM is defined to include P (performance effectiveness/community impact), L (leverage, liquidity, solvency), U (underwriting), and M (management).

cial services. Achieving this will help the Fund to improve its ability to target dollars to areas of market dysfunction.

NATIVE AMERICAN CDFI TECHNICAL ASSISTANCE PROGRAM

Question. The Treasury Department's November 2001 "Native American Lending Study" clearly indicates a need for capital access and financial lending on Indian lands. Further, the study recommends, "creating more financial institutions, including CDFIs, on Indian Lands" and "encouraging existing financial institutions that are not located on Indian Lands to open branches on Indian Lands." However, the Administration has not requested any new funds for fiscal year 2003 for the Native American Technical Assistance program.

Can you explain this disconnect? By not funding this initiative, does this mean that you disagree with the study's recommendations?

Answer. The Fund supports the recommendations set forth in the Native American Lending Study report. The reason we have not included a request for Native American CDFI Technical Assistance (NACTA) funding in our fiscal year 2003 budget is because we believe that the carryover (unused funds) from fiscal year 2002 will be sufficient to meet the fiscal year 2003 need.

MONITORING AWARDEES

Question. How does the CDFI monitor the management of grantees? Has the Fund ever revoked the certification of a CDFI?

Answer. The Fund uses several methods to monitor its awardees. They include the following:

Annual Reporting

The Fund requires awardees to submit performance and financial reports on a semi-annual and annual basis. Performance reports tell how well an awardee is achieving the goals and measures that it negotiated with the Fund, as incorporated in its assistance agreement. Financial reports demonstrate the fiscal health of the overall operation of the awardee organization and/or its affiliates. The Compliance Monitoring and Evaluation (CME) staff of the Fund reviews these reports.

Reports are reviewed and awardees are rated as compliant, on "compliant watch", non-compliant but not resulting in an event of default, or non-compliant. Awardees are automatically deemed noncompliant if they fail to submit required reports by the deadlines stated in their Assistance Agreements.

If an awardee is noncompliant under the terms and conditions of its Assistance Agreement, CME staff will contact it to discuss the noncompliance and its plans for improvement; CME staff then prepares and presents its recommendations to the Fund's Portfolio Committee. Corrective actions approved by the Portfolio Committee can range from an amendment of the assistance agreement so as to adjust for unforeseen market conditions, to de-obligation of undisbursed funds, to (in the most serious cases) a demand that award funds be returned to the Federal Government.

On-site Reviews

In the very near future, the CME unit will begin conducting on-site visits to examine certain organizations' operations more closely, and to ensure their compliance with the CDFI Fund's requirements. Organizations will be selected for on-site visits through a risk assessment process, with those deemed at higher risk being examined first. Some on-site visits are planned to organizations that are not considered at higher risk in order to balance the portfolio of on-site visits and to establish baseline procedures.

Program Suspensions

In certain cases, the Fund has revoked the certification of CDFIs. A CDFI certification can be revoked when the Fund is notified of material changes in an organization, meaning that the entity no longer satisfies all six CDFI certification criteria. The manner in which the Fund learns of such changes occurs in several ways, including notification by a CDFI's regulator, notification by the CDFI itself, notification by an unrelated third party, or upon the Fund's review of reports submitted annually by the CDFI.

Performance Measures

The Fund is reviewing its current methodology for developing performance goals and measures to incorporate a more quantitative analysis of the awardee's community development impact, solvency, asset quality and management capacity (PLUM). Analysis is being conducted to identify peer groups and benchmark data. Based on this information, acceptable levels of achievement will be determined and applied

to awardees to achieve the following: identify CDFI Fund portfolio risk and to identify CDFIs that have had achieved higher success in fulfilling its community development mission. Based on this information, the Fund can conduct targeted analysis of its portfolio, highlight best practices that can be shared with the CDFI field, and better assess CDFIs' abilities to expand or stabilize underserved market areas.

SUBCOMMITTEE RECESS

Senator MIKULSKI. This subcommittee stands in recess until next Wednesday, May 1, in which we will be taking testimony from NASA.

So thank you very much.

Ms. LAZAR. Thank you both.

Senator MIKULSKI. And we are in recess.

[Whereupon, at 10:55 a.m., Wednesday, April 24, the subcommittee was recessed, to reconvene at 9:47 a.m., Wednesday, May 1.]

DEPARTMENTS OF VETERANS AFFAIRS AND HOUSING AND URBAN DEVELOPMENT AND INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2003

WEDNESDAY, MAY 1, 2002

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

The subcommittee met at 9:47 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Barbara A. Mikulski (chairman) presiding.

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

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

STATEMENT OF SEAN O'KEEFE, ADMINISTRATOR

ACCOMPANIED BY:

DR. JOHN GRUNSFELD, ASTRONAUT
STEVE ISAKOWITZ, COMPTROLLER
DR. EDWARD J. WEILER, ASSOCIATE ADMINISTRATOR FOR SPACE SCIENCE
DR. GHASSEM ASRAR, ASSOCIATE ADMINISTRATOR FOR EARTH SCIENCE
ROBERT W. COBB, INSPECTOR GENERAL

OPENING STATEMENT OF SENATOR BARBARA A. MIKULSKI

Senator MIKULSKI. I want to convene the Subcommittee hearing on VA–HUD appropriations to take the testimony of Mr. Sean O'Keefe, our NASA administrator, to review the NASA appropriations request.

Mr. O'Keefe, this is the first time that we are welcoming you before this Appropriations Committee, and we look forward to listening to you and working with you.

You come with a great deal of—you come with many credentials and we know that you come also with the confidence of the White House. I know that before this, before you took over NASA, you were deputy director of OMB. So you are used to being in orbit. That is a joke, but we will just let it go.

Senator MIKULSKI. You come with a great deal of management experience and won all kinds of awards, and I believe your expertise in management is just what NASA needs right now. We are hoping that if anyone can get NASA back on track, it is really going to have to be you.

We look forward to working with you and I am going to go through some of the challenges I believe that NASA is facing that we would like to hear your views on today and, of course, we hope to have other conversations with you as we prepare for markup.

The President has proposed a flat budget for NASA this year at $15 billion. I must say I am disappointed that we continue to see the flat budgets for NASA, especially considering the enormous needs that NASA has.

We have issues related to shuttle upgrades, additional scientific commissions, and an aging infrastructure that is troubling. These are just a few of the needs that need to be addressed. Along with that is the significant issue of the ongoing issue of the cost overruns of the space station.

NASA has to have a balanced program in terms of human space flight, scientific research and aeronautics. In a speech you gave at Syracuse last month, you said that NASA's mission and vision was to improve life here on earth and find life beyond. I think that is an excellent vision. And to me, that is earth science, space science, and biological and physical science.

But we are very troubled about the space station. The space station continues to be NASA's number one problem. With the $5 billion in cost overruns, the station continues to be a dark cloud over NASA's horizon rather than a bright opportunity for research.

NASA must implement the management reforms and creditable cost estimating this year. Otherwise, I am concerned that Congress will have no faith in NASA's cost estimates until the management reforms are firmly in place and NASA starts delivering results.

Second, NASA must reaffirm that scientific research is the primary purpose of the space station. I am concerned that if we only have three astronauts in the station, all they are doing is housekeeping, rather than the scientific discovery, some of which I know we are going to see today.

Third, NASA needs to present Congress with a scientific research plan that then lays out what it is going to do. The cuts to scientific research aboard the space station have really cost support for the program.

Another important issue is the future of the space shuttle. The shuttle now costs $3 billion per year to operate, almost 20 percent of the NASA budget. I know you are starting to look at privatizing of the shuttle program as a solution. I believe that NASA must proceed very, very, very carefully before making any decisions related to privatizing. And I know you will share with us what you think is the best way.

I know that you are absolutely as committed as this committee is to the safety of our astronauts. And we need to look at what is the best way to get them into space safely and to return them to safety safely and to be able to sustain them when they are. So we look forward to the ideas and the money to do this.

I know we cannot fly the shuttle forever, and that is why we look at other initiatives like the space launch.

Moving on to science, aeronautics, and technology, I am glad to see that the administration has proposed a 10 percent increase in the funding. I know that you want to start an in-space nuclear

power program, and I think NASA is—I think we need to discuss this.

I am concerned that you have zeroed out Pluto. We could be missing an opportunity if it does not launch. We only get every 200 years to do this.

Earth science, I am beginning to think we are beginning to see the benefits of that investment, record numbers of users on earth science, improving their understanding of how the earth works, and even other Federal agencies making use of this information.

I know that we will always get double value from what we do at NASA, that science, technology, discovery always leads to the new ideas that either save lives, save communities, or generate jobs.

We really look forward to hearing what you want to do with $15 billion, how we can keep NASA flying, and I turn now to my very able colleague, Senator Bond, for his comments.

STATEMENT OF SENATOR CHRISTOPHER S. BOND

Senator BOND. Thank you very much, Madam Chair. I join with you in welcoming the new NASA Administrator Sean O'Keefe, the first appearance before this subcommittee. It is usually not too painful and we hope we can be constructive on all sides, but we do have some very serious questions as we have discussed previously.

Mr. O'Keefe has some big boots to fill in replacing Dan Goldin, who spent almost a decade at the helm of the agency. It is a big job to fill not only because of the imprint that Mr. Goldin left, but also because the agency continues to face a number of management and budget concerns, many associated, as the Chair has said, with the International Space Station and the space shuttle program, two of NASA's best known and visible programs.

I have a great deal of confidence that Sean will be a great NASA administrator. And while he does not have an aerospace background, I think what is clearly needed at this agency are the critical management skills and budgetary expertise that I believe he brings to address the previous inability of NASA to provide an adequate budget for its programs and to solve the management problems.

Mr. O'Keefe has been the staff director for the Senate DOD Appropriations Subcommittee, a comptroller of DOD, Secretary of the Navy, most recently deputy director at OMB, and frankly he has survived the blood and the water mentality at OMB, which should auger well for his ability to succeed in another agency with a little blood around it.

I also believe every new agency head must be provided an opportunity to demonstrate leadership and management abilities. We will do all we can to support Mr. O'Keefe in meeting the many challenges facing him at NASA.

In particular, the International Space Station, which is been touted as the new crown jewel of NASA, now appears to be a rather expensive bit of costume jewelry. And since 1993 when the ISS redesign work began, the program has gone through continuing fits and starts, delays, additional costs resulting from Russia's failure to meet certain commitments, as well as other costs and delays resulting from problems caused by NASA and its contractors.

It would not surprise me if the Harvard Business School decided to use the ISS decision-making and funding process for a whole year's worth of courses on government and business mismanagement. It has been that bad. That could keep a whole raft of students busy and professors for many, many months.

The problems all came to a head, at least most recently, in February 2001 when the key management personnel of the ISS identified just another little $5 billion in cost overruns for the space station to meet the assembly fact—those facts, and the crew has—this has been a major problem. They have let the assembly and completion requirements, set that time—the administration and NASA decided to reduce station funding requirements by cancelling or indefinitely deferring construction of ISS hardware, and by cutting funding for space station research.

As currently formulated, NASA plans to reach what it calls "core complete" by launching and completing assembly of the existing ISS elements and then adding lab modules being built by Europe and Japan.

I think the decision is correct, because of other funding priorities, both within NASA and within the VA–HUD Subcommittee. I am disturbed that we will not realize fully the potential of ISS as a world-class research facility for science conducted in a micro-gravity environment.

This failure is further highlighted by the fact that the crew size of the ISS is limited to a crew of three, while it requires two and a half crew to operate and maintain the station. Despite arguments to the contrary by some NASA staff, I do not believe that we are serving our scientific mission well when we have one half time of one crew member devoted to science.

At a minimum, without additional investment for a crew return vehicle or the addition of more Soyuzes from Russia, most of the complex science research that was anticipated to be conducted on the station is not going to be accomplished.

Equally troubling is NASA's attempt to control the costs and pay for cost overruns by slashing $1 billion from space station research budget projections from fiscal year 2002 through 2006. In the current year, there are $140 million in terminations within the ISS research account. Now, that is very troubling to us for a program that costs as much as $100 billion after completion and operation.

On top of this and contrary to concerns raised last year in the NASA budget hearing, NASA has allowed policies to be put in place that will further reduce the stature of ISS from a research facility to a guest hotel for the super rich.

Last year, Dan Goldin promised the international agreements on visitors and crew standards would ensure that all visitors to the space station would be trained comprehensively and qualified before permission would be granted to visit the station.

Instead I believe that the proposed policies on station visitors are weak, insubstantial and could pose a deadly risk to every crew member on the station. To me that is unacceptable, especially during the assembly of the station, which is a period of heightened risk in an already extremely hazardous environment.

Well, I have a number of other issues I want to raise today for the record. I am concerned about NASA meeting all the funding

needs associated with the space station program. The Aerospace Safety Advisory Panel recently concluded its March 2002 annual report by saying, "current and proposed budgets are not sufficient to improve or even maintain the safety risks of operating the space station or the ISS."

I think that raises additional issues as to the future of the shuttle, how safety concerns are prioritized, what is the relationship between the space station program, the development of a crew return vehicle and the SLI, designed to develop second and possibly third generation reusable launch vehicles. Each of these programs has substantial costs. I am not convinced that the NASA budget can sustain even the shuttle program and the SLI without a clearer vision of the goals and relationships.

Finally, on a positive note, I am gratified NASA is working with the University of Missouri's Center for General Physiology in the area of gender-related issues in space flights.

As we look to explore the universe, commit men and women to long periods of time in space, we need to understand the risks and stresses on the human body of living in space. In particular, it is critical to know the sex-specific factors that influence our ability to adapt to the challenges posed by living in the harsh environments encountered in the exploration of space.

Thank you, Madam Chair.

Senator MIKULSKI. Thank you.

[The statement follows:]

PREPARED STATEMENT OF SENATOR CHRISTOPHER S. BOND

Thank you, Madam Chair. I welcome the new NASA Administrator, Mr. Sean O'Keefe, to his first appearance before the Senate VA/HUD Appropriations Subcommittee. Mr. O'Keefe has some big boots to fill in replacing Dan Goldin who spent almost a decade at the helm of this agency. This is a big job to fill, not only because of the imprint that Dan left on the agency, but also because the agency continues to face a number of management and budget concerns, many of which are associated with the International Space Station and the Space Shuttle Program, two of NASA's best known and visible programs.

However, I have a great deal of confidence that Mr. O'Keefe will be a great NASA Administrator. And while Mr. O'Keefe does not have an aerospace background, he does have the critical management skills that I believe are needed to address NASA's inability to budget adequately for its programs, and that once we solve these management problems NASA will be on a smooth flight plan. In particular, Mr. O'Keefe has been the staff director for the Senate DOD Appropriations Subcommittee, the Comptroller of DOD, Secretary of the Navy, and most recently the Deputy Director at OMB. Just to survive the "blood in the water" mentality at OMB augurs well for his success at NASA.

I also believe every new agency head must be provided an opportunity to demonstrate their leadership and management abilities and I intend to provide whatever support I can to Mr. O'Keefe in meeting the many challenges facing him at NASA.

In particular, the International Space Station which has often been touted as the new crown jewel of NASA now appears to be little more than very expensive costume jewelry. Since 1993, when the ISS redesign work was begun, the program has gone through many fits and starts, including delays and additional costs resulting from Russia's failure to meet certain commitments as well other costs and delays resulting from problems caused by NASA and its contractors. It would not surprise me if the Harvard Business School decided to use the ISS decisionmaking and funding process for a whole year's worth of courses on government and business mismanagement. It has been that bad.

These problems all came to a head in February 2001 when the key management personnel of the ISS identified another $5 billion in cost overruns for the Space Station to meet assembly and completion requirements.

Since that time, the Administration and NASA decided to reduce station funding requirements by canceling or indefinitely deferring construction of some ISS hardware and by cutting funding for space station research. As currently formulated, NASA plans to reach what it calls "core complete" by launching and completing assembly of the existing ISS elements and then adding laboratory modules that are being built by Europe and Japan.

While I believe the decision is correct because of other funding priorities, both within NASA and within the VA/HUD Appropriations Subcommittee, I am disturbed that we will not realize fully the promise of the International Space Station as a world class research facility for science conducted in a microgravity environment. This failure is further highlighted by the fact that the crew size of the ISS is limited to a crew of three while it requires 2½ crew to operate and maintain the station. Despite arguments to the contrary by some NASA staff, I do not believe much compelling science can be accomplished by only one-half a crew member. At a minimum, without additional investment for a crew return vehicle or the addition of more Soyuzes from Russia, most of the complex science research that was anticipated to be conducted on the Station will never be accomplished. Equally troubling is NASA's attempts to control costs and pay for cost overruns by slashing some $1 billion from space station research budget projections from fiscal year 2002 through fiscal year 2006. In fiscal year 2002 alone, there are $140 million in terminations within the ISS research account.

This is not acceptable for a program that could cost as much as $100 billion after completion and operation. On top of this and contrary to concerns raised last year in the NASA budget hearing, NASA has allowed policies to be put in place that will further reduce the stature of the ISS from a research facility to a guest hotel for the super rich. Last year, Dan Goldin promised that international agreements on visitors and crew standards would ensure that all visitors to the Space Station, would be trained comprehensively and qualified before permission would be granted to visit the Station. Instead, I believe that the proposed policies on Station visitors are weak, unsubstantial and could pose a deadly risk to every crew member on the Station. Again, this is unacceptable, especially during the assembly of the Station which is a period of heightened risk in an already extremely hazardous environment.

I have a number of other issues and concerns that I intend to raise today or as questions for the record. In particular, I am concerned about whether NASA is meeting all the funding needs associated with the Space Shuttle program. The Aerospace Safety Advisory Panel recently concluded in its March 2002 annual report that "current and proposed budgets are not sufficient to improve or even maintain the safety risks of operating the Space Shuttle or the ISS." This raises additional issues as to what is the future of the Shuttle, how safety concerns are prioritized and what is the relationship between the Space Shuttle program, the development of a crew return vehicle and the Space Launch Initiative (SLI) which is designed to develop second and possibly third generation reusable launch vehicles. Each of these programs have substantial costs and I am not convinced the NASA budget can sustain even the Shuttle program and the SLI without a clearer vision of the goals and relationship of these programs.

Finally, I am very gratified that NASA is working with the University of Missouri's Center for Gender Physiology in the area of gender-related issues in space flight crews. As we look to explore the universe and commit men and women to long periods of time in space, we need to understand the risks and stresses on the human body of living in space. In particular, it is critical to know the sex-specific factors that influence our ability to adapt to the challenges posed by living in the harsh environments encountered in the exploration of space.

Thank you, Madam Chair.

Senator MIKULSKI. I note that Senator Ted Stevens is here, the ranking member.

Sir, I know that you have many demands on you. Would you like to make a statement?

STATEMENT OF SENATOR TED STEVENS

Senator STEVENS. Madam Chair, you are very kind. Senator Inouye is opening our defense hearing, well, in just 2 minutes. I came to pay my respects to Administrator O'Keefe and to just put

one little item in the budget, which—in the record, which I will bring to Mr. O'Keefe.

I am a little worried about the fact that Gilmore Creek, I hear, is maybe subject to being closed. That is the last tracking station on American soil. I would urge that you put down that rumor if it is not true and review it if it is.

Thank you very much.

Senator MIKULSKI. Thank you, Mr. Chairman.

In order of arrival, it was Senator Craig, Senator Shelby, and Senator DeWine. I wonder if you want to make any statements now or if you would prefer to do that as you move into your questions or concerns you might have—Senator Craig or——

Senator SHELBY. Madam Chairman, I just want to associate my remarks with those of Senator Bond. I think he laid out some very serious and important questions that I hope Mr. O'Keefe will address.

Senator MIKULSKI. Thank you, sir.

Senator Craig.

STATEMENT OF SENATOR LARRY E. CRAIG

Senator CRAIG. Madam Chairman, thank you.

Director O'Keefe, we welcome you to the committee. I also am frustrated by the very concerns that Senator Bond has spoken to. We Americans have a love affair with space, and it is still there. There is no question about it. And so we here who appropriate for your activities have a similar excitement about it.

But you are there and I think you have been put there to bring some sense of balance and fiscal responsibility to this agency and also to chart new directions for it. And that is extremely important for all of us, because in reference to science and what can be gained, this morning once again we are seeing those phenomenal new images coming out of Hubble and going, "Whoa, that is exciting." And if it were not for the space program, we would not have been able to make that step.

I have been associating myself with it for some time as Senator Bond mentioned, university programs that are extremely valuable. Many of the researchers and educators from Idaho who take part in those programs see phenomenal benefit from them.

We, in Idaho, have grown increasingly excited about the Educator in Space Program. As many know, mission specialist Barbara Morgan is from McCall, Idaho, and she is slated to go up sometime in 2004 in a mission.

That excites us all. But it is an opportunity to extend once again to our young people a tremendous challenge towards space, space exploration and as my colleague from Missouri mentioned, as the chairman mentioned, science. We have invested a great deal in the biological sciences for the last decade and this Congress has been committed to them as the physical sciences in part have languished.

And I would hope that we can reinstate our purpose there, and NASA plays an extremely important role in that. Your new nuclear system initiative is exciting for me to see where you want to go. And I say that, and your jointly working with the Department of Energy is an opportunity.

It is not only an opportunity for us to be able to build long-term energy supplies or energy capability, but also to extend greater research into the area of nuclear reactors and energy from that type of thing.

We in Idaho are very proud of the fact that in our laboratory over 52 nuclear reactors have been built over the last five decades of all shapes and sizes. Working with Argonne and other laboratories around the Nation, we can lead the world, and this is an initiative that I am pleased that you are looking at. I think it is important for all of us in the long-term efforts in space and the long-term efforts of producing viable energy for our country.

Madam Chairman, let me put the balance of my comments in the record.

We are pleased to have you before us, sir, Mr. Administrator. And I trust that next year you will be able to tell us about all of the corrective measures made and the great new direction and course that NASA is taking.

Thank you.

Mr. O'KEEFE. Thank you, sir.

Senator MIKULSKI. Without objection, sir, your statements are in the record.

[The statement follows:]

PREPARED STATEMENT OF SENATOR LARRY E. CRAIG

Today we are hearing from the Administrator of NASA about the important programs conducted by this leading science agency. Over the last several months, I have met with many researchers and educators from Idaho who take part in and benefit from NASA's programs. Administrator O'Keefe, I commend you and the people of NASA for the excellent work you do in getting young people excited about science.

I know your testimony makes reference to the sobering statistics regarding the workforce challenges faced by—not only NASA but all of the Federal Government—in terms of the aging of our Federal scientists and engineers. We must do all we can to reinvigorate our science and engineering base in this country—to arrest this decline, and starting turning those statistics around.

One of the ways that students really become engaged is through the "Educator in Space" program. I am obviously very excited that you recently announced—and personally conducted a joint press conference with—NASA's first ever "Educator in Space"—Mission Specialist Barbara Morgan from McCall, Idaho. You can bet that school children all over Idaho and all over the world will be following Barbara's story as she prepares to take part in her space mission in 2004.

In your testimony we will also hear about a new NASA initiative that has really peaked my interest. This new initiative is the Nuclear Systems Initiative. This new program would cost about $800 million over 5 years. What excites me about this new program is that it acknowledges something I have long believed. If this country intends to explore the far reaches of the universe, it will not be possible to power these craft without nuclear power.

Working jointly with the Department of Energy, NASA has used nuclear power systems in space for over 35 years. These nuclear generators use the heat of the decay of nuclear materials to generate electricity. These systems are safe, proven, reliable, maintenance free, and capable of producing heat or electricity for decades under remote, harsh environments such as deep space.

NASA's new Nuclear Systems Initiative will improve upon these existing nuclear generators. Additionally, this new program will seek to develop a uranium-fueled nuclear reactor that will power an advanced electric propulsion system. I think this development is critical to the future of deep space exploration.

The Department of Energy's Office of Nuclear Energy has been a partner with NASA in all of its nuclear space initiatives. The same will be true of this new initiative. When it comes to the development of new, nuclear reactor technology, the Idaho National Engineering and Environmental Laboratory along with Argonne West—in Idaho—are DOE's lead laboratories.

Over the course of the last five decades, 52 nuclear reactors have been built at the INEEL. I encourage you to visit these facilities in Idaho and see for yourself what we can do. Working jointly with NASA and DOE, I look forward to the contributions that Idaho can make to this new Nuclear Systems Initiative

Senator MIKULSKI. Senator DeWine.

STATEMENT OF SENATOR MIKE DEWINE

Senator DEWINE. Madam Chair, thank you very much.

Administrator O'Keefe, good to see you again.

Let me express my support for your efforts in getting the Nuclear Systems Initiative started. I have confidence that this will provide the agency and the country with the technologies that we need to support future space missions, and I applaud you for that.

Let me also say that the NASA Glenn Center in Ohio is a NASA Center that is really, I think, able to contribute to this initiative through its electric propulsion technology capabilities and flight developmental heritage. And you and I have talked about that extensively in the past.

So, again, we welcome you here and look forward to your testimony.

And, Madam Chair, I would just ask unanimous consent that the balance of my statement be made a part of the record.

Senator MIKULSKI. Thank you, Senator DeWine.

[The statement follows:]

PREPARED STATEMENT OF SENATOR MIKE DEWINE

I would like to recognize the NASA Glenn Center in Ohio as an outstanding NASA Center that is able to contribute to this initiative through its electric propulsion technology capabilities and flight development heritage. NASA Glenn provides a significant contribution to the economy of Ohio. The Glenn Research Center has a total employment impact of more than 12,000 Ohio jobs and an economic output of approximately $1.1 billion for the entire State. Glenn is particularly well suited to have a major leadership role as part of this initiative. I will also point out that NASA Glenn is uniquely qualified to lead systems analysis and engineering efforts in the development of many non-nuclear technologies including: (a) high performance ion thrusters, (b) high voltage power management and distribution systems, and (c) power systems including high temperature lightweight radiators.

HUBBLE SPACE TELESCOPE

Senator MIKULSKI. Mr. O'Keefe, we now turn to you for your testimony on the appropriations request and the management guidance that you want to provide the agency. But we also know that Hubble—as the new retrofitted Hubble with its new eye in the sky has sent back some really wonderful pictures and pictures that tell us even more about the universe.

You know, we are very proud of Hubble, because of Hubble itself out there looking to the edges of the universe, but the fact that Goddard is the catcher's mitt of the information coming in and then it tosses it to the Johns Hopkins Space Telescope Institute for its marvelous analysis and so on.

So we in Maryland view the Hubble kind of—right now, it has been up there so long, it is kind of like the Cal Ripken of space telescopes.

And so we are—but unlike Cal, we had a very expensive contact lens that we had to retrofit, which also says something about the fact that even with the station, we know it has got problems, but

when we get it on track, like we got Hubble on track, the results can be stunning.

So why do you not go ahead and tell us about your request and, of course, bring to the table whoever you wish?

STATEMENT OF SEAN O'KEEFE

Mr. O'KEEFE. Thank you, Madam Chair, Senator Bond, members of the committee. Thank you all very much for your hospitality and willingness to consider our requests on a variety of fronts and, your very important, I think, opening statements have touched on the very challenges that I have seen in the course of my vast tenure of 4 months now at NASA. These are exactly the kinds of issues that I am wrestling with every day, and I think you put your finger to them.

First and foremost, I want to tell you how pleased I am to be here at this committee, being an alumni of the Senate Appropriations Committee staff longer ago than I care to admit, but nonetheless a very proud member of that alumni team and very grateful for the opportunity to be here.

I would like to submit a statement for the record, if you would permit, and quickly summarize a couple of points, and then touch on the Hubble images, Madam Chair, that you referred to up front.

Senator MIKULSKI. Without objection, it will be.

Mr. O'KEEFE. First and foremost, the issues I think that best characterize the approach that we are taking for the fiscal year 2003 budget before you and the request that the President has advanced, is characterized first by an approach to try to emphasize enabling technologies to overcome technical limitations that have been structural for some time.

That is a mission objective of trying to deal with some of the enduring kinds of challenges that sort of limit our ability to explore and discover anywhere. Most characteristic of that and touched on in the statements of several members here this morning, is our objective of trying to look at propulsion systems and power generation capacities that get us past what our current limits that, quite frankly, in the speed that we travel once we do the amazing effort of getting into low-earth orbit in 8 and half minutes, we are basically traveling——

Senator MIKULSKI. Mr. O'Keefe, I appreciate you giving oral testimony——

Mr. O'KEEFE. Yes, ma'am.

Senator MIKULSKI [continuing]. But could you follow your written one in some order as you summarize it? It is hard for us to follow you in a very complex technical testimony.

Mr. O'KEEFE. Oh, I apologize.

Senator MIKULSKI. Okay.

Mr. O'KEEFE. I am sorry. I have got to get the statement then.

Senator MIKULSKI. Yes, because we have got a statement. We cannot read the statement and listen to you.

Mr. O'KEEFE. I understand.

Senator MIKULSKI. But if you could just follow some order with your priorities.

Mr. O'KEEFE. I apologize.

Senator MIKULSKI. Please—and I am prepared to listen to the oral, but I have got to have a framework.

Mr. O'KEEFE. My apologies. All right.

I am sorry. I attempted to just cut through two issues as a means to just summarize this statement and then move to the Hubble issues to quickly work through that.

First and foremost, our mission objectives and the statement that we have prepared here for the vision and mission of where we would like to take the agency is best summarized by a concern that we focus on and establish a priority for enabling technologies. And that is essentially what the first initial couple of pages here has attempted to touch on.

And so our attempt is to emphasize what have been structural deficiencies and difficulties that we have encountered as part of our challenge to explore and discover. And so in that nature, the objective here is to look at very specific technologies that would overcome propulsion system and power generation capacity limits that would otherwise exist.

And in that regard, our primary effort for the most mature technology we seek to emphasize is for nuclear systems initiative, which is a maturing technology that gives us an opportunity to travel at speeds that exceed what we are currently restricted to, which right now are precisely or within the same realm or framework of what we did on Friendship Seven 40 years ago when Senator Glenn took his first trip.

So as a consequence, we are in that same set of limitations there. And part of what we attempt to describe here in the opening statement as that objective is to look at the enabling technologies to achieve that vision and mission statement objective.

A second area I want to touch on very briefly that is summarized towards the end of the statement as well, and then we will move from there again, with your indulgence, Madam Chair, to a discussion of the Hubble imaging that has just come back as of yesterday, is to touch quickly on the International Space Station and the approach that we are taking in this regard. And this is summarized later on page six and thereafter, in which our attempt is to look at five very specific dimensions of International Space Station to infuse a sense of management discipline to this particular process that we believe will correct some of the deficiencies and I think that Senator Bond touched on very, very clearly in his opening commentary as what we see as the nature of our problem.

First and foremost is to emphasize the science priorities. This must be driven by science requirements. The purpose of having an International Space Station is multi-fold, but its first primary objective should be to achieve the science and research objectives that have been outlined.

And in that regard there is a wide array of scientific community assessment and judgment that has been rendered over the course of the years, which unfortunately does not have any specific priority order attached to it.

In that regard, what we have done is asked a team of external scientists who represent all of the disciplines within the scientific community to look at this range of approaches that have been advocated for what the scientific and research objectives will be on

station and rank order prioritize what should be accomplished using this astonishing capability and infrastructure that we have managed to deploy at this juncture.

That is the first objective, to reach a prioritization effort, which gives us a very clear understanding of what we can use to maximize the research potential for those research objectives that uniquely require the kind of capability and micro-gravity condition that exists on the International Space Station; and then as a follow-on matter, also to emphasize those research opportunities which would give us a breakthrough potential in those particular fields or disciplines.

A second area of concern that is, again among the five focus areas that we are looking at for station, I think address the issues that were summarized well in the opening statement, is to focus very specifically on the engineering challenge of what we are dealing with here.

Over the course of the next 2 years to achieve the core configuration—this is not so much limited by resources as it is by just the dynamics of large scale systems integration challenge.

And, again, summarized as item two is the engineering objectives on page seven, which very specifically we looked to the course of the next 2 years through early fiscal year—I am sorry—through early calendar year 2004.

There are ten successive shuttle flights with payloads that will build out the International Space Station in the graphic—both here on the chart as well as before you—that need to be achieved in succession. And every one of those missions must be successful. Everyone has to be building on the success of the previous mission.

That is not so much limited by resources as it is by just the engineering challenge of that many flights, that much of a payload and the succession of that kind of a payload integration challenge.

So as a consequence, our approach is to focus very directly on the program management challenges of what it will take to achieve that particular objective, that milestone, which then could permit and facilitate the opportunity to consider the larger international partner assembly complete configuration that was envisioned so many years ago.

But as an engineering matter between now and, you know, 2 years from this stage in early 2004, if we do not achieve that milestone, we cannot look at expanding the scope of the International Space Station beyond what it is today. So it must be achieved and it must be done successfully in each of those successive ten missions to build out the entire station to facilitate that opportunity.

The third quick item, again, touched on in your opening statements that is a matter of extreme interest and concern to me is the cost estimation and analysis problem. There is no question that exactly the history that Senator Bond recounted is the manner in which it was revealed.

In early 2001, the determination was that we were $5 billion at present over the estimate. And at this juncture, we have asked for and commissioned, as the statement describes, is an internal cost estimating procedure to validate what it will take to achieve core configuration and then to look at what the additional excursions

would be for the international partner complete configuration that would follow thereafter.

Secondary, we have also asked for an independent cost assessment, part of the recommendations of the Young Commission that reviewed this matter last fall and made recommendations to NASA on that point. We have commissioned that particular independent cost assessment, all of which we expect to converge this summer.

So I can give you an estimate of what we believe to be the cost engaged in this particular activity. At this juncture, it is our best estimate, but it is one that I think needs to be validated further with a more disciplined cost estimating approach.

The fourth area is the international partnership dimension that you referred to as well. The international agreements call for a build out of International Space Station beyond what is referred to as node two, which is that particular milestone that occurs in the early part of 2004. And to reach those agreements and to make sure that we have accomplished that task is what we attempt to touch on in that last point.

And, finally, on the fifth objective of where we are on the International Space Station is to look at what the flight rate requirements are for shuttle and payload missions for Soyuzes, for progress flights from our Russian partners engaged in the activity, to assure that we have supported this particular 2-year endeavor at this juncture to assure we reach that core configuration and then can discuss beyond that.

As it stands now, the flight rate that is built into the budget is the maximum achievable flight rate to support this particular engineering dynamic. So as a consequence, there is no more aggressive deployment of that particular build-out procedure according to the project management and engineering team that manages the International Space Station and what we have built into the program. And it is designed purposely in order to achieve that systems integration success.

With that, Madam Chair, if you would permit me, those two issues are the primary topics I wanted to at least touch on briefly, and then to defer quickly to a discussion of the Hubble imaging effort that just occurred. And, again, I think your characterization of it is precisely right.

And I would simply add one footnote to the history of it. Ten years ago, this was an asset that was roundly criticized as an absolute failure, and as you correctly described, a corrective lens was installed by a remarkable astronaut by the name of Story Musgrave, who performed a series of space walks that were just positively over the top in terms of what anybody thought was achievable to bring this into a serviceable condition.

But what we are getting back today as a consequence of the Hubble servicing missions that have occurred since that time, since his success in 1993, have really been beyond what we ever could have expected. And a gent that I have asked to join us here today is a veteran astronaut of four different missions, two of which were Hubble servicing missions to include the most recent one, STS 109, which was launched on March the 1st and returned in mid-March after the very successful upgrade of the power units aboard as well

as the infrared imaging systems, all of which exceeded our expectations.

Our fondest hope was that we would get a ten-fold increase of what we would see coming back as imaging from Hubble, which has already, even before the servicing mission, rewritten the astronomy books.

But as a consequence of this latest mission, I think we have not seen anything yet in terms of the caliber of materials that has come back.

John Grunsfeld is, again, a veteran astronaut, a fellow who was aboard the last mission, and in the history and in the legend of a guy like Story Musgrave, he too is becoming legendary, given the fact that he has done two of these servicing missions. And among all of his extraordinary characteristics as an astrophysicist and just a remarkably talented fellow, it turned out that his greatest attribute on this mission, on the several EVA space walks that he did to service the Hubble mission over the course of several hours, to include almost 7 and a half to 8 hours each mission—his greatest attribute is because all the control panels on Hubble are on the left-hand side, he is a left-hander, and so it made it an awful lot easier to service. So around NASA he is referred to as the "southpaw savant."

So I would like to introduce Dr. John Grunsfeld, who will walk us through a few of the images that have just returned from Hubble and released just yesterday.

Senator MIKULSKI. Thank you.

[The statement follows:]

PREPARED STATEMENT OF SEAN O'KEEFE

I appreciate the opportunity to appear before the Subcommittee today in my new capacity as NASA Administrator. My objective throughout my stewardship of this storied Agency is to ensure that the Congress and the public are fully aware of our accomplishments, our current efforts and our plans for the future. My job as Administrator is to remind everyone of what NASA does and what we are capable of doing. It's a responsibility I take very seriously. I believe we are at a crossroads in NASA's history. We have an opportunity here and now to reinvigorate the Agency's agenda and renew the entrepreneurial spirit present at NASA's beginning—a continued characteristic of American culture.

The President's fiscal year 2003 budget proposal for NASA of $15.1 billion reflects the Administration's commitment to NASA's core research efforts and its fundamental mandate to advance aeronautics and aerospace science and technology. This budget initiates exciting new efforts in the realms of space transportation and propulsion. It builds upon our abilities to measure and understand our home planet and the natural—and unnatural—forces that shape our environment. I believe it is a well-balanced and progressive budget that allows us to set the stage for the future. Enclosure 1 displays NASA's fiscal year 2003 budget request.

In the 4 months since my confirmation, I have traveled across the country to visit each of our 10 Centers to meet NASA's dynamic workforce and have seen firsthand the remarkable science and technology efforts that are the underpinning of our endeavors. In this relatively short period of time, the Agency has taken a fresh look at the long-term management, resource, and technical challenges while continuing to expertly carry out highly complex day-to-day operations. Together we have charted a vision and mission that I look forward to sharing with you this morning.

My testimony today will focus on the talent and technology that is embedded in the NASA organization, the challenges we face, and, more importantly, the steps we will take as an Agency to chart a clear course for the future. We are intent on continuing the gains made over 44 years while pushing the edge of the envelope of what appears today to be impossible. NASA today is working together, as one Agency, committed to a clear vision and refined mission that will serve as the blueprint for service to America.

What NASA needs now is a roadmap to continue our work in a more efficient, collaborative manner. I first outlined this roadmap for NASA on April 12 at the Maxwell School of Citizenship and Public Affairs, Syracuse University. NASA's imperative is not only for the sake of knowledge—it is for our future and our security. I have introduced a new strategic framework and vision for NASA. It is a blueprint for the future of exploration. It is a roadmap for achievement that we hope will improve the lives of everyone in this country and everyone on this planet.

That is a bold statement, I know. But, I am confident in saying this because the unique work that NASA does truly touches all of our lives.

This is NASA's vision for the future. Our mandate is:

—To improve life here;

—To extend life to there; and,

—To find life beyond.

This vision is much more than carefully arranged words; it frames all that we do and how we do it.

So, how do we get to that impressive picture of the future? The answer is by executing NASA's mission:

—To understand and protect our home planet;

—To explore the Universe and search for life; and,

—To inspire the next generation of explorers as only NASA can.

To understand and protect our home planet, NASA develops and employs the technology to make our nation and society a better place. We forecast the impact of storms on one continent upon crop production on another continent, track and predict the patterns of mosquito-borne diseases, and study climate, geography and the environment.

NASA's contribution to security comes from increased cooperation and the sharing of imagery and unique technology with the Federal agencies charged with the defense of our homeland. Aerospace innovations developed at our centers prevent civilian aircraft from being used as weapons. Improved air traffic control safety systems and engineering that will make future airplanes more efficient and environmentally sound are clear examples of our role in the changing nature of transportation and our Nation's security. Hypersonics and quiet aircraft are efforts to speed transport and, in doing so, bolster the economy.

Our mission's second theme is to explore the Universe and search for life. NASA will exploit advanced technology, robotics, and will eventually use humans to explore and seek the answers and the science behind our most fundamental inquiries: How did we get here? Where are we going? Are we alone? If we are to achieve our ambitious objective of exploring the universe and the searching for life beyond our Earth, be it through flights to Mars or observing faraway planets, we must continue to learn about and overcome the technical hurdles that remain in our quest to answer our most probing questions.

NASA's recent achievements are only the beginning of the Agency's role in rewriting tomorrow's textbooks for America's children, as well as for today's astronomers and astrophysicists alike. Just yesterday, NASA released the first images received from the newest science instrument on the Hubble Space Telescope, the Advanced Camera for Surveys (ACS). The new ACS was part of the recent and highly successful STS–109 servicing mission, during which astronauts helped take Hubble to the next level of excellence. This new and improved camera now offers us 10 times the discovery power than the camera it replaced. With the ACS, our view into the depths of our Universe has been taken to a new level. I would like to share with you today a set of the stunning new images from the Hubble Space Telescope, including an image of a spiral galaxy dubbed "Tadpole," residing in a constellation about 420 million light years away; an image of the center of the Omega Nebula, a hotbed of newly born stars, 5,500 light years away; and, an image of a pair of colliding galaxies nicknamed "The Mice," more than 300 million light years away.

Later this month, we will launch the GALEX, Galaxy Evolution Explorer, which will use ultraviolet light to conduct an all-sky ultraviolet survey and detect millions of galaxies located billions of light years from our earth. Next year, we will travel further into our own solar system with the launch of the Mars Exploration Rovers and Mars Express missions. The Mars Rovers will take us beyond the success of the Mars Pathfinder mission in 1997 and allow us to analyze rock and soil samples on the Martian surface at a microscopic level. Mars Express, a mission planned by the European and Italian space agencies, will be the result of international collaborative efforts with NASA. This mission will take us another step closer to our search for evidence of past or present life on Mars. In January 2003, we will launch the last of NASA's great observatories, the Space InfraRed Telescope Facility, destined to be a cornerstone in our Astronomical Search for Origins Program and allowing us to peer into regions of space currently hidden from our view.

If we are to achieve the mission of exploring the universe and searching for life, there is much we must still learn and many technical challenges that must be conquered. Today's chemical energy rockets that have been the engine of exploration since the inception of space travel are today at the limit of what they can deliver. Using current technology, if we were to embark to explore Pluto in 2006, the earliest we could arrive there is 2014–2016; and then, upon our arrival, we would only be able to obtain meaningful research for 4–6 weeks. That is an 8–10 year travel period for 4–6 weeks of science. NASA's fiscal year 2003 budget includes nearly $1 billion for a nuclear systems initiative as a first step in addressing this challenge. Nuclear propulsion is a mature technology that has been used safely by the U.S. Navy since 1955. Since that time, the Navy has sailed over 120 million miles encompassing 5,000 reactor years without incident. This technology may hold the key to overcoming the time/distance challenge, and its application to space travel has great potential.

Propulsion is only one of the challenges facing further human exploration of space. Still unknown are the long-term effects of radiation and exposure to a microgravity environment on humans. The fiscal year 2003 budget includes funding for a new initiative for space radiation research.

Our third mission objective is to inspire the next generation of explorers. America looks to NASA to build an unequalled scientific base of knowledge and motivate our youth to embrace math, science and engineering. While opportunities in the technology sector are expected to quadruple this decade, the pool of college students enrolled in science and engineering courses continues to decline. NASA has an obligation to the nation and its own workforce to reverse this trend.

NASA faces similar challenges with its scientific and engineering workforce. During one of my recent Center visits, I found that only 62 engineers out of a 3,000-person workforce were less than 30 years old. In fact, as an Agency, our over-60 population is three times larger than the under-30 workforce. Inspiring the next generation of explorers to enter fields of science and engineering is integral to NASA's success in reconstituting our workforce for the 21st Century challenges.

Students are only part of the education equation at NASA. Our Nation's educators are also a critical component of NASA's revitalized education focus. Teachers at all levels already possess the skills to inspire and plant the seeds necessary for this Nation to grow the next generation of science and technology leaders. NASA can best introduce itself and the science that it represents into the classroom by teaming up with educators, especially at the younger grade levels.

Inspiring future generations works in synergy with NASA's mission to protect our home planet. The U.S. Commission on National Security for the 21st Century (the Hart-Rudman Commission) concluded that advances in technology and changing economies mandate an increase in the level of technology literacy across society. It is clear that technological human capital is an essential component of our national security equation.

Our mission concludes with the statement, "as only NASA can." Our Agency is one of the Nation's leading research and technology Federal agencies with unique tools, capabilities and expertise that represent a National asset. The Agency contributes to America in a broad spectrum of areas. Medical technologies, aerospace innovations, spin-offs, nano-technologies, and countless commercial applications are rooted in NASA discovery. Our commitment to the American taxpayer is to continue providing a direct and very tangible means of improving life on our planet. Extending life beyond the reaches of our earth is not a process driven by any particular destination, but by science that will contribute to the social, economic, and intellectual growth of our society.

NASA provides a constant return on taxpayer dollars with each new discovery, telescope picture, launch, patent, and newly inspired child or adult. That being said, none of the ambitious plans that I have detailed for the Agency will take root if we fail to improve the management of our resources, commit to fiscal responsibility, and establish a clear set of priorities. A clear vision and integrated mission are important foundations for NASA's future success, but success requires that we embrace a wide variety of tools to move us forward.

At NASA, and at other departments and agencies across the Federal Government, we are vigorously implementing the President's Management Agenda as a powerful management initiative. Each of the five items included in the Agenda applies directly to NASA.

First on the Agenda is the strategic management of human capital. As I mentioned previously, we face challenging times as we reconstitute and reshape our workforce for the 21st century. Today we have an extremely experienced workforce in terms of overall capability. The downside, however, is that almost one-third of the workforce will be eligible to retire within the next 3–5 years. We must aggres-

sively deal with this leadership and workforce challenge. I have recently forwarded a series of legislative provisions to the Office of Management and Budget, which address this challenge head-on. These provisions will complement the Administration's Managerial Flexibility Act, and I look forward to working with the Congress to ensure that these essential tools are enacted into law.

The second element of the Agenda is competitive sourcing. We are thoroughly examining the best ways to motivate a competitive sense in all we do. By focusing on results and outcomes, we will find the most efficient means to accomplish our goals.

The third element of the Agenda is expanded electronic government. We must pay specific attention to information technology and ensure that the information technology process is integrated into Agency decision-making.

The fourth element of the Agenda is improved financial management. I am pleased to report that we are aggressively implementing our integrated financial improvement program, which is now in the third year of its implementation schedule. I have tasked the staff to explore all options to determine whether we can accelerate implementation throughout the Agency.

The fifth element of the Agenda involves budget and performance integration. We must become results-oriented and link our budgets to performance. We will breathe new life into the Government Performance and Results Act. We in NASA are spending a great deal of effort into developing metrics to measure performance.

I would now like to provide a status of two of our major programs.

International Space Station

The International Space Station (ISS) is without precedent in the history of the U.S. space program. The ISS Program has had a year of spectacular technical achievements, which include ground preparation and checkout, launch integration, and on-orbit assembly and operations. To date, the ISS program has achieved remarkable technical successes; however, it has not been equally successful in controlling cost growth. Last year, NASA projected an overrun in the amount it needed to complete the space station, as then planned, of up to $4.8 billion. While some of that growth may be attributable to such factors as inadequate initial requirements definition, added content, late delivery, and development problems leading to cost variance, there are clearly areas of fiscal management and program control that need improvement.

The President's Budget Blueprint for fiscal year 2002 laid the groundwork for attaining cost control and regaining credibility for the program to reach its full potential. As a result, a course of action was prescribed to get cost growth under control and restore confidence in NASA's cost management, and to achieve the science priorities for which the Nation has made a large investment. We are continuing with the reassessment and review activities that we began last year that followed the Blueprint, but did not eliminate the cost challenge. The President's fiscal year 2003 budget projections include about $600 million of savings that NASA will realize through the implementation of identified program initiatives, and a process that continues to seek additional savings while containing the threats to further ISS cost growth. While steps taken last year were designed to contain cost growth and to gain better understanding of its source and nature, this year will be one of corrective action—putting in place the right processes, tools, management controls, and measures to improve and evaluate the ISS program.

Thanks to the efforts of the ISS Management and Cost Evaluation (IMCE) Task Force, led by Mr. Thomas Young, we are well along in effecting proper controls and regaining credibility. I have reviewed the Young team's recommendations and have endorsed them as a roadmap to improve the ISS Program management. As a result, the ISS management has already taken actions to develop implementation strategies.

The following five points are guiding our efforts at reform and revitalization of the ISS program:

Research Priorities.—Establishing an integrated portfolio of science and technology priorities that maximize the benefits of space-based research within available resources. In addition to addressing the cost challenges of the ISS, we must make a renewed determination of the research goals and on-orbit capabilities that we want the ISS to achieve. Our priority should not be to simply build an ISS to a specific hardware complement and then seek research and experiments to make use of the hardware. The ISS Program should be driven by high-priority research objectives. NASA has recently established a Research Maximization and Prioritization (ReMaP) Task Force to assess how high-priority research objectives can be best met by ISS within available resources, and how the resulting research strategy might evolve, given the possibility of research-driven enhancement to the ISS beyond U.S. Core Complete.

Engineering Development/Deployment.—Development of a program road map that focuses on successfully achieving a "core complete" configuration within budget. This will not be easy, but we are dedicated to making it happen. Therefore, it is imperative that Congress provide us with the requested funds so that we can meet our commitment to achieving a core Station. Should NASA demonstrate that reforms are implemented and cost credibility is regained, this will enable future decisions towards a requirements-driven "end state" that will, defined in terms of science priorities, allow an expanded research potential for us and our international partners.

Cost Estimation and Analysis.—The ISS is the largest and most complex engineering development program ever pursued by the United States. Implementation of improved methodologies, tools and controls are underway and will allow us to regain credibility and improve our ability in financial forecasting and strategic planning capabilities. An independent cost review is underway to better understand our costs. These projects will also be beneficial to the Agency at large.

International Partnerships.—An important challenge is maintaining the ISS international partnerships. Our partners have expressed their concerns stemming from NASA working to get the fundamentals right to achieve U.S. core complete; and then to identify options beyond U.S. core complete to realize the full potential of the ISS. Although the configuration of the ISS has been modified to meet the cost challenges we face, the fundamental purposes remain—research and international cooperation. To reaffirm NASA's strong commitment to its international partnerships, I have formed a team to meet with representatives of all our partners to understand their concerns and to work with them in the spirit of cooperation.

Mission and Science Operations.—Advanced planning for Space Shuttle and ISS operations to maximize the productivity of on-orbit research and ensure the safety of real time operations.

Space Shuttle

NASA is proud of its historic record of 106 Shuttle missions and, in particular, the accomplishments of the last year in support of the ISS. Last year, seven Shuttle missions were flown with five of those missions launched during a 6-month period.

This budget continues to invest in safety and supportability improvements for the Space Shuttle and increases the investment in repairing aging Shuttle infrastructure. These investments, totaling $1.35 billion over the next five years, will ensure that the Space Shuttle can meet NASA's space transportation needs for at least the next decade. NASA seeks to implement these upgrades as quickly as possible, and is working to accelerate the availability of planned upgrades. These investments are an integral part of NASA's Integrated Space Transportation Plan (ISTP), which also includes investments in the Space Launch Initiative (SLI) for NASA's next-generation reusable space transportation system.

As recommended by the IMCE Task Force, reducing the Space Shuttle flights to four per year appears to be sufficient to meet ISS needs. However, we are reviewing this decision to determine whether any additional flights are necessary.

The President's budget also provides for the continued pursuit of Shuttle competitive sourcing. The anticipated benefits of competitive sourcing include: (1) greater flexibility to recruit and retain the skilled personnel necessary to safely operate the Shuttle; (2) avoiding potential continued cost growth for Shuttle operations by moving to a private organization that has greater flexibility to make business decisions that increase efficiency; and, (3) significant culture change in Human Space Flight at NASA by making it a purchaser of services rather than an operator of infrastructure.

Mr. Chairman, I believe the vision, mission, programs, initiatives and budget I have described represent a strong commitment to a healthy and forward-moving NASA. I believe it is deserving of the Subcommittee's strong support and I look forward to working with the Subcommittee to achieve an appropriation that supports the President's budget request.

I have mentioned the opportunity I have had to meet the men and women of NASA, working in our installations across this land. We have a diverse and resilient workforce, and they are proud and excited about the work they are doing. They are our greatest assets and I believe our greatest hope for the future of this Agency. They have shown me their desire to be a part of the work contributing to even greater meaning in the larger dreams represented by this Agency. Their eagerness and dedication and the strength of their resolve tell me that, together with the support of Congress and this Subcommittee, we can achieve what we have set out in this budget to accomplish—and more.

Thank you.

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION FISCAL YEAR 2003 ESTIMATES

[In Millions of Real Year Dollars]

	Fiscal year		
	2001 Op plan revised [1]	2002 Initial Op plan	2003 Pres budget
Human Space Flight	7,153.5	6,830.1	6,130.9
International Space Station	2,127.8	1,721.7	1,492.1
Space Shuttle	3,118.8	3,272.8	3,208.0
Payload & Elv Support	90.0	91.3	87.5
Heds Investments and Support	1,247.8	1,214.5	1,178.2
Space Communications & Data Systems	521.7	482.2	117.5
Safety, Mission Assurance & Engineering	47.4	47.6	47.6
Science, Aeronautics & Technology	7,076.5	8,047.8	8,844.5
Space Science	2,606.6	2,867.1	3,414.3
Biological & Physical Research	362.2	820.0	842.3
Earth Science	1,762.2	1,625.7	1,628.4
Aerospace Technology	2,212.8	2,507.7	2,815.8
Academic Programs	132.7	227.3	143.7
Inspector General	22.9	23.7	24.6
Total Agency	14,253.2	14,901.7	15,000.0

[1] Fiscal year 2001 restructured to reflect two-appropriation structure

HUBBLE SPACE TELESCOPE IMAGES

Senator MIKULSKI. Good morning, Doctor. Come on up.

We are looking forward to hearing you. You know, they often say about this agency and these appropriations for it really is rocket science. But we are glad to really meet a rocket scientist, so——

Dr. GRUNSFELD. Do you have a baseball analogy for a lefty?

Senator MIKULSKI. No. I am going to just——

Dr. GRUNSFELD. All right.

Senator MIKULSKI. I am going to just sit in the dugout here and look at the pictures.

Dr. GRUNSFELD. Well, it is truly a pleasure to be here. And I thank you very much for allowing my participation.

First, let me say that I was on the Hubble Space Telescope a month and a half ago, and the Hubble Space Telescope is a national treasure. I would just like to report to you that the telescope is in fantastic shape.

We spent about 35 hours space walking on the Hubble Space Telescope. While the outside may look a little tattered, inside it is a brand new telescope. And even more so now that we have made the upgrades, as Mr. O'Keefe told you, the telescope is now ten times better and has a new power system, so I think effectively we can consider it a brand-new telescope.

It is very exciting for me to be involved in the Hubble project as an astronomer simply because it is kind of a Mecca for astronomers in that it is the most productive scientific instrument ever created by people. I think that is just incredible, we are all alive at this time in history to be participants. So I would like to bring all of you as participants into that a little closer by showing a short video with some of the early results. And I really want to just remind you that the best is yet to come. This is just a sneak preview.

So we are going to start with the first images. These were released yesterday. They are from work that occurred in April from

the advanced camera for surveys, a digital camera. It actually has three cameras inside of it, but it is the digital camera.

We are going to show you four pictures today. The first picture is called the cone nebula. And this is a very large turbulent pillar of gas very much like the Eagle nebula pictures from the wide field camera. But this is unprecedented detail of this nebula. And this nebula is a star forming region.

We are seeing where baby stars are born and start to grow. There is another star off field that is illuminating this and giving us just beautiful views of this.

The next picture is zooming in from an earth-based optical picture, which is now low resolution compared to the new Hubble images. You can see it getting blurry until you get to the Hubble image. And as we zoom in, you can see the very, very small detail. This picture is only about 3,500 times as big as our solar system.

The next is the Mice. And this is a zoomed-in view of the tail, and the detail is unbelievable. This is a 16 million pixel camera, and we are seeing a galaxy that has collided with a much smaller galaxy and thrown out a pillar of gas. The two galaxies are interacting and the tails—but in the background, you see all these other objects. And it comes out more in this picture, which has been named the Tadpole. And, again, it is interacting galaxies that have thrown out a tail. Star formation is occurring in that tail, spawning off new galaxies.

The incredible thing about this picture is in the background—the main thing to take was the picture of the Tadpole galaxy, but in the background, it is virtually another Hubble deep field. This picture was taken over the course of about 1 day of observation compared to the 12 days of the deep field.

When we take pictures like this, I think we are going to get a deep field in every picture, and it is just incredible. There is a total of about 6,000 galaxies in the background of this picture, twice——

Senator MIKULSKI. 6,000 galaxies?

Dr. GRUNSFELD [continuing]. The number that we saw in the two deep fields that were dedicated precious Hubble time.

We saw pictures of bright young stars in those pictures. I had the opportunity last week to talk to third-graders in my hometown, which is the south side of Chicago. That is the age at which I kind of became inspired to do science. It was when I had to do a biography of Enrico Fermi, a famous American physicist.

I had the opportunity to talk to a third-grade class about the Hubble mission. There was one little girl in that class who raised her hand and asked me a question, and it was more of a statement than a question. She said, "Did you know that 3 billion years or 4 billion years from now, our sun is going to explode and create a planetary nebula like the ones you showed in the pictures?"

Senator MIKULSKI. She said that to you from the third grade?

Dr. GRUNSFELD. She said that to me. I thought this is incredible that a third-grader knows enough about stellar evolution and the course of stars like our own, that there is hope for all of us yet. And I think those are the bright young stars that these Hubble images really talk to is our young people, getting them interested in that age in technology and science. I thank you very much.

HUBBLE MISSION

Senator MIKULSKI. Well, thank you very much, Doctor.

First of all, I think in behalf of the Committee and the Congress and the country, we really want to thank you and we want to thank the astronauts who went on this mission. It was not an easy mission. It was a white-knuckled mission in terms of the complexity of the retrofitting.

All the hard work and the training that you all did in order to be efficient and safe in space, first of all, we want to thank you for the successful completion of the retrofitting that adds not only new life to the Hubble, but a whole new incredible capacity, bringing it far beyond what we wish we had even thought of for Hubble.

And so we would like to thank you and, of course, everyone connected with Hubble in terms of what they are doing. And some day that little third grader is going to be—I have a feeling, is going to be up in space.

And so, again, do you not think we ought to just give them a round of applause here?

MANAGEMENT REFORMS OF THE STATION

And after that, it seems kind of nickel and dime to be talking about the budget, but we must. So thanks again and we look forward to this.

Thank you. I am going to move now to my questions and let us go to the issues related to—I know that Senator—let us go to the questions related to the space station.

In your written testimony on pages six and seven, you really go into what you want to be the management reforms of the station. $4 billion in overruns; $4 billion in overruns. You give these excellent five points and you had them in your testimony, the research priorities, engineering developments, cost estimates, holding steady our international partners, which is getting tattered and worn, and then, of course, mission.

What can we expect over the next year in terms of the bringing this into some form of discipline and some form of really true cost estimates in terms of what the station will be able to do?

Mr. O'KEEFE. Well, first of all, if you would permit me, Madam Chair, I want to thank you again for the recognition of John Grunsfeld, Scott Altman and his extraordinary crew that performed this mission. It was really remarkable, and I thank you for the opportunity to present that today.

As it pertains to the International Space Station, I think you put your finger right to it. What we are focused on and clearly dedicated to is to focus on program management and fiscal discipline principles to achieve the core configuration so we can then have a meaningful discussion and debate of how to best utilize the scientific requirements or to employ the scientific requirements that will emerge from that.

My strongest hope and frankly confidence is that this summer as we complete the internal, as well as, independent cost estimates, that we are going to find ourselves within the range of what we presented as the budget for this particular endeavor and assure that we stick to that as a means to accomplish this particular task.

Again, the pacing milestone that is most critical, for which everything needs to be discussed from that point is the accomplishment of node two, which is part of the international partner deployment of that module, which then facilitates a larger configuration potential. But between now and then, what you see in the budget for 2003 as well as the projections for 2004 is the amount required to achieve the core configuration, and based on the map out here of each of the fiscal years laid out, or each of the calendar years; and to achieve that task then makes open the possibility for a larger discussion of what assembly complete would look like with all the international partner components that would go to that.

If we do not meet that milestone, that objective, there is not a discussion beyond that. As an engineering matter, the end state, not because it is resource constrained, not because anyone wants it to be that way, but because that becomes the reality of what we are faced with if we cannot achieve the core configuration by that stage.

So our focus is very much on the knitting of getting from here to that big milestone, and then assuring that each of the international agreements that we have entered into can then follow on from there to achieve what could be the assembly complete configuration.

But until that point, our focus has to be primarily on the core configuration between the elements, and the budget includes——

SPACE STATION COST OVERRUNS

Senator MIKULSKI. We appreciate the focus on the core configuration. And here is my question: based on what you're bringing to bear on the space station through your executive ability and management methodologies, can we have your assurance that the cost overruns are over?

Mr. O'KEEFE. This summer, when the internal, as well as independent cost estimate is complete, I will be able to give you a definitive answer on that.

Senator MIKULSKI. Oh, we take you for your word. We believe you are a man of integrity and that is why we need candor here.

Mr. O'KEEFE. Sure. I appreciate that. Yes. At this juncture, I cannot give you an assurance that this is the end of it. I do not know, until that independent cost estimate and the internal estimate is complete.

I think we are heading in that direction. There is nothing so far, that I have seen in the last 4 months that has been a surprise or anything even approaching what we saw emerge as a consequence of the early January 2001 revelations of what the cost configurations were here.

So there is nothing along that run, or line. But I think by this summer, I will be able to give you a definitive answer to that. Until then I am withholding judgment myself. We are trying to exert as much of a discipline in that process to make what we have sent and the President has proposed for 2003 as well as projections for 2004 for the International Space Station, the resources we think at this juncture are necessary to achieve that task.

Senator MIKULSKI. Well, first of all, I want to salute you, because I think that you are ending this culture associated with the station that it did not matter if there were cost overruns, that we would make it up in other programs. And all of us feel that other programs have suffered because of it.

But one last question and then we will be turning to Senator Bond. I understand that the core completion means that the station would be able to house three crew astronauts, am I correct in that?

Mr. O'KEEFE. Yes.

Senator MIKULSKI. And that anything to go to the seven, which we had already envisioned, would be beyond core. So this is really the basics, not even the basics. This is the bare minimum to even justify the station. Am I correct?

Mr. O'KEEFE. Well, the——

Senator MIKULSKI. And then the question is: Can you really do research with three astronauts?

Mr. O'KEEFE. Yes. This is definitely a chicken and egg problem. I think you put your finger right to it, Madam Chair. But let us recall, again, as a systems integration, an engineering reality, we are through 2004—under any configuration whether we agreed to a ten-astronaut configuration, or twenty, or whatever other number you would like. The reality is in the next 2 years, the engineering principles driving the direction, and the systems integration challenges driving the direction of an International Space Station, between now and 2004, that will accommodate three.

There is no way to accommodate larger than that between now and then, and never was part of the plan. Even before the cost estimates were revealed to have increased, there was not a point where we would have achieved more than three crew members, up until 2004.

It was beyond that that was the original agreement and understanding, because, again, the buildout time it takes to do this is such that we are about halfway there right now, maybe a little more than that. And so as a consequence, the reality is we are going to be at a three-crew-member configuration. We were going to be at that a year ago. We were going to be at it yesterday. We will be at it tomorrow.

The plan, the objective, the clear intention is to get to the point by early 2004 where we can look at the deployment of modules and components that would make this a larger configuration for a crew size driven by the science requirements, not by some number we all make up. Instead, it ought to be driven by what those requirements are and how many crew it takes in order to conduct that set of priorities that are there.

So part of the discussion we need to engage in here over the course of the next year, as we reach that configuration that facilitates this meaningful discussion, is to talk about what those priorities are and how far we want to go, how deep down that priority list we want to achieve this and, therefore, how many crew members it will take to accomplish that task.

That is a more, I think, appropriate way to look at the nature of the objective, the mission of what is required and the require-

ments for this extraordinary capability, rather than backing into it by some crew configuration number that is different.

Again, the total crew size that exists today was the crew size that was envisioned at the time of the international agreements at this time. And all the way through 2004, that was going to be the crew size configuration. My fondest hope is that we not stop there. Nonetheless, we need to exert the discipline to assure that we can at least get there before we can even entertain a discussion beyond that.

Senator MIKULSKI. Senator Bond, I know you have questions on this.

PRIORITIZING SCIENCE RESEARCH

Senator BOND. This is an area we have discussed before and one of great concern to me. The core complete, obviously you have got to take the first step before you can start to jog or run, and one of my questions was going to be how you prioritize the science research.

And you have indicated briefly that you are going to move to the science side first and use the science requirements to drive the configuration needs for manning the space station. Is that a fair assessment?

Mr. O'KEEFE. Yes, sir. I think the science and research objectives are the primary, not the only, but the primary reason why we have engaged in this remarkable challenge of building something this big, 250 miles straight up that is moving at 18,000 miles an hour while we are trying to build it. It is a challenge, yes.

Senator BOND. And in prioritizing the science—we talked about it yesterday—tell us about how you are prioritizing the science for the station. What kind of tests are you doing? Are they laying out in each project the time, the crew man hours or time hours, the costs? How are you prioritizing the science?

Mr. O'KEEFE. Thank you, Senator. The approach is to pull together, and what we have assembled now is a group of scientists who represent all of the respective disciplines, to include a plant scientist, to include Dr. Vitchi, as well, who is one of the members of that particular group, that is prioritizing the full range of all the scientific objectives that has been expressed by each of those communities, chemists, biologists, plant scientists, across the board, everyone who has articulated what they think are the purposes or the utilization of capability that is continuous microgravity condition——

Senator BOND. Yes.

Mr. O'KEEFE [continuing]. And for which there would be extraordinary breakthrough research opportunities, if conducted in that atmosphere. So in other words, what we have asked them to do in representing all of those disciplines is, give us your highest priorities that meet those two criteria, then use this capability uniquely.

Senator BOND. When is that due? When are you going to get——

Mr. O'KEEFE. That would be finished by early June. Within the next 6 weeks, we will have that in hand. Yes, they have committed to that. They are on track for that too.

Senator BOND. Yes. Do you get it prioritized? Do they say, This is going to take—this project, we estimate will take so many crew

hours, so many crew days, so many crew years"? How do you—if you are going to meld that in, you need to know the cost of it.

Mr. O'KEEFE. Sure, yes, sir.

Senator BOND. You need to know the extent of the equipment. And I gather from what you are saying, although you have not said it explicitly, the crew size you are going to shoot for ultimately is going to depend upon the human needs associated with each experiment.

Are they going to give you an estimate of the crew time? Is that going to drive the habitation needs?

Mr. O'KEEFE. Yes, sir. Well said. That is exactly the objective, to look at that as the driving requirement. While this particular group is not making an assessment of how many people to take or how much does it cost, we already have that in the can by virtue of the fact that most of the efforts that are underway in each of these research communities are identified. What they are doing is prioritizing them, so therefore you can draw from each——

Senator BOND. So you have the crew—each project has a crew time, cost and all that.

Mr. O'KEEFE. Can be derived.

Senator BOND. They are just prioritizing their—okay.

Mr. O'KEEFE. It can be derived, yes.

BEYOND CORE COMPLETE CONFIGURATION

Senator BOND. And at what point, assuming they come up with some things that require, say, for example, that you go up to the seven-man crew. Under what proposal, when would you be able to provide for and fund a habitation module and the crew return vehicle necessary? What are you doing in that area to—I know you have some options. Tell us about those if you would, please.

Mr. O'KEEFE. Yes, sir. Thank you. As it stands, several of the decisions that are necessary to look at beyond core complete configuration can be made in 2003 and the early part of 2004. There are a few that really need to be considered and thought about as early as this fall, or certainly by the time the 2004 budget is presented to the Congress for your consideration.

So there are a few issues that are pacing items that need to be considered on that point. The most critical of them is the successful development and production of the node two module, which the Italians are very ably conducting right now. We have been working with them extensively to assure delivery of that module that then opens up the opportunity for the habitation module you described.

Senator BOND. Yes.

Mr. O'KEEFE. So the decisions are about a year off, and we need to assess that to see where we are on the deployment of that particular configuration by that time.

On the crew return vehicle that you have discussed, we are looking at several alternatives that will be platforms to accomplish multiple objectives, not single purpose objectives.

And as it stands now, the X38 crew return vehicle, which is a single purpose mission craft which was designed and developed, there has been a test article of it. We know how far that is going to go and we got a pretty good idea of how to make it, and instead of going ahead and producing or investing the $1 billion plus that

it takes for a single purpose craft, we are setting that aside and looking at other alternatives that would give us multiple mission objectives for transportation, for resupply, for logistics, for payload requirements, and crew return capacity.

So there are a number of options we are looking at right now that are developed, that are flight tested as well, that if we can deploy in the same time frame coincident with any change that would necessitate a crew size larger than three, then we have got an opportunity, I think, to look at those options right now, this year and develop them during the course of the next two, in order to achieve that set of objectives.

So we are on track to do that. I think we have got the options ready to go to consider it and if need be, if we have to go to a single purpose craft like an X38, we have got that ready to re-energize, if necessary, or reactivate in order to achieve that task.

But at this juncture, investing in a single-purpose craft that meets a crew-size objective greater than what we currently have and investing what we know is going to be a substantial amount for a single-purpose objective, we are looking to buy that extra time in order to achieve the multiple mission objectives and to leverage that investment for those multiple purposes.

Senator BOND. It sounds like it makes a lot of sense to me. I hope it works. And we will be watching that.

Thank you, Madam Chairwoman.

Mr. O'KEEFE. Thank you, sir. I appreciate your support.

Senator MIKULSKI. Those were excellent questions, Senator Bond. They parallel my thinking.

Again, I think you can see you have got really bipartisan support and you have bipartisan questions.

Senator Shelby.

PRIORITIZING RESEARCH FOR THE ISS

Senator SHELBY. Thank you. Thank you, Madam Chairman.

I just want to briefly associate myself with Senator Bond's questions regarding the prioritizing of the research for the International Space Station.

Mr. O'KEEFE. Sure.

Senator SHELBY. I think we have to, Mr. O'Keefe, recognize the importance of material science research, as a key enabler to our future success in space. And I hope that NASA will remain committed to working with industry to develop materials, devices and processes that we are going to need tomorrow.

Mr. O'KEEFE. Yes, sir.

Senator SHELBY [continuing]. I think that there is so much out there, if we will not ignore it. And I hope you remain committed to this.

Mr. O'KEEFE. Yes, sir. No, very much so. I think that you put your finger to a very important element of the research agenda that must be emphasized that gives us the unique capability to utilize the space station for what it was envisioned to be used for, and can give us some breakthrough opportunities. I think you are exactly right.

NUCLEAR SYSTEMS INITIATIVE

Senator SHELBY. There is no telling where it will carry us in the future with our industrial products and everything that goes with it.

Mr. O'Keefe, the nuclear systems initiative, my colleague from Ohio touched on earlier. I know you mentioned it in your written testimony.

Compared to current technology, what specific capabilities is the nuclear initiative designed to produce for our spacecraft? And how will this initiative's success impact future missions, particularly NASA's ability to conduct space science? I think it has a lot of promise, as Senator DeWine said, but I thought you might want to touch on it here in the open hearing.

Mr. O'KEEFE. No, I appreciate it. Thank you, Senator. First and foremost, this is the best example of what I think we can find and what we see in the manifest and the budget for enabling technologies to get past what had been structural limitations for exploration and discovery for 40 years.

And the fact of the matter is, again boldly stated, that we travel beyond lower earth orbit at speeds that roughly approximate that which John Glenn flew at in Friendship Seven 40 years ago. We are stuck in that laws of physics paradigm. And we have not found a successful method of——

Senator SHELBY. We have got to break out of it.

Mr. O'KEEFE. I am sorry, sir?

Senator SHELBY. We have to break out of that.

Mr. O'KEEFE. I mean, we have got to find a leap ahead technology. We have got to find an enabling capability to get past that structural limitation of speed or on orbit time, one of two.

And what we see generated, I think, by a power generation or propulsion system, and the specific objectives we have in mind is to decrease the time to traverse distances or increase on-orbit time, one or the other or both in that task.

Senator SHELBY. Yes.

Mr. O'KEEFE. And we are setting as a near term, I think, conservative objective improving that speed to achieve distance by a factor of three or improving on-orbit time by much more than that, than what we achieve today. And the most mature technology that is out there right now that has a means to be developed is nuclear fission, and a means to either upscale what has been a very strong experience that NASA has had with power generation units, RTGs that we used on Cassini and a number of other missions over the course of the past 20 years, but that only is a power generation capacity.

What we are looking for is a propulsion capability that can then beat those longer distances because right now we are limited by solar electric capacity, which the further away from the sun we get, the more dependent we are on gravitational pull as a means to deep space exploration.

As a consequence, the further away you get, even a non-engineer, non-physicist, non-scientist like me understands, the lights go out. As a result, you cannot depend on solar electric for long. It is very——

Senator SHELBY. This could keep the lights on, could it not?
Mr. O'KEEFE. Yes, sir. Keep the lights on and move faster.
Senator SHELBY. Sure.
Mr. O'KEEFE. And stay on orbit for a greater period of time.
Senator SHELBY. It has got a lot of promise.
Mr. O'KEEFE. That is the objective behind the nuclear——
Senator SHELBY. A lot of promise. And we are closer to it than many think, are we not?
Mr. O'KEEFE. I think so. I think we can get there.

SPACE LAUNCH INITIATIVE (SLI)

Senator SHELBY. Briefly, I want us to touch on the Space Launch initiative. In this budget, NASA has requested $759 million to execute the SLI program. This technology program is of critical importance, I believe, to the future of NASA.

And I assume, Mr. Administrator, that you would oppose any effort to reduce funding by SLI in 2003.

Mr. O'KEEFE. Yes, sir. I think it is a critical initiative, one that is the future of reusable launch vehicles, space flight——
Senator SHELBY. Yes.
Mr. O'KEEFE [continuing]. And the objectives for launch to achieve ultimately shuttle replacement. All those ride in the balance. It is a very important issue. Yes, sir.
Senator SHELBY. Okay.
Thank you, Madam Chair.
Senator MIKULSKI. Thank you, Mr. Shelby.
Mr. DeWine.

NUCLEAR SYSTEMS INITIATIVES PROGRAM/ENERGY DEPARTMENT

Senator DEWINE. Thank you very much.

Mr. O'Keefe, we talk about the nuclear power. This nuclear power program, what will be the role of the Department of Energy in this?

Mr. O'KEEFE. The——
Senator DEWINE. What is the big picture?

Mr. O'KEEFE. Yes, sir. We are beginning to sort that out. I have had several discussions with the Naval Reactor side of the Department of Energy through Admiral Skip Bowman to discuss how we could take the mature technology they have developed to generate power for substantially larger platforms than what we need frankly. But they have had a long experience of producing advanced reactor capabilities that now power every nuclear powered vessel in the United States Navy safely without incident for 45 years, have had a stellar record of doing just that. In the process, they have managed to design and produce nuclear reactors that are substantially smaller, as in more compartmented, that they take up a lot less space. On a submarine that is a big deal, kind of like it is on space shuttle or any kind of space launch vehicle. And they have increased the capacity.

When H. G. Rickover first designed the reactors that went aboard Enterprise and earlier than that for Sea Wolf, they celebrated the fact they lasted 18 months before refueling. Today, every reactor lasts the full life of a 40-year-old ship.

So as a consequence, the operational experience that they have achieved is something we seek to tap in dealing with this as well as the design experience they have achieved, which is to reduce the size, mass, and compartmentalization of that reactor capability, which, again, far exceeds what we need and then to upscale what it is we have been doing on RTG's for the last 25 years.

Senator DEWINE. So when you talk about "*X*" number of dollars, a long-term vision, obviously the Department of Energy is involved in that significantly?

Mr. O'KEEFE. I think there is certainly a very close collaboration we are seeking to develop. We are kind of in the initial phases right now. We are setting up the project team. Again, this is a fiscal year 2003 initiative that we are going to have to step up in a big way here in the month's ahead. So putting together a project management team, as well as how to develop that close professional inter-rogatory-agency cooperation with all the elements of the Department of Energy, which includes the Naval Reactor side, will be critical, as well as the nuclear energy piece.

There is a civilian commercial component within DOE. Certainly many of the DOE labs have been involved in this activity. We have got to parse through how we maximize and leverage that technology experience best.

RE-EXAMINING HEAD CENTERS

Senator DEWINE. Mr. Director, you have stated that you intend to recentralize programmatic authority at NASA headquarters, rather than the centers. How is that process coming?

Mr. O'KEEFE. Well, I think that may be——

Senator DEWINE. Is that too strong a statement?

Mr. O'KEEFE [continuing]. Too definitive a statement.

Senator DEWINE. Where are we? What are you going to do then?

Mr. O'KEEFE. I basically looked at a request through the agency to reexamine the proposition of lead centers. The notion that everything is delegatable for program management, oversight, and all other purposes to individual elements of what is conducted throughout the agency.

Indeed, I think what we have an opportunity to do, like on the nuclear initiative, is to collaborate very extensively on extant capabilities within NASA that is not individually center-centric, if you will.

On the nuclear initiative, clearly the prowess demonstrated by NASA Glenn, by the Marshall Space Flight Center, by the Jet Propulsion Lab in Pasadena, California, all of them are going to be contributors in how we develop this initiative.

So rather than designating any individual center as the dominant or only, instead we are looking at it more as a case of "How do you maximize core competencies that exist at each of those centers and then collaborate for the purpose of trying to develop end products, end purposes that are greater for the advantage, I think, of the agency overall?"

Senator DEWINE. All right.

Mr. O'KEEFE. So that is a bit of a difference there, and that does not necessarily mean we are going to drag everything into head-

quarters. Indeed, not an awful lot really, you know, visionary comes from headquarters any time of any agency.

So as a consequence, we are seeking to keep the delegated program management authority within the centers, but to establish a firm policy and oversight function within headquarters.

Senator DEWINE. Good. Thank you very much.

Mr. O'KEEFE. Thank you, Senator. I appreciate your question.

ENVIRONMENTAL COMMUNITY—NUCLEAR POWER

Senator MIKULSKI. Let me go to the questions related to the space shuttle.

I think we have covered a lot of the information related to the station as well as these new innovations on nuclear propulsion. And we can understand the merits of that.

I believe that there will be a lot of concern from the environmental community about nuclear power in space. And I would just hope that we would acknowledge that, number one, there will be concerns, and that we address them——

Mr. O'KEEFE. Absolutely.

Senator MIKULSKI [continuing]. Rather than the—often the usual way is—and I am not saying this about you, Mr. O'Keefe, but usually when the environmental community raises an issue, everybody says it is not an issue. They are ignored. And it becomes a very prickly issue within this institution. So let us just deal with it.

Mr. O'KEEFE. Absolutely.

Senator MIKULSKI. And let us just deal with the groups who want to raise those flags, because often they have very good insights that help us provide the opportunity to do bold things but ensure the safety for those who are traveling on the mission as well as for the planet. So now speaking——

Mr. O'KEEFE. Madam Chair, would you permit me to just comment real quick?

Senator MIKULSKI. Yes. Please go right ahead.

Mr. O'KEEFE. I think you have hit the nail exactly on the head. This is something not to be avoided. We really need to engage on this question.

And there is a couple of facts that I think really are persuasive in my mind. Pioneer 10 was launched in 1972. We are still getting information back from it. It still has a nuclear capability that is generating power to keep that communication coming back to us that is 7.5 billion miles away. I mean, this has been done safely in the past and it has a success rate on this and a track record that is clear.

The second one is, again, the nuclear reactor performance record of the United States Navy over the course of the last 50 years is very, very reassuring. It says we know how to design capabilities and we know how to operate them.

So you are exactly right. We need to engage this debate with the environmental interests to be sure that we are doing this right and doing it in a way that assures public safety. And I appreciate your point and associate myself completely with the sentiments you have expressed.

RELIABILITY OF THE SHUTTLE

Senator MIKULSKI. Well, then this takes me, since we are talking about safety, this then takes us to the issue of the space shuttle. We are very concerned about the shuttle. The shuttle is wearing out. The shuttle has a limited shelf life.

And my question is: What can we do now in terms of the resources to ensure the reliability of the shuttle in terms of its transportation mission, but also the reliability of the shuttle in terms of the safety of the astronauts?

I know they are entwined, but we need to be sure, one, that it is the mule train that was supposed to go into space, So its reliability to take off and get the missions up, but once we are going, to make sure that our astronauts can go and come back.

Mr. O'KEEFE. Yes. Indeed, I think the——

Senator MIKULSKI. Do you think you have the right resources? Do you think you have the right management?

Mr. O'KEEFE. There is, I mean, more important than any other factor, the right culture exists at NASA to focus on safety. I think it is up there with a theological calling. I mean it is unbelievable to see the, I think, the real commitment to safety objectives.

On the Hubble mission that we talked about a little bit earlier, for the STS 109 flight, I attended a flight readiness review at Kennedy Space Center 2 weeks before the mission took off. They worked through second, third and fourth-level indenture issues over the course of a day and a half that I found to be absolutely unbelievable. They leave absolutely nothing unturned.

And as a consequence, all the way up until the final moment of launch, there is an obsession that if there is anything, even the slightest deviation from what should be acceptable, the launch is postponed. As a consequence of that, that is reassuring. I have seen that now every step of the way through this process and am impressed with the manner in which they do that. And, again, it is easily a rival of what I saw in the nuclear Navy. It is an absolute obsession of how that is conducted.

So what we have included as part of the fiscal year 2003 budget, I think, is a responsible allowance for continuing safety upgrades and operational upgrades. The issue that I find disconcerting, though, is our safety panel of outside experts who have come in, who report annually to us—I just got the outbrief of that about a month and a half ago—have determined that the safety upgrade requirements as well as potential modifications and service life extension requirements, if we extend the orbiters past 2012, are insufficient the way we are looking at it right now.

So what I have asked them to do as their next order of priority here over the course of the next 6 months leading up to the 2004 considerations, is to give us a very specific understanding of what they advise—and again this is an outside group of experts who represent every discipline on the engineering and safety regime that I have—the quality assurance business that I have ever seen, to give us a very clear understanding of what upgrades they think would be most significant, which ones we missed, what we should be doing differently.

We are concurrently doing an internal review of that as well as the Office of Space Flight has conducted, to see what it would take, if we extend it past 2012, what would that take. So there is a whole revision, I think, of the safety upgrades, as well as major modifications and capabilities enhancements that we need to look at and consider what those options will call for.

In 2003, I think we put in a safety upgrade modifications portfolio that is appropriate to get us from here to that consideration.

SHUTTLE PRIVATIZATION

Senator MIKULSKI. Well, where does privatization come in, and what are your thoughts on privatization?

You know, the word "privatizing" sounds like——

Mr. O'KEEFE. Yes. Yes.

Senator MIKULSKI [continuing]. You know, is there a space Greyhound that is going to take over and——

Mr. O'KEEFE. Right, exactly. I have, you know——

Senator MIKULSKI. And that, you know——

Mr. O'KEEFE. The reason I was pausing here is I get the same reaction. Another step beyond that is that when you say privatization that means you made up your mind what the outcome is going to be.

In my judgment, and more importantly in the President's management agenda, the focus on competitive sourcing is the approach we are after at this stage, so rather than preordaining what the result will be, what we are after right now is developing a business case of what it would take, what would be involved to take all the range of shuttle operations and consider an alternative means of delivery than what we are doing today. That may mean more public servants, less public servants, more private company, more nongovernmental organizations, whatever it calls for. We are just starting with an approach that says do not preordain what you think the right answer is. Let us ask the question of what needs to be accomplished and then what is the alternative means to go about accomplishing those tasks?

Senator MIKULSKI. I did not understand that. What would be like examples? Are you saying who does the mechanics? Who does what? I don't understand what you are——

Mr. O'KEEFE. You are exactly right, the functions that would be involved are "What does it take for maintenance modifications, for, safety and mission assurance?"

Senator MIKULSKI. And I appreciate that then, but is your objective to save money or to save the shuttle when you do this?

Mr. O'KEEFE. Yes, the primary objective is to enhance safety. Whatever that takes in order to achieve that task, we need to figure out what the best way is to deliver that activity. The fondest hope would be we find an efficient way to do that. And certainly in the risk management arena and community, there is a very strong school of thought that says it does not necessarily cost more. It means you do it differently, in order to assure a higher grade of quality assurance.

So looking at those kinds of challenges in that way may result in a different cost model, maybe more, maybe less. I do not know. But the primary objective in looking at the business case is: Let us

first look at the functions. How do we do this safer than what we are doing today? How do we do it more efficiently than what we are doing today? And achieve the operational readiness rates that we want.

Senator MIKULSKI. Well, I think there needs to be far more extensive conversation about this. First of all, I want to just say we are so glad that you are as safety-obsessed as the members of the committee.

Mr. O'KEEFE. Indeed.

Senator MIKULSKI. So that is number one. Number two, I mean, we are going to turn to Senator Bond—we do need to look at "What does integrated transportation mean? What would be some other vehicles to get other things, say, up to the station?" and the space launch initiative—I know that it has been raised by colleagues.

Of course, you know, I am interested in the whole possibility that perhaps out of something like a Wallops, that an unmanned vehicle could go up and act like a cargo shuttle, and use the astronauts for only what the astronauts need to do.

But they do not need to be delivering cargo. Okay? They need to be delivering other astronauts. And so there is a lot for us to talk about.

But let me turn to Senator Bond.

SPACE LAUNCH INITIATIVE/NUCLEAR PROPULSION PROGRAM

Senator BOND. Well, the Chair has raised a whole interesting area. You certainly have a broad field to resolve some very sticky questions. We are most interested in them.

I just want to pick out a couple while we still have time and I am going to submit a lot more for the record and look forward to continuing the discussion, but there are significant costs associated with both the Space Launch Initiative, the Nuclear Propulsion Program.

What do you see the out year costs, and how do we balance these programs to ensure that they complement each other, they do not—we are always worried about robbing from one program to deal with another. What are your projections on those?

Mr. O'KEEFE. Well, certainly over the course of the next 5 years, we are looking at about a $4.5 to $5 billion initiative for Space Launch Initiative alone. That is the current projection where we are to down select from about a half-a-dozen-plus options of where we are today, to think about what the most likely vehicle prospects would be to achieve not only shuttle replacement, but a range of others, mission objectives as Senator Mikulski identified very clearly.

Coincident with that, though, I think is an opportunity that we are at right now in this unique period of history in which there is a convergence between requirements NASA has in terms of longer term exploration platform discovery objectives, as well as that which we see on the Air Force side of the equation for reusable launch vehicles.

They are probably a little bit further behind in terms of their requirements definition than we are at this juncture for our requirements, but not so substantially that it would not be possible to consider those requirements on both sides of the equation and think

about how we leverage the technology best in order to meet multiple objectives.

So while we may not end up with the same vehicle or same end item, it has the opportunity to draw on comparable technologies for propulsion, aerodynamics, a range of different disciplines and technology breakthrough opportunities that we really need to converge this a little more closely.

As a result, we are spending a lot more time now getting closer to understanding each other's requirements as they are emerging to see as we move through this as a program management and contractual matter how we can best utilize those technologies for multiple means.

INTEGRATED FINANCIAL MANAGEMENT PROGRAM

Senator BOND. Well, let me move from the exciting projections to some really mundane management questions. Over the last 5 years, NASA has been judged by its auditor, Arthur Andersen, to meet all of the Federal financial reporting requirements. This was at a time GAO was saying NASA procurement was high risk, and the new auditor, PriceWaterhouseCoopers disclaimed an opinion on NASA's fiscal year 2001 financial statements because of internal control weaknesses.

What are you doing—they said that the financial management systems do not substantially comply with the requirements of FFMIA. What are you doing to address these concerns, and what are you doing to address the GAO identified contracting management risks specifically?

Mr. O'KEEFE. Senator, thank you for the question. I regret to advise that management mundanery for financial management systems apparently is proclaimed as a forte of mine by many of——

Senator BOND. I am afraid we may lose half of the crowd here, but these are unfortunately very important issues.

Mr. O'KEEFE. No, they are ones I think are critically important. I have just taken a fair amount of commentary of why that is a forte as opposed to some other areas that some would prefer. But I frankly agree with you. I think this is the number one structural management issue across the agency that we have got to arrest and bring to absolute discipline control.

We are implementing an integrated financial management program now that is intended to look at accounting, finance, human resource management, contract management, logistics, inventory control, all that in a method that is full management information system exposed.

And we have brought in the best experts I know how to recruit in the information technology (IT) arena, and in the financial management arena, from in the private communities for financial management and IT to come to NASA to deal with this particular set of problems as a Kaizon team to arrest it and to make it work.

So it is the number one priority that every center director, every enterprise manager knows is the first order of priority we have got to do. It is the idea of coming up with a disclaimed opinion from the independent auditors, because they could not get the data is unacceptable.

So in my judgment this will not be a topic of discussion next year in this vein. It will be more that, yes, we have beaten that problem to death and we have implemented a integrated financial management system that satisfies not only your, but all of our questions on what it costs to do anything. That is first.

Senator BOND. That is an easy promise to remember. We will keep that one in mind.

Mr. O'KEEFE. Yes, sir. I intend to keep——

Senator BOND. Okay. We will look for it.

Mr. O'KEEFE [continuing]. That, if it is the last thing I do.

HUMAN CAPITAL

Senator BOND. Let me just ask you one very quick question.

Senator MIKULSKI. I am not even going to go there. You go.

Senator BOND. One very quick question, that something that concerns us on this committee a great deal. Your specific problem, the Aerospace Advisory Panel said that their hiring freeze on planned departures has produced critical skill deficits, and we know that NASA is beginning to—in the serious shortfall of younger scientists and engineers, you are beginning to address it.

Is this one of your top priority attention areas? Do we need a national policy to ensure that we have an adequate number of scientists, engineers and researchers? First, is this a high priority concern, and is this one of your major concerns?

We would like to work with you, because we see this in NSF and so many other areas. And we will look forward to seeing your action steps in this area.

Mr. O'KEEFE. Yes, sir. Well, thank you for the question, Senator. I guess beyond my priorities, this is the number one priority the President has articulated for the strategic management of human capital as part of the President's management agenda.

There is no question, the most polite way to say this is we have a very mature workforce. No doubt about it. The experience rate and the level of talent we have in the agency has never been higher. The catch is we have got roughly a third of that workforce that is eligible to retire in the next 5 years.

Senator BOND. Yes.

Mr. O'KEEFE. So we are looking at some real serious challenges on this front in the technology and engineering fields, particularly math, science, technology and engineering, those are the kinds of disciplines that we are seeing a real departure of not only talent and experience, but not a lot behind it in terms of cohort capability, numbers of people to fill those capacities. That is true not just at NASA, I think across the entire frame. And you are exactly right.

The President submitted back in October the Manager Flexibilities Act that has now manifested itself in the form of, I want to say it is a Senate bill that was introduced by Senator Voinovich that has been modified since that time that we are very, very enthusiastic about in the administration, and we will love to see enacted because it provides the tools on the personnel, human resource front to start to arrest this problem and to deal with the issue of recruitment, retention and how to really deal with the technology, engineering, math, science kinds of disciplines that are necessary to continue to recruit for.

Senator BOND. Thank you. That is very, very interesting to us.
Senator MIKULSKI. Very, very good.
Senator BOND. Thank you, Madam Chair.
Mr. O'KEEFE. Well, thank you, Senator. I appreciate the question.

CIVIL SERVICE REFORM

Senator MIKULSKI. You were talking about the Voinovich civil service reform.
Mr. O'KEEFE. Indeed, exactly.
Senator MIKULSKI. Yes. We are interested in that too.
Mr. O'KEEFE. He has done a superb job of really pulling together some great tools to help manage the human resource challenge we are all facing at every agency.
Senator MIKULSKI. Senator Shelby.
Mr. O'KEEFE. Thank you.

AIR FORCE/SPACE LAUNCH INITIATIVE

Senator SHELBY. Could you elaborate a little bit about the involvement of the U.S. Air Force in the SLI program and what does the Air Force bring to the table and how cooperative is the effort thus far?
Mr. O'KEEFE. Very cooperatively, if I can take the last part of this first, because we are really very much in the formative discussion phase. I think the idea of how much and what type and so forth is yet to be determined.
Senator SHELBY. Yes.
Mr. O'KEEFE. Again, the sum and substance of where I think we are right now is just this interesting historic convergence in which the Air Force has a set of demands for reusable launch vehicles and a concern about long-term reliability of expendable launch vehicles.
Senator SHELBY. Yes.
Mr. O'KEEFE. We, in turn, have, a set of structural challenges, that many members here this morning have identified when the retirement rates of assets will occur, shuttle orbiters to be specific about it. As a consequence, that convergence gives us a unique opportunity to look at how we can leverage technologies to meet different purposes, but to derive from similar technological basis.

So it is very much in the formative phase. It is very much cooperative. Just 2 weeks ago, I met at an extended series of meetings over a course of a couple of days with the Commander in Chief of the U.S. Space Command, with the Under Secretary of the Air Force, Under Secretary Teets, and General Eberhart, and respective staffs from the Office of Secretary of Defense, and their research and engineering teams, as well as within the aerospace community, to think about what is laying on the table, what are all those requirements and how can we choose the technologies that best leverage and maximize the efficiency of what we select to meet multiple objectives. We conducted a study that lasted about 4 months with the Air Force in an attempt to converge these. We still have to go back and look at it again, because I think we are a little bit behind step. But in terms of collaboration and cooperation, it is real close. We are at least identifying what we see are

mutual problems or mutual challenges, mutual opportunities, and we are now just about the business of trying to identify them.

Senator SHELBY. Thank you very much.

Mr. O'KEEFE. Thank you, Senator. I appreciate the question.

Senator SHELBY. Thank you.

Senator MIKULSKI. Yield?

Senator SHELBY. Yes.

Senator MIKULSKI. Senator DeWine?

Senator DEWINE. Nothing further, Madam Chair.

NATIONAL SECURITY ISSUES

Senator MIKULSKI. Well, I want to raise some questions about the Russians and knowing both of your interests in national security, it might be of interest to you.

My colleagues—by way of background, when the Cold War ended or was about to end, we looked forward to how to cooperate with the Russians in a very different way. And one of the things that we were concerned about is the issue of proliferation, and I know my two colleagues here have been very keenly interested in that.

And we engaged the Russian scientists in being involved with us on the International Space Station, so that the Russian scientists rather than selling rocket launch capability to people that we did not want to have rocket launch capability would be involved with us in the new world order and democratic Nations who have been involved as our international partners on the space station.

We have been very unhappy about this. And I would like to know, Mr. O'Keefe, exactly where are we in terms of, one, insisting with the Russians that they are not engaging in proliferation and, number two, we have been very much involved in the Iran non-proliferation act. That requires the President to certify that Russia is not assisting Iran with ballistic missile technology or other assistance in the development of mass destruction, meaning launch capacity or whatever. Without the Presidential certification, you are to be prohibited from sending funding to Russia under certain circumstances.

Now, let us step back here. First of all, we know we are engaged with the Russians in our fight against terrorism, that Mr. Putin has been very cooperative, but yet at the same time we see Iran poses great threats to allies and to the strategic interest of the Mid-East. Could you tell us, one, where are we with the Russians, where are we in what you believe their cooperation is in the Iran non-proliferation or selling their technology, and do you believe that they are really stepping up and that their scientists have been truly engaged with us?

I pass no judgment on the technical competency of the scientists, but I really wonder if our money to the Russians is going to the Russian scientists or is going to the Russian, you know—so we are interested in this, we are very much interested in how, through the use of engaging the Russians in civilian space like the space station, we help them make sure that their scientists or other mechanisms out of Russia are fostering the proliferation of weapons of mass destruction.

Mr. O'KEEFE. Thank you for a very timely question. I just last week spent 2 days with Deputy Secretary Armitage in Moscow. He,

in discussing, the bilateral discussions leading up to the President's summit meeting later this month, early June, and I spent most of my time with RosaviaKosmos, and the general director of that space agency as well.

And we reconverged towards the end of our meetings with Foreign Minister Primakov as well as Foreign Minister Ivanov, who then discussed this with Koptev who is the general director of RosaviaKosmos on very, very similar lines as your discussion has just gone down.

It is a challenge in the sense that we have a very strong close working relationship with RosaviaKosmos, and the operations and the activities of the International Space Station are heavily dependent on our meeting the build out requirements. For example, as I discussed at length, and their objectives as well as commitments to help the support and logistics requirements for progress and Soyuzes flights. As a consequence, their continuing efforts on that front are critical to achieving the milestones I have talked about. I think we are there. It is a very close collaborative relationship. The issue that clearly is always going to be on the table in the foreign policy discussion that Secretary Armitage had, as well as the closer intergovernmental discussion I had with Director General Koptev is over the matter of the Iran non-proliferation treaty or agreements act.

And it means that we really need to be conscious of how that is implemented and we are continuing to work at every opportunity to try to reach agreement on how that can be, not only adhered to, but verified. There is a very strong interest, I sensed in the couple of days I spent there in wrestling with that question successfully. There is a very strong view in that direction.

Senator MIKULSKI. Well, Mr. O'Keefe, this is a subject of great interest I know to the members of this subcommittee, and I would like to suggest that I coordinate a meeting with you and welcome any members of this subcommittee who wish to have a more in-depth conversation with you about that.

Mr. O'KEEFE. Terrific.

Senator MIKULSKI. I do know that members of the subcommittee are actively engaged. And Senator Lugar, really our outstanding Senator——

Mr. O'KEEFE. You bet.

NON-PROLIFERATION

Senator MIKULSKI [continuing]. On non-proliferation has invited us to join with him in a group to Russia on the issues of non-proliferation. So I think it is timely that we perhaps talk with you on how we can make wise use of our time there, enhance this and also get a more in-depth view that I know you and your team could share with us.

So would you just presume that we are going to coordinate a meeting and we will make the arrangements and we will invite the appropriate people and look forward to working with Senator Lugar who has been a real champion on this, and then how we can really keep the Russians engaged in civilian science.

Mr. O'KEEFE. Absolutely. No, I would be delighted, Madam Chair. That would be terrific.

Senator MIKULSKI. And so let us talk some more about that.

Mr. O'KEEFE. If you would permit me, my intent would be to be in touch with Secretary Armitage, as well, and see if we can coordinate an effort that meets your schedule and timing as well. I think that would be terrific.

Senator MIKULSKI. I think that would be great. We have worked with Secretary Armitage on a number of issues and I have great admiration for him.

Mr. O'KEEFE. Great. I appreciate it.

Senator MIKULSKI. Senator Shelby, did you wish to comment on this?

Senator SHELBY. Yes, I do.

Senator MIKULSKI. I know you have been——

Senator SHELBY. I want to follow up and I appreciate you bringing it up.

Senator MIKULSKI [continuing]. An expert on this, as Senator DeWine.

Senator SHELBY. I do not know about that. But all three of us, plus Senator Lugar that you mentioned, Mr. O'Keefe, serve on the Intelligence Committee, and we are very interested in this subject matter, not just for this committee but for what we do in our government and the security of our Nation.

So I appreciate, Madam Chairman, you bringing this up. And I think a meeting with Mr. O'Keefe at the right time would be well attended and be very important.

Senator MIKULSKI. Very good.

Mr. O'KEEFE. Thank you, Senator. I appreciate that.

Senator MIKULSKI. Senator DeWine, did you want to comment or——

Senator DEWINE. I am fine.

PLUTO MISSION

Senator MIKULSKI. Okay. There are many other areas that we could pursue. We thank our colleague, Senator Bond, for raising the work force issue.

Let me go to some issues with space science and then I think we will be ready to conclude our hearing.

I was concerned that OMB cancelled Pluto in space science or I guess that the administration's fiscal 2003 cancels the Pluto mission.

The opportunity to go to Pluto will not come again for another 200 years and we understand from the applied physics lab that would do the Pluto mission that they have estimated their costs at $450 million, much less than what NASA originally thought.

Could you tell us where we are on the Pluto mission? What is the rationale for cancelling it? Was it financially driven? Was it science-driven? And is there any way that we can get this back on track——

Mr. O'KEEFE. Thank you for the question, Senator.

Senator MIKULSKI [continuing]. Working with the subcommittee?

Mr. O'KEEFE. Well, first and foremost, the requirement, or at least the mission objectives, the research that could be gained by a mission to the outer edge of this solar system is something that clearly has captured the attention of the scientific community and

they view it as an important objective, to the point where the National Academy of Sciences this summer, we are hopeful they are going to conclude by this summer, is rank ordering the priorities of where they see exploration objectives. This clearly is among the missions they are considering very seriously in terms of what its standing and prioritization should to be. So we will be driven and guided by that determination as well from the National Academy. But nonetheless it is one that, I think as you are well aware, Madam Chair, they view as an important set of objectives, so I think that is not in dispute, the criticality of it.

The second issue that we have really run across is the how to get there, how to accomplish it. The stark reality is much in the vein of the earlier discussions we have had or at least touched on, this is a quintessential example. But then, again, any destination in the solar system and indeed in this universe would be an example too, of how long it takes to get anywhere.

A very responsive proposal that was advanced, as I understand it, would call for a launch as soon as 2006, or a vehicle probe by that time, and achievement of the objectives by about the 2015, 2016 time frame. So in that rough parameter, maybe as early as 2014, maybe as late as 2017, we are still talking about a period of time that is approaching 15 years from now, roughly within that parameter, which therefore suggests, two problems.

The second issue that really is dominant there as well is given the existing capability we have for propulsion and power generation, once we pass or get to Jupiter, we basically run out of the option, not completely, but for all practical purposes of solar electric capability.

We, therefore have to depend on the gravitational slingshot effect, if you will, off Jupiter to meet the timelines you are talking about. That is the most aggressive approach we could possibly employ in order to be on station about 15 years from now to achieve that task, and through the Kuiper Belt beyond. What would amount to a few months worth of imagery that would be of higher caliber than what we can do today.

So not a challenge at all, not a problem at all about what the mission objective, the requirement, the scientific research opportunity would be. We will be, again, guided by the National Academy of Sciences in terms of where they think that prioritization fits.

Our greatest obsession at this juncture is how to get there and stay on station for a long enough period of time in order to truly inform the research and scientific objectives.

There are options that we are clearly looking at if the National Academy comes up with findings that say this is a very high priority, that may be we will be able to do that.

Senator MIKULSKI. Mr. O'Keefe, when is the National Academy going to complete its work?

Mr. O'KEEFE. We are told this summer, but——

Senator MIKULSKI. But what does "this summer" mean? The committee is going to be marking up in June.

Mr. O'KEEFE. I know. This has been a question on my mind as well. I would really appreciate your assistance in this regard too.

Senator MIKULSKI. What can we do to help you out here, because first of all, we welcome the National Academy's advice. They have been such an excellent resource to we policymakers.

Mr. O'KEEFE. They are indeed.

Senator MIKULSKI. But their timeline and ours do not—and we do not mean—we really want to welcome their priority commentary. But would you let my staff know how we can help you be a booster rocket here?

Mr. O'KEEFE. I appreciate that. I would welcome that opportunity.

Senator MIKULSKI. Because we would really like their advice, if we could, really sometime in June.

Mr. O'KEEFE. Yes, ma'am.

Senator MIKULSKI. At least certainly perhaps into the top tier of what they are recommending.

We would also like their specific commentary on Pluto. It is something that I have very keen interest in and also the fact that it will only come in 200 years. So we are either going to do it, we should do it right. We should do it prudently. So let us work together on this.

Mr. O'KEEFE. I would enjoy that very much. Thank you.

NEXT GENERATION OF SPACE TELESCOPES

Senator MIKULSKI. We cannot conclude this hearing without asking about Hubble.

NASA's current plans for Hubble is to receive one more servicing mission and then have it operating until 2010. Then the next generation space telescope will be launched to replace the Hubble. Well, I understand that schedule has slipped.

As we look at the next generation of space telescope, which I am a supporter of, should we develop a contingency plan that will enable Hubble to operate beyond 2010? And we are seeing now, here it is, 2002, and I was really taken aback by these photographs. I mean, even—this is better than Spielberg and he makes it up, you know——

Mr. O'KEEFE. It is the real thing.

Senator MIKULSKI [continuing]. And in some ways has a bigger budget than the Hubble has.

Maybe you ought to trade places here.

But truly even to the untrained scientific eye that you could look at it and not only were they dazzling, but you know that a gifted and talented scientific analytical group of people are going to glean so much about the universe and so tell me what you think. First of all, I know that eventually we will need a next generation. We want to prepare for it and it has got to be reliable and sustainable, all the management words you would use.

But tell us what you think about Hubble and should we have a contingency plan?

Mr. O'KEEFE. Sure. Thank you, Madam Chair.

Senator MIKULSKI. Should we have two space telescopes?

Mr. O'KEEFE. Thank you, Madam Chair. I think the logic that you are employing here has a lot of merit. It is something that I have begun to inquire about as well internally.

Given the stunning results we have seen thus far exceeded our expectations. And this is not just because the great unwashed type like me is looking at this, because what I know about this you can summarize in a matter of moments, but more importantly the astronomers who are looking at this, the astrophysicists who are examining this, the scientific community is stunned by the value of what they are getting out of this.

It is not just the new imagery. It is the archival imagery. It is the things that we have downloaded as imagery from prior transmissions that was archived and viewed as available and indeed some of the most stunning discoveries were made 2 and 3 years after the images were transmitted, because someone, a scientist, a researcher, a principal investigator, thought to go look at some particular aspect, dig it out of the archives, see what it may reveal, and then drew a series of conclusions from that.

So the data that is being gathered is not just a one-trick pony opportunity. It is something that is a longstanding set of requirements or information bits that in turn then are revealing things over a period of time that we did not expect, even though they were gathered 2, 3, 4, 5 years ago.

So that alone tells that the logic that you have employed is precisely the way we have got to look at this. We ought to be thinking about, given the results we are achieving here, what is it going to take in order to operate that?

Certainly the next mission in 2004 is planned. We are going to press on ahead with that. But we then have to trade that off relative to what we would gain thereafter. And that is precisely the kind of analysis we have got to conduct, more rigid analysis, I think, than we have employed so far to see exactly what that would take. And now, again, seeing the advantages that come from this that exceeded our expectations, it clearly is something that merits that kind of attention.

EARTH SCIENCE MISSIONS

Senator MIKULSKI. Well, know that I do believe we do need a next generation of space telescope and I think we can really plan and get the highest use of it by making use of both telescopes that we have, those space telescopes.

Earth science, we understand that the NASA budget indicates that the future for earth science mission is kind of in limbo, until the administration completes an interagency review on global warming. I am concerned about that because as you know, you are an old hand at these things, interagency reviews can take forever. And we have an excellent earth science program and I believe you know how there are multiple agencies that are making use of this.

Could you tell us: When do you expect the administration to release the details of this review, and what does it mean for the EOS follow-on projects that will be re-proved or where are we on earth science?

Mr. O'KEEFE. And I think your characterization of the interagency process is polite, diplomatic.

Senator MIKULSKI. That is me.

Mr. O'KEEFE. Well, in that case, uncharacteristically understated in terms of the challenges of the interagency process. You are exactly right.

Nonetheless, what I have been really struck with, as Secretary Evans has taken this challenge, he and Secretary Abraham, but Secretary Evans is leading it at this juncture, to pull together all the agencies necessary. We meet pretty regularly. I have been surprised at the intensity, frequency and deliberation that has gone into this particular task, so the President's challenges we have accepted as an administration and we are moving ahead smartly on it.

Exactly when the deliverable will be, let me give you a more comprehensive answer after a little more research, because I am wrestling to remember the dates of when various elements are to be delivered back to the White House. But it is not necessarily holding up or driving what we are doing at NASA as well though. It is a very important consideration, but it is not one that I would say is limiting.

The Aqua launch occurs 7 o'clock today?

STAFF. On the 4th.

Mr. O'KEEFE. Oh, on the 4th. Excuse me. I am sorry. On the 4th of May. So we are proceeding apace with a series of earth science activities and as a result, we are continuing to use EO1, which has, proven to be an extraordinary source of imagery and information on weather and geological phenomenon.

TDRSS continues to be deployed. We have got another launch of that due in October, I guess. So we are pursuing a series of earth science objectives that I think are as aggressive as we think are necessary for this coming year. I do not see it constrained by that particular review at all. If anything, I see a very aggressive effort underway to try to beat that interagency challenge that I think you very accurately described.

Senator MIKULSKI. Well, we want to, of course, talk more about that.

Mr. O'KEEFE. Sure.

SENATOR MIKULSKI'S CLOSING REMARKS

Senator MIKULSKI. We are not sure when we are going to get our allocation, but we believe that there is a variety of views looking at how we are going to be proceeding on the budget resolution, et cetera. But it is our estimate that we will be marking up sometime in June, of course, working with the House, but at least a preliminary framework.

So we look forward to further conversations with you as we prepare for markup, Mr. O'Keefe, because you have got studies and all online that are going to be relevant to our decision making process. So we really need to continue our very close collaboration. We want to thank you and your entire team for what they do every day for the NASA mission, but also their very collegial and cooperative spirit in working with the committee.

ADDITIONAL COMMITTEE QUESTIONS

So we want to say thank you and God bless you and God bless everyone who is trying to do so much in our space program.

[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 BARBARA A. MILKULSKI

SPACE LAUNCH INITIATIVES

Question. What is your approach with regard to SLI flight tests to evaluate key technologies?

Answer. SLI continues to emphasize the importance of testing advanced enabling technologies in their relevant environment. In some cases, flight-testing can provide validation of key technologies that cannot be adequately tested on the ground. SLI evaluates each individual technology test and evaluation effort based upon the benefit for the program relative to its cost. Some of the technologies being evaluated for testing in a flight environment include airframe and mechanical systems, thermal protection system, operations, avionics, power, crew escape systems, and integrated vehicle health management systems. SLI's flight test programs complement its integrated ground testing and simulation tasks. There are currently three companies under contract to provide flight demonstrations for the SLI-Kistler Aerospace, Orbital Sciences Corporation, and the Boeing Company. In addition, one of the primary objectives of the ongoing NRA 8–30 Cycle II procurement is to identify cost-effective candidates for flight-testing.

Question. What is your strategic plan for Wallops Flight Facility and does it include SLI flight-testing?

Answer. Currently, there are no current plans to perform SLI flight-testing at WFF. The SLI program is evaluating industry proposals for flight demonstration of key technologies for a 2nd Generation Reusable Launch Vehicle. These proposals include the identification of flight test launch site operations of which WFF is eligible for consideration. In addition, the SLI Program is actively engaged in discussions with WFF to determine other areas where WFF flight-testing and operations expertise can be utilized. Decisions to use WFF or other flight test facilities will be made competitively based on these proposals and discussions.

AERONAUTICS BLUEPRINT

Question. Mr. O'Keefe, during your testimony before the House VA/HUD Subcommittee 2 weeks ago, you answered "I think so" in response to a question asking if the current aeronautics budget is sufficient to realize the vision in the Aeronautics Blueprint.

Could you please expand on that answer and explain how a major new undertaking in aeronautics is to be funded in a budget that is cut under your request? When can we expect a budget estimate of what will be required to implement the Blueprint?

Answer. The Aeronautics Blueprint addresses how new technology can be brought to bear on the issues facing aviation in the United States. These technologies, still in their infancy, have the potential to create a new level of performance and revolutionize aviation by addressing key public good issues (aviation safety, air system congestion, and aircraft noise and emissions) that could constrain future air system growth. NASA aeronautics programs have been realigned and investments have been reprioritized toward the vision articulated in the Blueprint. The NASA funding request for aeronautics research and technology is sufficient to formulate the development of the necessary fundamental understanding of these technologies. As progress is made on this long-term technology development, planning will be updated and technology investments revised.

Question. Given the opportunity presented by the slow-down in air traffic after 9/11, what is NASA doing to move ahead as soon as possible with improvements to the national air system?

Answer. In cooperation with the Federal Aviation Administration, NASA is developing technology for air traffic decision support tools in support of the FAA's Operational Evolution Plan. Additionally, NASA is investigating potential future air traffic management concepts of operation and the technologies that support them.

Question. Can NASA truly take advantage of the current slow down and aggressively work to meet the 4 Airspace System goals of the Blueprint (reduced throughput in bad weather, en route congestion/poor traffic flow, better manage aircraft movements at HUB airports, develop precision navigation systems) when you propose cutting the Airspace Systems Program?

Answer. As the events of September 11 slowed air traffic in the skies and transformed the current-world aviation situation to increase emphasis on the aviation security, there has been no change in the (already increased) momentum in which NASA strives to resolve the current Airspace Systems goals. The $8.8 million reduction in Airspace Systems was a planned reduction. The NASA request for the projects in this program supporting the airspace systems goals (Advanced Air Transportation System and Virtual Airspace Modeling and Simulation) is at the same level as the fiscal year 2002 appropriation.

Question. Are you concerned with the position taken by the Europeans in their "Vision 2020" plan to be the world's undisputed leader in aviation 2 decades from now?

Answer. NASA has been focused for several years now on the key public good issues (aviation safety, air system congestion, and aircraft noise and emissions) that Europe is beginning to address in an integrated fashion through the "Vision 2020" document. These public good issues pose the largest constraints on continued air system and aviation market growth.

Question. Is your "Aeronautics Blueprint" in response to the Europeans "Vision 2020"? If so, why is there no discussion of the funding that should be committed to this effort?

Answer. The Aeronautics Blueprint is not in response to the Europeans' "Vision 2020." The Blueprint was prepared to provide more details to NASA strategic plan for aeronautics developed in 1997, well in advance of the European vision. It is interesting to note that the targets established in the Europeans' vision are consistent with NASA's goals of 1997. Furthermore, NASA believes it has sufficient funding to pursue the vision articulated in the Blueprint.

Question. Does NASA anticipate that we will need a comparable level of funding to what the "Vision 2020" calls for—roughly a billion per year for the next 20 years to help our aviation industry remain competitive in the face of their increased investment?

Answer. NASA believes that the five-year funding plan for aeronautics accompanying its fiscal year 2003 budget request will enable the agency to pursue revolutionary technologies over the next five years that will provide this country's aviation system with unparalleled capability.

Question. Do you believe that the cuts to NASA's aeronautics research and development enterprise over the last 5 years have played a major role in the government's backpedaling on what were once priorities for improved air service in this country?

Answer. NASA's aeronautics research and technology funding peaked at an all time high of $920 million in fiscal year 1998. This peak funding was largely due to the budget ramp-up associated with the High Speed Research program, a program to develop an environmentally compatible, commercially viable supersonic passenger jet in partnership with industry. This program was cancelled when technology and market projections led industry to defer funding commitments to the development of a supersonic passenger jet into the future. Prior to this peak, NASA aeronautics research and technology has been funded at about $500–$600 million per year, adjusted for inflation, as far back as the early 1970s. NASA's fiscal year 2003 budget request and five-year budget projection for aeronautics research and technology is consistent with these levels and provides adequate funding to pursue key technology goals over the next five years that could improve aviation safety and capacity and reduce aircraft noise and emissions.

Question. Why was it so important for NASA in the past to enumerate such goals when the Aeronautics Blueprint fails to mention any time frame for accomplishing similar goals regarding safety, emissions, noise and cost of air travel?

Answer. The Aeronautics Blueprint is consistent with NASA's strategic plan for aeronautics, which lays out technology goals that could enable the nation to realize improvements in aviation safety, capacity and mobility and mitigate the impact due to noise and emissions by 2022.

Question. Do you anticipate incorporating time frames for the goals enumerated in the Aeronautics Blueprint? If not, why?

Answer. The Blueprint states general objectives. NASA's strategic plan for aeronautics, which has specific time frames, has targeted 2022 for the development of technology to enable revolutionary improvements in aviation safety, capacity and mobility and mitigate the impact due to noise and emissions.

Question. Is the problem of drawing students to aeronautical engineering degrees at U.S. universities so great, and the problem of bringing on new talent to replenish the depth of expertise that has been lost at the NASA Aeronautics Centers so critical, that NASA undergraduate and graduate research opportunities need to be larger by an order of magnitude?

Answer. We believe that we can refocus our programs in such a way to expand the university community's participation in the full range of aerospace technology research and education programs. Examples of such activity are reflected in our recent selection for further negotiations of seven leading American academic institutions for research and education program development in emerging technology areas. We believe that by providing the opportunity for high quality collaboration by the academic community we can stimulate and attract the best and brightest of the university populations to our programs.

INTERNATIONAL SPACE STATION

Question. A principal justification for undertaking the International Space Station program was to conduct world class, groundbreaking research across multiple scientific disciplines over a 10 to 15 year period. Achieving that goal will be difficult. In the past, GAO has pointed out that funding the research program has been a challenge for NASA, given the need to fund other important development activities. Today, NASA's "core complete" concept limits permanent presence on the station to 3 people, one of whom must be a Russian pilot to operate the Soyuz crew return vehicle. This scenario obviously places additional limits on the amount of research that can be performed.

What is your vision as to the purpose of the research component of station operations and what is the scope of the research that can be completed under the "core complete" concept?

Answer. NASA's Biological and Physical Research (BPR) Enterprise seeks to use the unique space environment to conduct research and to develop commercial opportunities that could not otherwise be pursued on Earth, while building the vital knowledge base needed to enable efficient and effective systems for protecting and sustaining humans during extended space flights. BPR addresses the two fundamental challenges associated with human space flight: (1) understanding nature's forces in space; and (2) understanding the human experience in space.

Established in fiscal year 2001, BPR closed its first year with a significant record of accomplishment. ISS outfitting for research began with the delivery of the Human Research Facility in March 2001. After more than a year of continuous human occupation, the ISS now has 5 research racks. There are 26 investigations currently underway aboard ISS, representing research from government, industry and academia; 54 investigations have been carried out since ISS construction in orbit began. The Agency is on-track to deliver an additional five research equipment racks by the end of 2002. Expeditions 5 and 6 will also fly during fiscal year 2002, and 41 experiments will be conducted in the areas of biomedical research, biotechnology, microgravity fluid physics research, materials science, agriculture, and Earth observations.

In spite of a significant unscheduled ISS upkeep and troubleshooting activities during Expeditions 1 and 2, the ISS team was able to meet the minimum research objectives of the first four research increments. NASA continues to prepare for ISS on-orbit research through the preparation and testing of five additional research racks and ongoing payload crew training. In addition, NASA looks forward to launching STS–107 in the late summer, a Space Shuttle mission dedicated to biomedical and biological research. .

Throughout the ISS construction phase, NASA is continuing to achieve a balanced program of scientific exploration that will contribute, along with ground-based research, to the fields of biology, physics, chemistry, and the long-term effects of space flight on humans.

In response to the second part of your question concerning the scope of the research that can be completed under "core complete," the U.S. core complete will be achieved in February/March 2004, at the conclusion of Increment 9, which is planned as Mission 10–A, by which there will be an average of 15 continuing experiments and 7 new experiments (delivered by Shuttle resupply missions) onboard. U.S. core complete will include 5 EXPRESS racks, featuring Physical Sciences research and Space Product Development; 2 Human Research Facility racks, hosting Bioastronautics experiments; one Microgravity Sciences Glovebox, hosting Physical Sciences and Commercial experiments, and the Window Observational Research Facility (WORF), collecting observational data for Earth Sciences and the Office of Space Flight. Enclosure 1, which includes graphs (a), (b), and (c), shows ISS experiments by discipline or category and by increment, comparing the growth in number of experiments for each discipline as the increments continue.

Although NASA did not plan to expand the crew size beyond three members until 2006, a permanent crew of three could preclude certain experiments that are very crew time-intensive or complex and which do not lend themselves to automation.

Examples include experiments that involve crew manipulation such as time-course sampling of plants.

In addition, BPR is stressing the maximization of research return from the ISS by actively seeking options for broadening its access to flight platforms in pursuit of the answers to its driving scientific questions. NASA is working with the White House Office of Science and Technology Policy (OSTP) and the Office of Management and Budget (OMB) to engage the scientific community and reestablish clear high-priority, affordable science objectives with near-term focus on improving scientific productivity. The results of this review, which was conducted by the Research Maximization and Prioritization (ReMaP) Task Force, became available in early July. The ReMaP results will help set the BPR science agenda that will, in turn, drive how the ISS is used. We expect the ReMaP recommendations to increase the efficiency and output of ISS research and realign NASA's ISS research portfolio to reflect current scientific priorities.

Question. What opportunities do you see for increasing the amount of research time on the station?

Answer. NASA is currently evaluating several options for increasing research time on the ISS, including the recommendations of the ReMaP, which will play a role in determining the cost/benefit of adopting one or more of these approaches to enhancing crew time for research. NASA plans to discuss a set of option paths in the fall of 2002 and determine the optimal ISS configuration to maximize research in 2003.

Prior to the program restructuring, the crew size was not planned for expansion beyond three until 2006. Research plans through that time remain largely unchanged. Experiments until 2006 are specially designed and chosen through peer review to not require significant crew involvement. The ReMaP results will provide guidance on research priorities that will allow informed decisions to be made on the areas of research on which to focus.

During Fall 2001, the International Space Station (ISS) Management and Cost Evaluation (IMCE) Task Force recommended that extended Soyuz sortie missions coupled with Space Shuttle Extended Duration Orbiter (EDO) missions be considered to provide additional crew time for scientific research to supplement a crew size of 3.

The IMCE also recommended a Space Shuttle flight rate of no more than 4 per year. This results in significant constraints to research due to limited ability to launch and resupply research equipment. The addition of Shuttle missions in the 2006+ timeframe will supplement research crew time by freeing the ISS crew from some of their EVA requirements and thereby increasing the crew time available for research; and by allowing the visiting shuttle crew to perform short duration experiments during the docked mission, or initiate long duration experiments which would then be completed by the ISS crew

Use of overlapping Soyuz for gaining additional crew time is of limited attractiveness. Overlapping Soyuz opportunities could potentially provide 300–400 hours of additional research, presuming the docking time is extended. However, it would add significant logistical burdens to the existing Shuttle flights; since it would be necessary to accommodate for the additional life support and crew provisions. Further, there is a significant learning curve for visiting Soyuz crews that would limit the productivity during the first several weeks of the mission. Additional study is required to assess cost verses benefit of this particular option. The use of an Extended Duration Orbiter for existing or new missions appears promising and is under consideration.

Question. What are the obligations of both the U.S. and Russia regarding the long-term operations of the space station?

Answer. The specific responsibilities of NASA and the Russian Aviation and Space Agency (Rosaviakosmos) are listed in Article 6 (enclosed) of the Memorandum of Understanding (MOU) on the International Space Station (ISS) signed in January 1998. This detailed list of responsibilities includes separate sections for the design and development phase and for the assembly, operation and utilization (long-term) phase. These responsibilities cover a wide range of issues from management mechanisms, to logistics arrangements, to training facilities and simulators. NASA provides the basic infrastructure of ISS, including four solar arrays that generate the majority of power to ISS and two significant research modules. In addition, other NASA key obligations regarding operations include: (1) logistics support for delivery of supplies to ISS on the Shuttle; (2) Mission Control from Houston; (3) crew rotation on the Shuttle; (4) crew return after assembly complete; and (5) life support systems. Many of Rosaviakosmos' key obligations regarding operations are similar to those of NASA, including: (1) logistics support for delivery of supplies and propel-

lant; (2) Mission Control from Moscow; (3) crew rotation; (4) crew return during assembly; and (5) life support systems for the Russian segment.

Question. How can NASA effectively manage its work on the station given its dependence on its international partners?

Answer. The deployment, operation and utilization of the significant capabilities already attained with the ISS demonstrate what international partnering can achieve. While the failure of some partners to deliver certain elements according to schedule has been a past issue, the issues addressed in the recent ISS Independent Management and Cost Evaluation (IMCE) task force did not raise concern in this regard.

Partnerships, by definition, ascribe certain rights and responsibilities to each of the parties, and the ISS international partnership is no exception. As such, NASA, like each of the ISS partners, expects the others to fulfill their obligations and fully intends to continue meeting its own. Meanwhile, NASA is effectively managing its own domestic team of civil servants and contractors, continuing to integrate U.S. elements of the ISS, and, in concert with the international partners, accomplishing program objectives including the integrated operation of the overall ISS vehicle and the execution of an internationally-coordinated research agenda.

Question. Under the terms of the NASA/OMB agreement, will the final space station configuration conform to the expectations set out when the program began, that is, 7-person capability? If not, what are the differences?

Answer. The final configuration of the ISS has not been determined. The NASA/OMB agreement takes the ISS through the core complete configuration that accommodates deployment of the International Partners elements. The launch and assembly of this configuration is our first and foremost priority. We are currently defining research requirements, after which we will perform an analysis of resource capacity to meet those requirements. We recently completed two separate independent life cycle ISS cost estimates. When all of this requisite knowledge is in hand, we can begin considering potential option paths to address delta requirements.

Question. How can NASA meet its commitments to the international partners if the station does not progress beyond a 3-person crew capability?

Answer. NASA is committed to meeting its obligations to the International Partners under the ISS international agreements and has made no decision to reduce the crew size from that specified in the ISS international agreements. NASA has initiated a five-point assessment to reform and revitalize the ISS Program and ensure the construction of a viable ISS that fulfills its potential as a world-class research facility. The five areas of this assessment are: science priorities, engineering development and deployment, cost estimating and analysis, mission and science operations, and international partner coordination. The resources required to meet the science priorities of ISS will determine the ultimate crew size. NASA is working closely with the International Partners throughout this process to ensure that the United States meets its commitments in a manner consistent with the ISS Agreements. The International Partners have demonstrated a willingness to work with NASA as we assess the ISS Program and develop an end state acceptable to the partnership. If, as a result of this process, it is determined that specific provisions under the ISS international agreements require renegotiation, NASA will work with relevant International Partners to seek consensus on the changes.

Question. How will the loss of the habitation module and the crew return vehicle and the U.S. resulting dependence on the Russians impact U.S. leadership on the station/in space?

Answer. NASA's leadership role in the International Space Station (ISS) is a fundamental principle in the Intergovernmental Agreement among the ISS Partners and in the Memoranda of Understanding between NASA and each of the cooperating space agencies. NASA's contribution to the ISS Partnership outweighs that of any other partner many fold, but the Partnership is still dependent on each of its members to provide certain goods and services. Over the course of the design and development of the ISS there have been a number of changes in the planned contributions of the various Partners. NASA, executing its responsibility for overall management and coordination, has led the Partnership through the requisite changes and adjustments. As the ISS has evolved, changes have occurred on a number of smaller scale items and, most notably, on a larger scale when the Russian Federation joined the Partnership in 1993. The ISS is a partnership, with all Partners dependent on the performance of the others. NASA has embarked on a five-point effort to reform and revitalize the NASA ISS Program. This plan is premised on research requirements driving the ISS vehicle configuration. We have, with the Heads of the ISS Cooperating Agencies, agreed to a Program Action Plan for the remainder of calendar year 2002 that will allow for multilateral endorsement of an option path to meet utilization and research requirements. This option path will ad-

dress NASA's demonstration that it has regained programmatic cost control, the timing of research requirements on orbit, as well as budgetary requirements and constraints, while recognizing NASA's prerequisite coordination with the Administration and Congress.

SPACE SHUTTLE

Question. What are NASA's current plans for and cost of upgrading the shuttle?

Answer. Current plans include the following for upgrading the space shuttle:

Safety upgrades

The Cockpit Avionics Upgrade Increment 1 (CAU) will enhance crew situational awareness and reduce crew workload by providing automated control of complex procedures. The fiscal year 2003 President's budget estimate of total funding is $442 million. The Preliminary Design Review for CAU Increment 1 was held the week of April 22, 2002.

The Advanced Health Management System Phase I (AHMS) upgrade to the Space Shuttle Main Engines (SSME) will provide improved real-time vibration monitoring of the SSME and will provide improved engine anomaly response capabilities. The fiscal year 2003 President's Budget estimate of total funding is $55 million. The first flight of AHMS Phase I is scheduled for 2004

Friction Stir Welding (FSW) increases External Tank (ET) reliability by improving weld joint strength, weld margins, and fracture toughness, FSW also enhances process control. In addition, this project decreases ET production time and cost and is an operational demonstration of large-scale use of FSW technology. The total funding is $21 million. The first production use on an ET will be in April 2003.

Main Landing Gear (MLG) Upgrade improves tire designs that could allow for higher landing speeds and increases in cross winds and landing load limits. It will also mitigate obsolescence issues and improve margins for pressure leakage and colder temperature environments. The tire improvement project received the authority to proceed in May 2002. The fiscal year 2003 President's Budget estimate of total funding is $11 million.

Industrial Engineering For Safety (IES) Upgrades identify and reduce risks to ground operations personnel and flight hardware by optimizing human-system interfaces. The IES project will also enhance maintainability and improve overall processing operations of flight hardware and vehicle systems. Total funding is estimated at $90 million

Supportability Upgrades

Long Life Alkaline Fuel Cell (LLAFC) upgrade modifies cells of the Shuttle's existing stack to lengthen corrosion path, reduce reactant temperatures, upgrade external seals and insulator plate, and modify regulator housing to eliminate aluminum corrosion. The total cost for this upgrade is $28 million. The new hardware will be available for installation into the fleet on an attrition basis starting in 2005.

Solid Rocket Booster (SRB) Range Safety Command Receiver—Decoder (CRD) upgrade eliminates a criticality 1 failure mode, decreases destruct reaction time, mitigates obsolescence of key components, and enhances maintainability. The total cost for this upgrade is $5 million. New hardware will be available for installation into the booster fleet in early 2003, with first flight expected in 2004.

SRB Altitude Switch Assembly (ASA) upgrade is a pressure-sensing device to initiate SRB recovery sequence (one unit per SRB). The ASA upgrade eliminates an escalating failure rate and a poor repair record and improves fault tolerance and reliability. The total cost for this upgrade is $4 million. New hardware will be available for installation into the booster fleet in early 2003, with first flight expected in 2004.

Reusable Solid Rocket Motor Nozzle/Case Joint J-Leg upgrade eliminates potential for hot gas intrusion into the joint and eliminates significant time and effort expended evaluating hot gas pass-throughs. The total cost for this upgrade is $9 million. First flight for the improved joint insulation design is targeted for 2004.

NASA is currently assessing the Space Shuttle supportability and upgrade candidates, ground support equipment supportability and upgrade candidates, and infrastructure supportability and upgrade candidates. The primary objective of this activity is to understand options to maintain safe space shuttle operations through 2020, should NASA need to fly the Shuttle until that time. No decisions have been made to fly the Shuttle beyond 2012.

Question. What is the impact on these plans since the shuttle will only be flown four times a year in support of the International Space Station?

Answer. The limit of four Shuttle flights a year applies only to ISS missions. NASA retains the flexibility to fly additional missions if the benefiting party (NASA

enterprises/DOD/Commercial) provides funding. Currently, there are no impacts to the existing Shuttle upgrades.

Question. What is the status of NASA's efforts to solve the agency's space shuttle-related human capital challenges?

Answer. NASA is making key investments in recruiting, training, and retaining a dedicated and skilled workforce. At the end of fiscal year 1999, OSF undertook an assessment of its staffing requirements at the field centers. Our internal assessment of core civil service workforce requirements at the four Space Flight Centers revealed that full-time equivalent (FTE) targets would have to be adjusted upwards. In late December 1999, each Center was directed to address critical Space Shuttle Program (SSP) workforce shortfalls. The objective was to hire employees to support flight safety and the Space Shuttle Upgrades program, including addressing critical skill shortages. Since January 2000, we have seen our Space Shuttle Full Time Equivalents (FTE) levels grow from a fiscal year 1999 base of 1819 to a planned fiscal year 2002 level of 1986. The SSP has made significant progress in addressing the skills imbalance identified in 1999; however, like other programs it has been impacted by normal attrition. Having completed two consecutive years of hiring, our fiscal year 2003 hiring efforts will target critical skills.

Question. NASA has convened an independent business review team to evaluate market potential, financing and indemnification issues associated with transitioning the Shuttle to private industry. With the uncertainty associated with how long the Shuttle will operate under a competitive sourcing scenario, how can this team develop a reasonable financial assessment?

Answer. NASA commissioned RAND to assemble a business review team consisting of representatives from across the private sector (business management, marketing, finance, insurance, safety, and academia) to evaluate the various business models that could be considered to competitively source Space Shuttle operations. For each proposed business model, RAND defined the conditions and requirements necessary for the business model to be financially viable. This will enable NASA and the Administration to fully understand the level of commitment (including required policy and regulatory changes) necessary if they choose one of these business models or a variant option. To ensure the financial viability for each business model, the President's fiscal year 2003 Budget lays out key criteria for Space Shuttle competitive sourcing proposals, including financial viability within the Shuttle's planned retirement in 2012.

Question. Is the review team considering the possibility of private industry accepting the Shuttle fleet only if maintainability upgrades have been made at NASA's expense?

Answer. The issue of who pays for maintainability upgrades is tied to the years of contractor commitment needed and will be considered in NASA's competitive sourcing analysis.

Question. At one time, NASA was considering privatizing one of the Orbiters. What was the reason why this was not pursued?

Answer. In 1996, United Space Alliance (USA) was given the opportunity to "sell" one Shuttle flight to commercial customers. USA pursued this offer, but, was unable to find sufficient commercial market demand to underwrite the flight. If a market does not exist for one flight, then the concept of privatizing an entire Orbiter for commercial purposes is unrealistic. It is important to note that privatization is a mechanism distinct from competitive sourcing, which could or could not include privatization of some portion of the Space Shuttle fleet or infrastructure.

Question. NASA recently announced a decision to move space shuttle maintenance from California and consolidate space shuttle operations at Kennedy Space Center facilities. Reportedly, the decision was made after "years of study", and will save "millions of dollars". What is the estimated cost saving? What is the analytical basis for the estimated cost savings? Will the facilities used to house the maintenance activities be renovated existing facilities or new construction? To what extent has the cost of providing the facilities been included in any analysis justifying the move? To what extent have all the costs to terminate maintenance activities in California been included in any analysis justifying the move?

Answer. The estimated cost savings is $30 million. The JSC Systems Management Office independent cost/risk assessment is attached as Enclosure 2. Additional independent cost assessments were performed (see Enclosure 3). All three assessments indicated that cost savings would be realized in moving OMM from Palmdale to KSC.

The Orbiter modifications in Florida will use existing facilities and there are no plans for renovation or construction of new facilities. OMM at Palmdale is conducted in a government owned facility and the government will retain it. USA and Boeing

are conducting studies to determine the best location to complete the Space Shuttle work that currently remains at Palmdale, CA.

SPACE LAUNCH INITIATIVE

Question. NASA and the Space Launch Initiative Program Office did not conduct a cost estimate prior to initial contract awards in May 2001. At this time an independent cost estimate for total program costs has not yet been conducted. What is the timeframe for completing an independent cost estimate for the Space Launch Initiative program?

Answer. An independent group, the Space Launch Initiative Cost Credibility Team, formed in February 2002, has been chartered to review the current state of cost effectiveness for development, production, and operations in the aerospace industry and to formulate recommendations for applying the findings to the life cycle cost estimates for the next generation of RLVs. The team includes members of the MSFC SLI program office, MSFC Systems Management Office (SMO), NASA IPAO, Department of Defense, Aerospace Corporation, Rand Corporation, Institute for Defense Analysis, and the COTRs for each Integrated Architecture team

The team is collecting the data from each industry-led architecture development team to serve as the basis for the initial estimates. The preliminary estimates will be available to support a Non-Advocate Review (NAR). The estimates for full-scale development cost will be directly dependent upon the results of the systems requirements review process and the awards from the RFP currently scheduled for late next calendar year.

Concurrent with the SLI Independent Cost Team, the Systems Engineering and Integration Office is developing a "bottoms-up" cost and schedule estimate on the basis of the system design fidelity. The systems engineering review process factors in comprehensive budget estimates, detailed project schedules, and business and performance plans, against the goals of safety, reliability, and cost, in addition to overall technical feasibility. This approach forms the basis for the investment decisions in the 2nd Generation RLV program's risk reduction activities.

Question. How are you measuring progress toward achieving full-scale development decision in fiscal year 2006?

Answer. We added the word "decision" in the text of the question because SLI has never planned to have Full-Scale Development (FSD) of the 2nd Generation RLV by fiscal year 2006, but rather an FSD decision by fiscal year 2006—the critical milestone facing the Agency. SLI is on track to provide the necessary scientific and technological data required to design, evaluate, and formulate realistic plans leading to a FSD decision in 2006. NASA is pursuing priority investments for designing the 2nd generation system, maturing critical subsystems to technology readiness levels, and developing credible cost and performance estimates.

Question. In light of NASA's problems in controlling costs on previous programs, what will you do to ensure that the agency adequately defines requirements and adequately manages the program within established cost guidelines?

Answer. As outlined in the strategic plans for SLI, the program continues to refine the Level I requirements and design reference missions in order to maintain focus on the Full Scale Decision by fiscal year 2006. Comprehensive top-to-bottom systems engineering and the cost-control process ensure that the Government gets what it pays for by measuring technical progress against the schedule at regular intervals. The cost-to-benefit ratio must prove a wise investment; gated procurements provide built in "off ramps" to discontinue efforts after a period of performance, as well as "starting gates" to add new tasks to fill technology gaps and spur competition. The research funded must be directly relevant to SLI goals to reduce the technical and business risk of developing a new RLV system. In addition to the multiple internal reviews and analysis teams, the requirements are also reviewed by an external group. The External Requirements Assessment Team (ERAT) was chartered to provide senior-level advice and recommendations to MSFC on this program. Specifically the ERAT will provide an independent assessment of NASA's requirements development processes and resulting documented requirements. The ERAT is further chartered to recommend specific refinement (if necessary) of the program's goals and objectives.

The 2nd Generation RLV External Requirements Assessment team reports to the Manager of the 2nd Generation RLV program office at the NASA, Marshall Space Flight Center. The team is supporting all relevant reviews and requirements development activities required to provide a detailed assessment of the processes and resulting documented requirements.

The process of narrowing architectures completed a major milestone—the Interim Architecture and Technology Review—in the second quarter of fiscal year 2002. The

next phase will continue to focus space transportation system designs from many concepts to several of the most promising candidates to go forward into more detailed development. As technology trade studies are focused and validated through a rigorous systems engineering process, the two merge again in the Systems Requirements Review milestone, anticipated in the first quarter of fiscal year 2003. This further narrows the field to a select few designs and defines which technologies require further investment to enable the eventual winner to be built and become operational. In this way, the Space Launch Initiative is reducing the risks inherent in an advanced research and development program of this magnitude, while fostering a fair business environment for industry and ensuring the wise use of valuable resources.

In conjunction with the numerous technical requirements reviews, SLI has implemented a disciplined Earned Value Management (EVM) process across all projects. EVM is implemented on the SLI contracts consistent with NPD (NASA Program Directive) 9501.3, "Earned Value Performance Management". The EVM reports are specified within each contract and are reported to the Program Manager on a monthly basis.

Question. The X–37 is to serve as a platform for integrated flight demonstration of reusable space system technologies thus advancing technologies to reduce risk to the overall Space Launch Initiative program. Is NASA providing adequate funding to support the X–37 program through the aerodynamic drop tests in fiscal years 2004 and 2005?

Answer. The X–37 continues to serve as a one of multiple platforms for integrated flight demonstrations of reusable space system technologies thus advancing technologies to reduce risk to the overall Space Launch Initiative program. The X–37 program is currently planned through an atmospheric drop test, scheduled to begin in 2004, to demonstrate approximately 18 imbedded technologies. Funding for the X–37 in fiscal year 2004 timeframe will be contingent upon the final evaluations of the current NRA 8–30 Cycle II.

SPACE LAUNCH INITIATIVE RESERVES

Question. In fiscal year 2002, each Space Launch Initiative project included five percent in reserves. By 2nd quarter fiscal year 2002, the reserves have been significantly depleted.

What was the basis for determining the adequacy of a 5 percent allowance for SLI reserves? What are the plans for replenishing the reserves and what impact will this have on program risks?

Answer. The program allocated an initial 5 percent reserve to each project based upon the contracts awarded from NRA 8–30 Cycle I. In addition to the project reserve allocation, the program carries approximately 15 percent reserve each fiscal year. Each project can request funds from the program reserves through the Risk Management Board, chaired by the Program Manager, as required. The program level reserves are allocated by the Program Manager consistent with program priorities and assessment of each task's associated risk to achieving the overall program goals and objectives.

CONTRACT MANAGEMENT/INTEGRATED FINANCIAL MANAGEMENT PROGRAM

Question. GAO has reported that NASA's contract management is a continuing area of high risk, because the agency lacks effective systems and processes for overseeing contractor activities. For example, in a recently issued report on International Space Station cost limits, GAO found that NASA was unable to provide auditors with detailed, transaction-based data to support the dollars obligated for the space station, and did not have support for the actual cost of completed space station components—either in total or by subsystem or elements. As a result NASA is not able to re-examine its cost estimates for validity once costs have been realized. A key effort to address these weaknesses is the implementation of a new integrated financial management system. Implementation of the system and its integration with full cost accounting have been delayed for several years, however, because of significant development and implementation problems. NASA has started its third attempt at developing such a system, after having spent $180 million over 12 years on two failed efforts. Until the new system is operational, performance assessments relying on cost data may be incomplete.

After two failed attempts, what is your expectation for fully implementing the Integrated Financial Management System (IFMS)?

Answer. We are currently on schedule for implementing all eight (8) modules comprising the IFMS. To date, the Travel Manager, Resume Manager and Position Description modules are in various stages of Agency-wide deployment and the rollout

of our Core Financials module pilot (at Marshall Space Flight Center) is on schedule with a "go live" date of October 2002. The remaining four (4) modules, Budget Formulation, HR, Integrated Asset Management (IAM), and Contract Administration (CA) are also on schedule for rollout over the next thirty six (36) months.

Question. What lessons learned from the previous attempts do you plan to apply to increase the probability of success on the current effort?

Answer.

—Use COTS software

—Use a phased approach for module rollout

—Involve the end-users early into the deployment process

—Drive the change management process as an integral part of the transformation

Question. What type of management attention are you providing to this effort?

Answer. After Safety, the Administrator has made the successful and accurate implementation of the Integrated Financial Management System the primary goal. In addition, he has hired a Special Assistant who is the Program Executive Officer of IFM and reports directly to him. He has also directed a re-focus of the field centers to include financial analysis to be complete with the implementation of the IFM program.

Question. What is the estimated completion date for fully implementing the IFMS?

Answer. December 2005 for all eight modules. Resume Management was implemented in January 2002, Position Description in August 2002, Core Financials will be fully implemented in June 2003, Budget Formulation in February 2004, Human Resources, Integrated Asset Management and Contract Administration are currently scheduled for December 2005.

Question. What are the total estimated costs to develop and implement the IFMS?

Answer. The PCC number is $644.8 million (fiscal year 2001 through fiscal year 10). Details are:

[Dollars in millions]

	Amount
Fiscal year:	
2001	$76.7
2002	73.3
2003	85.1
2004	91.2
2005	90.8
2006	48.2
2007	67.0
2008	37.5
2009	37.5
2010	37.5

Question. What are the advantages and risks for NASA to accelerate progress on developing the IFMS?

Answer. The IFM will give the tools to NASA necessary to manage in a timely and efficient its finances. So far, the IFM implementation is on schedule and any additional acceleration analysis will include a detailed risk identification and mitigation strategy comparable to the one adopted for the Core Financials module.

Question. Do the centers have the resources and knowledge to implement the IFMS?

Answer. Yes. They are working in very close coordination and concert with the IFM program office.

Question. How will NASA's new financial management system change the way NASA tracks and uses cost information for activities such as estimating and controlling costs, performance measurement and making economic trade-off decisions?

Answer. IFM will provide NASA with timely, accurate and highly detailed and correlated financial information capable of supporting both full-cost accounting requirements and program and project level performance analysis. It will help shift the financial management focus of the Agency from "spending to budget" to "managing to cost" by providing the necessary information for effective decision support in a timely, user-friendly and reliable environment.

Question. Given the fundamental changes in NASA's financial management, how will NASA manage the cultural and workforce changes needed for the project to succeed?

Answer. NASA is keenly aware that one of the major success factors related to implementing a new Agency-wide system like IFM resides in transferring as quickly as possible the "ownership" of the new system and its related processes from the Project Office to its ultimate constituencies. In parallel to the software technical im-

plementation, the Agency is scheduling the related change management activities following a timetable closely coupled with individual user/constituency feedback.

Question. What other steps will you take to enhance oversight of contract management activities?

Answer. The appointment of a Program PEO and the competitive sourcing of future module, such as Payroll, focusing on "best of Breed" and e-government guidelines will enhance contract management oversight.

WORKFORCE ISSUES

Question. Between fiscal year 1993 and fiscal year 2000, NASA experienced a 26 percent civil servant reduction. The downsizing skewed the age distribution of NASA's workforce and contributed to critical skill shortages. More people in the workforce are over 60 than are under 30, and there is concern about the prospect of large numbers of future retirements. Since the completion of downsizing in fiscal year 2000, NASA has shifted its focus to workforce revitalization and restructuring.

What progress has NASA made toward mitigating critical skill imbalances and reversing adverse workforce demographic trends?

Answer. NASA has taken, and continues to pursue, efforts to address Agency workforce issues, including skill imbalances and adverse workforce demographic trends.

To help us better manage the existing workforce and enable better strategic decisions about future workforce needs, the Agency has undertaken an initiative to develop and implement an Agency-wide integrated workforce planning and analysis capability that will permit us to track the distribution of NASA's workforce across programs, capture critical competencies and skills, and allow an analysis of gaps between current and desired states.

The Agency is very focused on addressing the adverse workforce demographic trends it faces, including the shrinking S&E pipeline, lack of diversity within that pipeline, and NASA's aging workforce. In order to reshape and reconstitute the workforce for the future, NASA Centers are re-establishing recruitment networks and rebuilding the once extensive Co-operative Education Program. The Agency will continue to use these programs, as well as the Presidential Management Intern Program, the Federal Career Intern Program, and other student employment programs as tools for entry-level hires.

NASA uses available financial incentives to attract and retain a workforce that has the right skills for the future and is representative of the Nation's diversity. For example, NASA Centers will offer starting salaries above the minimum rate of a grade and when appropriate offer recruitment bonuses to attract, and retention allowances to retain, needed talent. Use of these incentives has increased in the recent past—a trend the Agency expects to continue because of an increasingly competitive job market and high cost of living surrounding some NASA Centers. The Centers are now also able to repay student loans as a way to attract or retain employees.

The National Recruitment Initiative study, completed in January 2002, was created to develop Agency-wide hiring strategies and tools for NASA's current and future science and engineering recruitment needs. Information gathered was used to develop recruitment enhancements that focus on the candidate instead of the hiring process; leverage partnerships and alliances with universities; and coordinate Agency-wide recruitment opportunities and outcomes. In addition, the Agency's automated resume submission process enables applicants to apply for jobs using an online service called NASA Staffing and Recruitment System (NASA STARS). We recently added an on-line notification system that allows individuals to be automatically notified of new vacancies that may be of interest to them.

Given current workforce demographics, particular attention must be focused on assuring the Agency captures and makes available the wealth of expertise and experience the current workforce possesses—as well as that which resides outside the Agency in similar organizations—to aid in developing the next generation of project/business managers and leaders. Accordingly, NASA has identified an "improvement initiative" to ensure training and development programs build needed competencies, including more effective incorporation of knowledge sharing and mentoring in the development of employees.

To help ensure a continuing pipeline of future talent, NASA has a number of programs, K–12 through post-graduate, to encourage students to pursue science, math, engineering, and technology studies. The Agency has made education a core mission and is pursuing a more coordinated management approach that will further enhance our reach and improve our performance in the education area. In addition to those

efforts, NASA is working to improve the linkage between these "feeder" programs and projected workforce requirements.

We face challenging times as we reconstitute and reshape our workforce for the 21st century. While we continue to use our existing flexibilities, they are not entirely adequate. To help us address the challenge head-on, in May 2002, we recently forwarded to Congress a series of legislative provisions dealing with human capital. These provisions will complement the Administration's Managerial Flexibility Act, and we look forward to working with the Committee and Congress to ensure that these essential tools are enacted into law this year.

Question. What barriers impeded NASA from achieving proper staffing levels?

Answer. The rigidity of Federal workforce restructuring, recruitment and compensation laws and rules impede NASA's ability to respond in an agile and efficient manner to mission or program changes and workforce trends. NASA needs additional flexibilities and authorities to address its human capital challenges.

NASA must reshape and reconstitute its current workforce to address its skills imbalances and lack of depth in critical competencies. The buyout and early retirement authorities are very useful tools to facilitate downsizing, but management must be able to use them for restructuring and reshaping (not just downsizing) and be able to target them on the basis of skills and occupations.

Financial incentives are needed to attract and retain a world-class workforce and avoid a sudden drain of talent and corporate knowledge that could result from the departure of too many key employees at critical points. More competitive and flexible recruitment, relocation, and retention bonuses would address this need. Other incentives, such as the authority to offer new employees the same travel and transportation benefits available to permanent employees who transfer to other duty locations would make a difference when recruiting new employees for positions in high cost areas.

Federal recruitment and placement processes are overly cumbersome and time consuming. As a result, NASA loses highly qualified candidates to the private sector, which can extend more lucrative offers much more quickly. Streamlining these processes will enable NASA to respond more quickly and effectively to workforce changes and compete more successfully with the private sector for talent. Among some of the suggested changes include:

A streamlined hiring authority for severe shortage and critical needs positions.

A more flexible term (time-limited) appointment authority. Term appointments, which currently are limited to 4 years, often are used to support scientific and technical projects and programs. The completion of such projects often is dependent on the technology, so their duration may extend beyond the original anticipated date—and beyond 4 years. NASA needs the authority to make/extend a term appointment for up to 6 years. In addition, the process of converting term employees to permanent must be simplified. Doing so is likely to make term appointments more attractive to potential applicants and thereby provide a more robust labor pool from which to draw.

Question. What is the status of the agency-wide workforce planning system NASA is developing, and what is its relationship to the Integrated Financial Management Project? How will the new system assist the agency in making strategic decisions about future workforce needs, including the size of the workforce and the knowledge, skills, and abilities needed to carry out agency operations?

Answer. As mentioned previously, we are implementing a three-phase plan for developing an improved workforce planning capability at the Agency level. This effort began in fiscal year 2002 and is scheduled for completion in fiscal year 2005. The plan focuses on the competencies required and those possessed within the NASA workforce. Ultimately, we plan to use the Human Resources (HR) capabilities of the IFM enterprise software to integrate workforce planning with other planning processes in the Agency.

Initially, we have had the Centers update an inventory of competencies in their civil service and contractor workforces. We are refining that data and improving our competency definitions. We will go back to the Centers later this year to get input identifying specific competency gaps related to NASA program needs. Simultaneously, we are working on standardizing and extending the use of a competency management system model devised at the Kennedy Space Center. A team has begun work on this model, which will provide the common framework needed across all the Centers to identify competencies and workforce needs. This framework will be used to configure the HR module in the IFM system. The new IFM HR software will give us the capability, for the first time at the Agency level, to associate skills and competencies with positions and with employees. It will further enable us to associate employees with the programs and projects on which they work. This will

give us the information needed to plan and target hiring and training to the needs of the programs and agency operations.

NEXT GENERATION SPACE TELESCOPE

Question. NASA's current plans are for the Hubble Space Telescope to receive one more servicing mission and then to operate it until 2010 or until subsystem failures render the Observatory inoperable. The schedule for the Next Generation Space Telescope (NGST)—an observatory that will enable NASA to estimate the total mass in galaxies even in non-luminous regions due to sensitive infrared capability—has been extended. NASA has acknowledged that delays are due to a number of factors, including foreign partner concurrence and the performance of an improved instrument cost estimate. Down select to a single prime contractor is currently scheduled for this fiscal year.

Uncertainty in the details regarding the transition from the Hubble to the NGST is not unlike that associated with the transition from the Shuttle to a replacement Reusable Launch Vehicle. Indeed, in both the case of the Hubble and Shuttle, we are a long ways away from an operational replacement system, costs for the replacement are uncertain, and decisions need to be made in short order if additional upgrades to extend the life of the current system are to be cost-effective.

As the NGST schedule is extended, is it prudent to develop a contingency plan that will enable Hubble to operate beyond 2010? Has NASA developed such a plan? If so, what is the range of costs associated with possible contingencies? Are skill shortages a concern among HST staff in light of possible operations beyond 2010? Is sufficient time being allotted for testing to ensure that NGST's needed technologies—such as lightweight optical structures, new generations of infrared detectors, and energy-efficient cooling techniques—will operate successfully when launched?

Answer. We currently plan to launch NGST in 2010. It is important to note that NGST and HST look at different portions of the electromagnetic spectrum, so even in the event that NGST slips, trying to keep HST going past 2010 wouldn't "make up" for the delayed science. This is not to say that astronomers interested in HST visible/ultraviolet data would not be interested in NGST infrared data, but it is worth noting the difference. Therefore, because there is no pending "data gap" to mitigate, we have not developed a contingency plan to extend Hubble's operational life.

It is also important to point out that the amount of archival data from Hubble is immense and could easily keep the scientific community occupied for years. In fact, one of our most important discoveries from Hubble over the past year—the existence of "dark energy" that pushes galaxies apart—resulted from archival data, not from a recent observation. Even if there is a delay in NGST development or if HST's planned operational life is unexpectedly shortened, NASA plans to continue to provide grants to researchers to make use of archival data from Hubble.

AERONAUTICS RESEARCH

Question. NASA's fiscal year 2003 Budget Estimates says that: "U.S. competitors are targeting aviation leadership as a stated strategic goal. Without careful planning and investment in new technologies, near-term gridlock, constrained mobility, unrealized economic growth, and the continued erosion of U.S. aviation leadership could result".

Mr. Administrator, I too am concerned about the apparent loss of U.S. aviation leadership. While NASA expresses concern, its budget request seems to say otherwise. How else could you interpret the decreasing funding trends in aeronautics research? Take "Breakthrough Vehicle Technologies" for example, a component of the Vehicle Systems Program. Fiscal year 2001 and fiscal year 2002 appropriations were $84.4 million and $83.2 million respectively. The fiscal year 2003 request is for $61.9 million. Does this trend mean that the continued erosion of U.S. leadership has stopped?

Answer. During fiscal year 2001 and fiscal year 2002, the budget for the Breakthrough Vehicle Technology project included a task associated with 3rd generation reusable launch vehicles unrelated to aeronautics technology. During the fiscal year 2003 program restructuring to provide more focus on aeronautics, this work ($20.5 million) was appropriately consolidated with the Space Transfer and Launch Technology program. The fiscal year 2003 NASA request for aeronautics work within the Breakthrough Vehicle Technology project has increased over the fiscal year 2002 request.

Question. The Aerospace Technology Enterprise Plan issued in April 2001 is NASA's blueprint for a new era in Aerospace for the United States. Focusing on the

goal of pioneering technology innovation, I am struck by the apparent absence of key markers that would demonstrate NASA's resolve. Is this indicative of a void in the Nation's strategic approach to aeronautics research?

Answer. NASA is in the process of defining metrics for its pioneering technology innovation goal. NASA's Office of Aerospace Technology is working with its partners and customers in the NASA Enterprises to establish definitive objectives and metrics for this goal. The absence of the metrics is not an indication of a void in the Nation's approach to aeronautics research. For example, NASA's strategic plan has established quantitative metrics for aviation safety as follows: technology development to enable an 80 percent reduction in fatal accident rates by 2007, and a 90 percent reduction by 2022. Similar quantitative metrics have been established for aviation noise and emissions reduction, and capacity and mobility improvements.

SPACE SHUTTLE SAFETY/ASTRONAUTS

Question. Richard Blomberg, who recently completed his term as chairman of an independent panel that oversees human space flight safety at NASA, told the House Science Committee: "In all the years of my involvement, I have never been as concerned for Space Shuttle safety as I am right now." Is this country on the verge of another Challenger tragedy? What is NASA doing to allay Mr. Blomberg's concerns?

Answer. The Space Shuttle is safe to fly. The recent discovery of the flow liner cracks exemplifies the risk adverse nature of the Shuttle team. For the future, NASA is currently assessing Space Shuttle supportability and upgrade candidates for hardware, infrastructure and obsolescence, and reviewing human capital investment required to operate the shuttle beyond 2012. The primary objective of this activity is to understand options to maintain safe Space Shuttle operations through 2020 should Agency planning for a transition to a second-generation vehicle by 2012 change. No decisions have been made to extend Shuttle operations beyond 2012.

Question. Last year, your predecessor was quite concerned about the prospect of "tourists" on the space station. But now NASA and the other space station partners have agreed to allow Russia to send "spaceflight participants" to visit the space station regularly. Another one—a millionaire from South Africa—is up there now, and several more candidates are waiting in the wings. Do you consider this an appropriate use for the world-class research facility that we're building? Is this what NASA means by "space station commercialization"? What are NASA's plans for flying non-professional astronauts either on the space shuttle or the space station?

Answer. The International Space Station (ISS) is a partnership venture, where each partner has rights associated with activities utilizing the resources and capabilities that they contribute to the venture. As such, the Russian partner has the right to utilize their portion of the ISS to accommodate "spaceflight participants" whom they choose to sponsor and transport to the ISS. In general, each partner selects candidates for its own ISS crewmembers based on its own criteria and procedures. The ISS partnership has agreed on a set of criteria and processes to be used by all ISS partners when assigning their professional astronauts/cosmonauts or spaceflight participants as ISS (Expedition and Visiting) crewmembers. This document addresses the requirements for candidate crewmembers in the following areas: general suitability, medical requirements, behavioral suitability, linguistic ability, crew code of conduct, and training requirements.

NASA has no plans for flying non-professional astronauts ("spaceflight participants"), either on the Space Shuttle or the ISS, and does not envision any consideration of such individuals until assembly of the ISS is completed ("US Core Complete"). Any future consideration to fly spaceflight participants on the Space Shuttle or the ISS would only be considered if it were deemed to be in the "national interest."

Question. Do women astronauts have the same opportunities as their male counterparts? We have heard that NASA's decision to curtail funding of a "small torso" spacesuit severely limits the number of women who can be assigned to space station crews. Is that correct? What percentage of the women in the astronaut corps currently cannot be assigned to space station crews because of the spacesuit issue? If women are not part of the long duration crews on space station, how will data be acquired on women's adaptation to the space environment to ensure they can be included on trips to Mars, for example? How much money will NASA save by not building that version of the spacesuit? What scientific research objectives will not be achieved—particularly in understanding human adaptation to the space environment—because there are so few women on space station crews?

Answer. NASA's anthropometric criteria for astronaut candidates are intentionally broad to allow us to select from the nation's best and brightest, regardless

of gender. Naturally, all astronauts are not going to be qualified for all the possible roles on a mission, with respect to their size or other characteristics.

It is important to note that only EVA suits, which are only used for space walks, are in any way limiting which astronauts can fly on Shuttle missions. The Shuttle spacesuits for launches and landings accommodate all astronauts. While the small EVA suit could affect 31 women astronauts in the current astronaut corps, only three are currently impacted for future missions. These three women have yet to be assigned to a mission, but they will likely be assigned within the next year. Given a recent change in policy that allows astronauts to be assigned to ISS Expedition crews even if they are not EVA qualified, it is now possible for these three women astronauts to qualify for an ISS Expedition mission.

As far as the other 28 women astronauts potentially affected, fifteen can be accommodated in the medium EVA suit. One recent graduate of Astronaut Candidate training has yet to be evaluated for EVA suit sizing requirements. Seven female astronauts are not eligible for EVAs regardless of suit size. Four of these seven women are on inactive status and have already completed multiple space flights as mission specialists or pilots. The other three have been assigned mission-critical roles as Shuttle pilots or as a mission commander. Of the remaining women astronauts, five have already had multiple flight assignments in mission-critical roles, such as Robotic Manipulator System operators, and have been instrumental in International Space Station (ISS) assembly operations. Deferral of the development of the small EVA suit will not eliminate opportunities for assignment to ISS flights since all long-duration crewmembers do not require EVA qualification. The length of the EVA suit shoulder determines who can wear the existing suits. Some male astronauts are too big for the extra large suit just as some women are too small for the medium EVA suit. Thus far, many women and men have trained and qualified in the medium, large, and extra large EVA suits. Women astronauts have performed significant EVAs in support of the ISS assembly within the past year most recently, Dr. Linda Godwin and Col. Susan Helms.

NASA recognizes that the current EVA suit has limitations, including size constraints and interchangeability, which we hope to improve through further evolution in suit design and configuration. The next generation of EVA suits that we develop will improve functionality for all users and will also accommodate a broader range on both extremes of the anthropometric spectrum, small and large.

We must emphasize that NASA has not terminated the small EVA suit, although its certification and production have been deferred in favor of higher funding priorities. Even if the development of the small suit resumed immediately, it could not be ready for use during the assembly phase of the ISS, when the demand for EVA is at its peak. In addition, operational problems would still exist since the small EVA suit parts are not compatible with the other suits.

MERGERS IN THE AEROSPACE INDUSTRY

Question. Has there been any impact on competition in NASA contracting because of mergers in the aerospace industry?

Answer. Mergers in the aerospace industry have reduced the number of competitors for NASA contracts. Despite these changes, however, NASA has experienced an increase in the percentage of competitive contract actions from 75 percent in fiscal year 1997 to 81 percent in fiscal year 2001. In spite of a relatively flat budget over the last several years, the percentage of dollars awarded competitively has also increased from 61.9 percent in fiscal year 1997 to 64.1 percent in fiscal year 2001.

Question. Is competition less fierce today than, say five years ago?

Answer. There is no indication that competition among contractors vying for work with NASA is any less fierce today than it was five years ago.

Question. If so, is NASA paying more for products and services?

Answer. To the extent that we obtain competition for NASA business as noted above, we believe that the prices are reasonable and reflective of the marketplace.

Question. Should additional mergers such as Northrop Grumman's proposed merger with TRW be discouraged?

Answer. In general, NASA defers to the Departments of Commerce and Justice to evaluate potential mergers. We believe each proposed merger should be reviewed on a case-by-case basis in cooperation with those Departments. NASA does not anticipate any adverse impact from the pending Northrup Grumman/TRW merger.

NUCLEAR PROPULSION

Question. When do you expect nuclear propulsion for planetary probes to be ready to fly? You have said that we should wait until nuclear propulsion is available to send a probe to Pluto because it can get there without a gravity assist from Jupiter,

and will be able to conduct longer term studies of Pluto once it arrives. Assuming your nuclear systems initiative is funded as planned for the next 5 years, when will that nuclear-propelled Pluto probe be launched? Will it arrive at Pluto by 2020, when scientists say the atmosphere is likely to collapse?

Answer. The proposed Nuclear Systems Initiative research and development program could enable the flight of a nuclear fission-powered spacecraft early in the next decade. A mission to orbit Pluto would take approximately 10 years to reach and orbit Pluto. There is currently no consensus among the scientific community as to when or even if Pluto's atmosphere will freeze out. Nuclear electric propulsion reduces or eliminates the need for planetary gravity assists, and would therefore not have launch date constraints.

The abundant on-board power and propulsion enabled by the nuclear fission system (more power than approximately 250 watts electric from a radioisotope power system) would permit the spacecraft to orbit the Pluto/Charon system, rather than simply fly-by, allowing significantly more time for detailed survey of Pluto/Charon through the use of remote sensing instruments. Additionally, the abundant energy would enable a much greater scientific data-return communications link to Earth compared to what could be achieved with a radioisotope power system.

STATUS OF RUSSIAN COMMITMENTS

Question. What is the status of Russia fulfilling its commitments to the space station program? The cost overruns on NASA's part of the program have overshadowed concerns about Russia's ability to fund construction and launch of Progress and Soyuz spacecraft. Are you confident that Russia will meet those commitments? If not, what remedy do you propose?

Answer. Russia continues to meet flight commitments including the provision of Service Module life support systems and launch of Progress and Soyuz spacecraft for re-supply, reboost, and crew escape functions. It is our expectation that Russia will continue to meet these commitments.

Question. Of the space station segments Russia promised to build—such as the Science Power Platform, docking units, and Research Modules—which do you still anticipate will be constructed? If Russia does not provide the Science Power Platform, will we have to provide electrical power for their segment of the space station? If so, will they be charged for that resource?

Answer. The Science Power Platform (SPP) as originally envisioned has not been completed due to budget shortfalls and design uncertainties. Although some hardware has been built, it became clear that the original design would be too heavy for launch on the Space Shuttle. Most work on the project was halted, in order to allow time to re-design the SPP. The primary consequence of not building the SPP as planned is to reduce the amount of power available to the Russian Segment of the ISS.

Relative to additional assembly hardware to be delivered, progress on these elements has also been limited due to funding issues. However, like the SPP, the primary consequence of not building out the full Russian segment is an impact to the Russian segment utilization.

NASA has received alternative Russian design options for technical consideration. However, NASA is not in a position to discern whether Russia will be able to address the financial issues that continue to delay progress on their plans to build out the Russian segment nor the specific elements that will ultimately be deployed to orbit.

Question. What is the status of discussions with Russia about providing additional Soyuz spacecraft to enable the space station crew size to grow to six? How much do you think Russia will charge the ISS partnership for two additional Soyuzes per year?

Answer. NASA is currently not engaged in discussions with the Russian Aviation and Space Agency (Rosaviakosmos) on the subject of additional Soyuz vehicles to increase the size of the International Space Station (ISS) crew from three to six. A decision on the most effective crew size and associated crew return requirements is not expected until NASA completes its five-point assessment to reform and revitalize the ISS Program. The five areas of this assessment are: science priorities, engineering development and deployment, cost estimating and analysis, mission and science operations, and international partner coordination.

Moreover, NASA is legally prohibited from purchasing ISS-related goods and services from any entity or element of the Government of the Russian Federation under Section 6 of the Iran Nonproliferation Act of 2000 (INA) (Public Law 106–178) unless the President determines that Russia meets specific nonproliferation conditions. NASA has made it clear to Rosaviakosmos that any potential future purchase of

crew return services would have to be within U.S. non-proliferation regulations, including INA.

With USG interagency approval, NASA did discuss the feasibility of extending/expanding the use of Soyuz crew return vehicles with Rosaviakosmos in February 2002. Rosaviakosmos indicated willingness and ability to supply additional Soyuz spacecraft if NASA is able to provide lead funding at least 2 years prior to delivery. NASA did not enter into negotiation regarding the price of Soyuz crew return vehicles. The price would depend on the number of vehicles required and delivery schedule. Any requirement for additional crew return capability will come from the ongoing five-point NASA assessment of the ISS Program. This plan is premised on research requirements driving the ISS vehicle configuration. We have, with the Heads of the ISS Cooperating Agencies, agreed to a Program Action Plan for the remainder of calendar year 2002 that will allow for multilateral endorsement of an option path to meet utilization and research requirements. This option path will address NASA's demonstration that it has regained programmatic cost control, the timing of research requirements on orbit, as well as budgetary requirements and constraints, while recognizing NASA's prerequisite coordination with the Administration and Congress.

ORBITER MAJOR MODIFICATIONS

Question. Your decision to move Shuttle "Orbiter Major Modifications" (OMM) work to Florida from California has stimulated some controversy.

Kennedy Space Center's press release announcing the transfer stated that performing all the OMM work in Florida "would also minimize risk." What risks are minimized by moving this work to Florida? What risks are increased? For example, it would seem that there are increased risks in having the entire shuttle fleet in the same geographical location. Wouldn't it be prudent to keep at least one orbiter in a different location in case terrorists or natural disasters strike Kennedy Space Center?

Answer. Several risk factors are lessened by the transfer of OMM to KSC: reduced risk of transporting orbiters cross-country from Palmdale to KSC; reduced Shuttle manifest impact planning risk; reduced Shuttle ground operations risk, reduced overall costs per year ($30 million); reduced risk of "redoing" OMM work. KSC is constantly improving its security procedures to protect the nation's Space Shuttle and ground facility assets, with an accelerated improvement effort in light of the events of September 11. While we must remain vigilant for future missions, past experience has shown that the orbiters are very well protected at KSC. Placing a single orbiter at a different location in order to protect it from a natural disaster or terrorist attack will only increase the strain on NASA security forces to protect more than one location.

Question. How many people in California will lose their jobs? How many people in Florida will be hired? Are you or your contractors trying to motivate workers to move to Florida so their experience is not lost?

Answer. Due to the periodic nature of the OMM's in Palmdale, the workforce is hired/terminated based on need. Utilizing synergies of a common workforce, United Space Alliance's plan uses 235 workers. This workforce is a combination of current and new hires. In addition, 30 Boeing engineers for design-engineering support will be used. Management has been drawn from the existing Orbiter Element and Ground Operations Element teams.

In September 2001, and March 2002, United Space Alliance held an "Open House" in Palmdale for the purpose of interviewing and extending offers to Palmdale employees to relocate to KSC in Florida. Approximately 300 attended the September event, and 90 attended the March event. USA has extended 25 relocation offers, of which 15 have been accepted. Currently there are no other offers pending to California workers to relocate to Florida. It should be made clear that the Palmdale workforce was laid off after the completion of the last OMM, not as a result of the transfer to KSC. This is a cyclical process that occurs after each OMM at Palmdale. Many of the laid-off Palmdale workers have secured other positions at area aerospace firms.

Question. What is your current estimate of how much money will be saved by this transfer on an annual basis for the next 5 years? What is your current estimate of the costs (including costs to the Federal Government, State government, local government, and contractors)? Please specify any facilities that must be built, renovated, or upgraded and the associated costs.

Answer. The proposal to conduct OMM at KSC was based on a plan to use existing facilities, in their current configuration. The current savings per year due to the relocation is $30 million. NASA and United Space Alliance will perform OMM's in

existing Orbiter Processing Facilities (OPF). Since OMMs are a labor-intensive effort and we are using existing facilities at KSC, there are no costs associated with this transfer. A declining flight rate has alleviated processing dependencies on facilities.

Question. When will the transfer be completed and the Palmdale, CA facilities closed?

Answer. The transfer has already begun and closure is dependent upon the USA & Boeing evaluation of remaining work at Palmdale.

Question. How has your approach to shuttle security changed since the September 11 terrorist attacks? Much attention has been given to your decision not to announce shuttle launch times until 24 hours in advance. Since all shuttle flights, with one exception, are to the space station, and launch times can be calculated easily based on the space station's orbit, is it correct that the reason behind your decision was related to that one exception—this summer's launch of STS–107, which includes an Israeli astronaut? If so, will you return to your prior practice of announcing launch times well in advance of a launch after STS–107 is completed?

Answer. Subsequent to the events of September 11, KSC received approximately $45 million to enhance security. While this work is in progress, a variety of security efforts have already been instituted. No, the decision not to announce shuttle launch times until 24 hours in advance is not related to STS–107—this decision was initiated immediately following the events of 9/11 and will remain in effect until NASA's security policy changes.

RADIATION EXPOSURE

Question. In addition to the spacesuit issue, another factor that may limit women's participation in space station crews is radiation exposure limits. For example, your guidelines are that women who make their first long duration 6-month space flight at age 45 cannot make another long duration flight, but a male of the same age can make two such spaceflights. You note that the data on which you base your guidelines is quite dated, and new research could change those guidelines. Do you anticipate that your Space Radiation Initiative will demonstrate that women can participate in space missions to the same extent as men? If not, what are the implications for women participating in trips to the Moon or Mars? In general, your radiation exposure guidelines limit most men and women to either one or two 6-month spaceflights over their lifetime. Is that a "showstopper" for human trips to Mars?

Answer. The safety of flight crews is NASA's highest priority. As such, we strive to ensure that our astronauts are protected from undue hazards, including excessive exposure to radiation. NASA's standards for radiation safety are based on recommendations from the National Council on Radiation Protection and Measurements (NCRP) and approved by the Occupational Safety and Health Administration (OSHA). Several radiation limits are used to deal with specific exposure types. The current NASA radiation limits are based on NCRP guidelines issued in 1989. New guidelines were published in 2000 and recommended for adoption by the NASA Aerospace Medical Advisory Board; procedures for implementation of that recommendation are being developed.

The most restrictive radiation limit is the career radiation exposure limit. This limit has been set to ensure that the probability of fatal cancer during the individual astronaut lifetime is not increased by more than 3 percent above the average lifetime risk for the U.S. population (which is approximately 20 percent). This risk limit is imposed equally for both male and female astronauts of all ages. The radiation exposure of astronauts is controlled to ensure that this risk level is not exceeded. However, the risk associated with a given radiation dose is different for men and women, mainly due to radiation-sensitive organs in women. The risk is also dependent on age. For this reason, the cumulative career radiation dose allowed for women is less than that for men, and the cumulative career radiation dose allowed for younger astronauts is less than that allowed for older astronauts of either gender.

The probability of fatal cancer is calculated using measured radiation doses. Current knowledge is not sufficient to establish this relation accurately, and therefore there are large uncertainties in the risk prediction for a given radiation dose. For this reason, large margins of safety are required to ensure that the risk is not exceeded. At a given radiation dose, the risk may be as much as three times greater than the average estimate. Therefore, in order to have reasonable confidence that the risk limit is not exceeded, further radiation exposure needs to be restricted after a radiation dose corresponding to only a third of the dose corresponding to a 3 percent risk limit.

The Space Radiation Initiative will contribute in several ways to demonstrate that women can participate in space missions to the same extent as men. The increased

knowledge gained from the research will reduce the uncertainty in risk prediction, allowing narrower safety margins to be applied. This means that higher dose and, therefore, longer duration missions for both men and women astronauts can be accepted with the same confidence that risk limits will not be exceeded. The Space Radiation Initiative will also provide significantly better data in physics and biology. This data will lead to improved utilization of spacecraft components for radiation shielding. Finally, development of a significant radiobiology research community will allow NASA to participate in, and benefit from the breakthroughs in biology. Even minor advances could lead to significant benefits for NASA, as well as society at large. For example, improvements in biochemical diagnostic techniques that lead to earlier diagnosis and lower fatality rates for breast cancer would significantly reduce the risk attributable to radiation in a given mission. Even further along the horizon, biological intervention to mitigate risks of all fatal disease is a realistic hope. A science community attuned to NASA mission requirements will be able to translate its benefits into meeting NASA requirements.

The current limitations on astronauts are applicable to the Space Station. A Mars mission would have greater uncertainties, and require greater margins of safety. The Space Radiation Initiative is necessary for Space Station and is intended to be sufficient to assure three 180-day missions for men and women astronauts within adequate safety margins. The advances of the Initiative are necessary for a Mars mission, but are not sufficient. Better prediction of biological health effects, including effects other than fatal cancer, is required for a Mars mission than for a stay on Space Station. In addition to optimization of spacecraft design for radiation shielding properties it will be necessary to design shielding for a planetary surface; a new concept of radiation shielding may also be developed for a long interplanetary transit. A Mars mission with only our present knowledge is likely to result in radiation exposures that exceed current NASA limits. However, it is reasonable to assume that, on the time scale needed for the execution of a Mars mission, adequate progress could be made to enable a Mars mission to proceed without exceeding safe risk limits.

EARTH SCIENCE ENTERPRISE

Question. How has your strategy changed regarding commercial remote sensing applications?

Answer. With the advent of successful deployments of commercial remote sensing satellite systems starting in 1999, NASA assessed that it was appropriate to expand its role in the area of Earth science applications. In January of this year, NASA released the "Applications Strategy: 2002–2012" for the Earth Science Enterprise (ESE). The focus of this strategy is on national applications that extend and accelerate the operational use of the results of NASA research and development in Earth science and technologies. A copy of the Strategy is available at: http://www.earth.nasa.gov/visions.

The Applications Strategy indicates a role for commercial remote sensing in serving NASA research purposes in understanding the Earth system. The Applications Program undertakes the functions of evaluating potential sources of commercial data, verifying and validating the data and information technologies, and then benchmarking their use for scientific research and applications development and demonstration.

NASA proactively develops opportunities for using commercial data; e.g., partnerships with industry and leveraging investments in new products and services to serve the research agenda. The Landsat Data Continuity Mission (LDCM) is a public/private partnership enabling the private sector to provide data to meet a government specification for the Earth science community. This multi-year development effort sets a precedent for government requirements that may be served by the private sector on a sustained basis into the future.

Question. For example, what is the significance of your decision to change the Commercial Remote Sensing Program (CRSP) at Stennis Space Center to the Earth Science Applications Directorate?

Answer. The title was changed to reflect the broader role of the Earth Science Applications Directorate (ESAD) at Stennis in support of the ESE. The ESAD contributes to the systems engineering functions of evaluation, verification and validation, and benchmarking associated with the use of commercial remote sensing data, and for the use of NASA results in the national applications. ESAD serves in leading many of the crosscutting solutions associated with the systems engineering to enable the effective use of Earth science predictions and observations to be assimilated into decision support tools, including assessments and decision support systems. This approach is consistent with the approach of the Climate Change Research Ini-

tiative (CCRI) and other Federal agencies in addressing national needs for Earth science results to be deployed effectively to serve our citizens.

Question. Your fiscal year 2002 budget estimate states that the goal of the CRSP program was to "accelerate the development of a preeminent U.S. remote sensing industry," but your fiscal year 2003 budget documents state that, as of fiscal year 2002, that no longer is a strategic objective. What has changed, and why?

Answer. The U.S. remote sensing industry has grown in capacity recently, as manifested by the successful launches of commercial remote sensing satellites and successful operations of a number of airborne commercial remote sensing systems.

The ESE recognizes the importance of systematically enabling the results from NASA's research and development of aerospace science and technology for increasing the understanding of the Earth system to enable decision support systems to serve our Nation. In January of this year, NASA released an Applications Strategy to accomplish the purpose of serving national applications (including energy forecasting, public health, agricultural competitiveness, homeland security, coastal management, etc.). The strategy directly addresses the NASA mission objective of "understanding and protecting our home planet".

The National Academy of Sciences (NAS) is currently reviewing the Strategy, and their report is due to be released this fall. The NAS, the Earth Systems Science and Applications Advisory Committee (ESSAAC), the CCRI and the U. S. Global Change Research Program) (USGCRP) have all documented the importance of effectively enhancing and expanding the benefits of our increased understanding of the Earth system (in general) and NASA ESE results (specifically) to beyond the traditional scientific community. The ESE Applications Program's focus is to accomplish this purpose.

Question. When do you expect the Administration to release its Climate Change Research Initiative and make decisions about the future of the EOS program?

Answer. The Climate Change Science Program Office (CCSPO), led by Dr. James R. Mahoney, the Assistant Secretary of Commerce for Oceans and Atmospheres, and the National Climate Change Technology Initiative (NCCTI) group is coordinating the review of multi-agency climate research activities called for by the Administration in its fiscal year 2003 budget submission. The inventory began in early 2002 and was completed in July 2002. The CCSPO integrated the information submitted into a single document shared among the Federal agencies. Draft criteria for the evaluation of the research programs have been iterated among the agencies and CCSPO. The other affected agencies are currently presenting their climate change activities to the CCSPO, and it is expected that all presentations and the overall synthesis of this information should be completed in time to affect the fiscal year 2004 President's budget submission to Congress.

The CCSPO's interagency review process of agency activities is expected to produce recommendations about plans for individual agencies from CCSPO to both the agencies and those components of the Executive Office of the President that oversee the overall budget process and content. However, any CCSPO recommendations will occur only after all agencies have made their presentations, and subsequent deliberations are carried out, which should be completed in August. NASA strongly believes that our EOS follow-on plans are critical to the success of the CCRI and the USGCRP, especially meeting the goal identified in the draft memo on criteria for program review to "Enhance observation and monitoring systems to support scientific and trend analyses and to improve decision support tools."

Question. Have you received any indication so far as to what EOS-Follow On projects will be approved? If so, what are they?

Answer. The fiscal year 2003 budget continues funding for three Follow-On missions and one study for a mission:

National Polar-orbiting Operational Environmental Satellite System (NPOESS) Preparatory Project (NPP) ($153 million)

Landsat Data Continuity Mission (LDCM), which is being planned as a data purchase ($45 million)

Ocean Topography ($32 million)

Study of a potential Global Precipitation Mission (GPM) ($8 million)

All other EOS follow-on missions are on hold until the CCRI review is complete.

ORBITAL DEBRIS

Question. There have been conflicting accounts of NASA's plans regarding continuation of the office at Johnson Space Center that analyzes orbital debris. As space becomes more littered with debris, it would seem that more attention, not less, needs to be given to this type of analysis. Are you planning to close that office? If so, why?

Answer. The NASA Orbital Debris Program Office, based at the Johnson Space Center, is not being closed nor does NASA plan to eliminate capabilities in this area. Customers that benefit from the expertise of the Orbital Debris Program Office are being identified to assure that requisite funding is maintained to meet those customers' requirements.

DREAMTIME

Question. Press reports indicate that the space station commercialization agreement you signed with DREAMTiME has not been successful. What is the status of that agreement? What difficulties were encountered? What does the failure of DREAMTiME imply for other space station commercialization concepts?

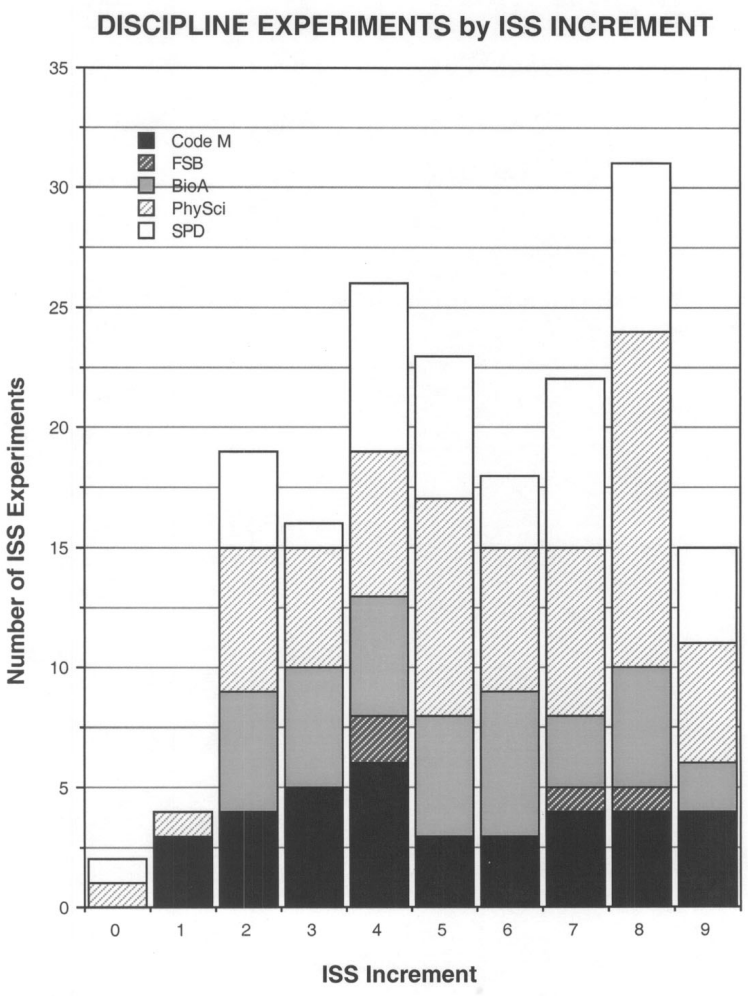
Answer. Dreamtime's funding to support its performance of the Agreement was largely based upon obtaining venture capital and anticipated revenues from Internet business ventures. With the general downturn in interested businesses beginning shortly after the Agreement was signed, Dreamtime was unable to raise the funds necessary to perform a number of its principal obligations under the Agreement. Because this was a collaborative agreement, rather than a normal procurement agreement, and NASA did not have significant resources at risk, NASA chose to give Dreamtime every opportunity to perform. However, by early this year it became obvious that Dreamtime's situation was unlikely to improve, and NASA elected to proceed to terminate under the terms of the Agreement. The termination became effective on June 1, 2002. The failure of Dreamtime was due to circumstances specific to the nature of its proposed business operations, and does not suggest that other types of space station commercialization initiatives would suffer a similar fate.

REUSABLE LAUNCH VEHICLE

Question. You are developing technologies both for a "2nd generation" reusable launch vehicle (RLV), and a "3rd generation" RLV. According to your briefings, you expect a 2nd generation RLV to be operational by 2012, and a 3rd generation RLV by 2025. Why develop a 2nd generation RLV that would be obsolete in such a short period of time? Would it be more cost effective to invest in the 3rd generation technologies, and continue to rely on the shuttle until they are available? What cost-benefit studies have you conducted of the trade-offs between doing 2nd and 3rd generation programs versus focusing on the 3rd generation technologies while continuing to rely on the shuttle? Please provide those studies to the committee.

Answer. The 2nd Generation RLV program is pursuing the development of key technologies that are essential for future generations of RLVs. Specifically, the 2nd Generation RLV program is maturing technologies such as thermal protection systems, avionics, operations, long-life engines, and integrated vehicle health management systems. The 3rd Generation RLV program relies on these advancements as a foundation in its pursuit of breakthrough technologies required to help America maintain leadership in space far into the foreseeable future. NASA believes the risk associated with achieving 3rd Generation RLV technology breakthroughs is currently too high to justify maintaining the decades old Shuttle fleet until these breakthroughs occur. NASA's ISTP (Integrated Space Transportation Plan) lays out the agency's space transportation strategy for improving mission affordability and safety over multiple generations of launch vehicles.

Over the past few months, NASA has conducted a number of reviews to assess the Integrated Space Transportation Plan (ISTP), which includes the Space Launch Initiative (SLI), the Space Shuttle hardware and infrastructure upgrades, and the longer-term 3'd Generation Reusable Launch Vehicle Program. The ISTP update has incorporated the ongoing reviews of the Space Shuttle Program, and has included an assessment of the timetable for a multipurpose vehicle to serve crew transfer and crew return functions. The ISTP review will conclude shortly. The outcome of the ISTP update will be a roadmap for future investment decisions including phasing decisions concerning Shuttle, 2nd Generation and 3rd Generation systems.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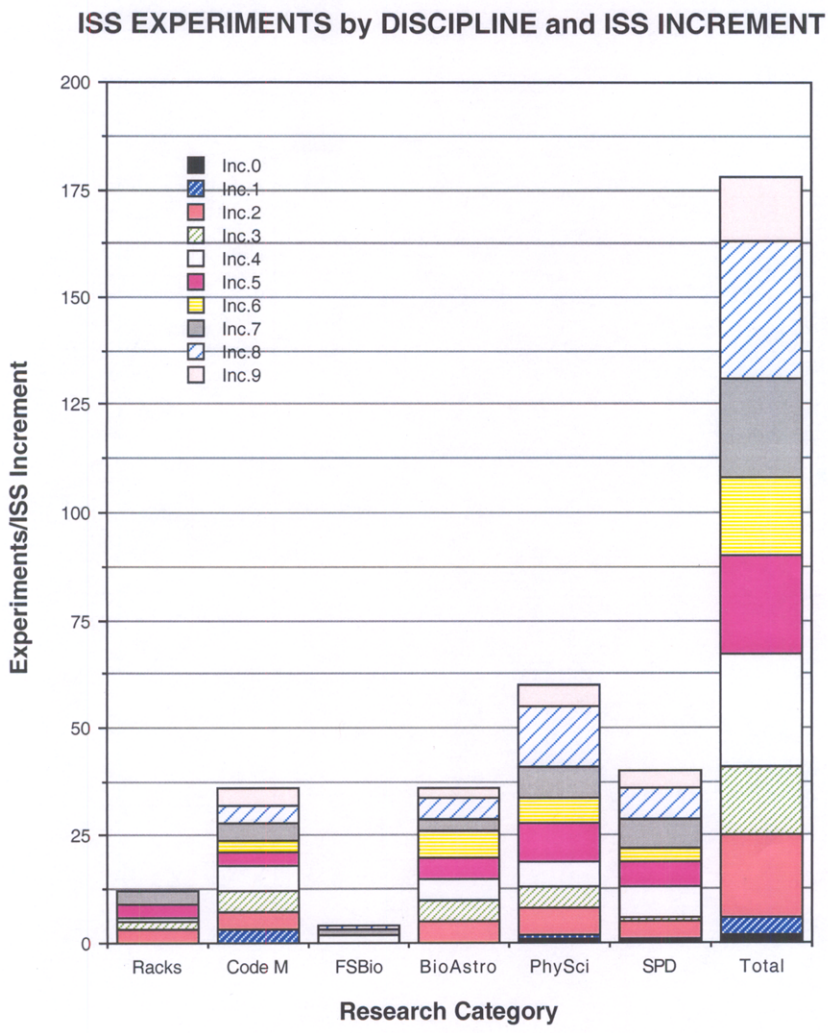
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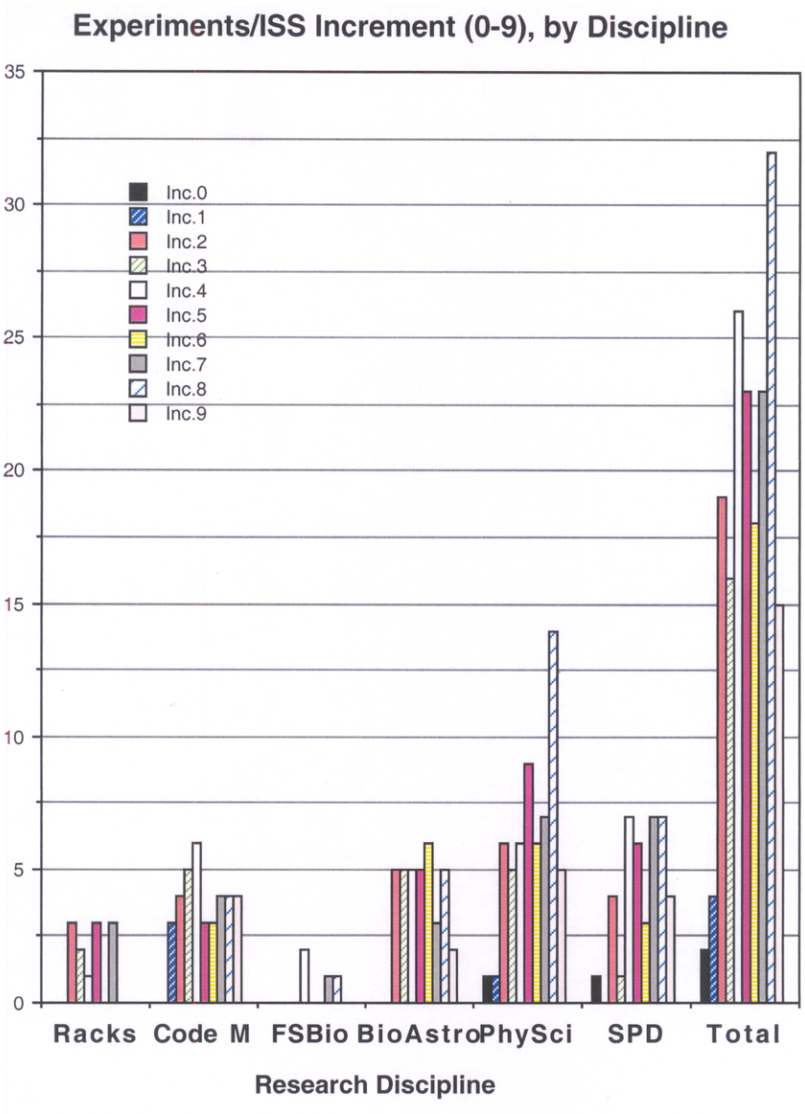
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PhySci
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Research Discipline

SYSTEMS MANAGEMENT OFFICE NASA JSC

Space Shuttle OV 103 OMM
KSC vs Palmdale Cost/Schedule Assessment

	KSC		Palmdale	
Preplanning	3 M	6 Months	10 M	6 Months
MCR's:				
KSC:				
21	53 M	12 Months		
33	14 M (1)	(Opportunity Based)		
Palmdale:				
32			81 M	12 Months
21 (@KSC)			10 M	7 Months
Cost/Schedule Risk (2)	35 M (3)	8 Months	20 M	3 Months
Total Cost w/risk.	**105 M**	---*$16M Assessed Savings*----	**121 M**	
Estimated to OPF (w/risk)		May '04		May '04

(1) Prior Orbiter processing experience has shown that minor modifications such as these can be incorporated into the flow without cost impact potentially saving this 14 M.
(2) Cost of schedule risk is subjective and based on a Risk Matrix and is "worst case".
(3) A stable KSC workforce and the ability to share resources with other vehicle OPF activity could reduce this value.

Space Shuttle Program
Orbiter Major Modifications

Space Shuttle Program OV-103 OMM Cost Assessment
December 2001

Palmdale/KSC		KSC Only	
Palmdale Preplanning	9.9 M	KSC Preplanning	2.9 M
Palmdale GSE Upgrade	5.2 M	GSE Upgrade	1.1 M
Palmdale OMM	70.4 M	HSF&E Support	6.1 M
Orbiter Ferry	2.0 M	KSC OMDP	43.2 M
USA Palmdale Support	3.4 M	Total USA OMDP	53.3 M
USA Mod Implementation	10.1 M	KSC NASA QA	2.4 M
Total	101.0 M*	Total	55.7 M
		USA Mod Implementation	14.0 M
		Total	69.7 M*

Second Cost Assessment December 2001

OV-102 Cost	162 M
OV-104 Cost	88 M
OV-103 Projected Cost	60 M
(7 M Reserves Held by Program)	
Cost Savings (Subtotal)	28 M
Travel Cost (747)	2 M
Total Cost Savings	30 M*

(Used OV-104 Because it is more comparable to OV-103 OMM)

Enclosure 3

QUESTIONS SUBMITTED BY SENATOR LARRY E. CRAIG

NUCLEAR SYSTEMS INITIATIVE

Question. NASA has proposed a new program, the Nuclear Systems Initiative, that will spend about $800 million over 5 years to develop new space nuclear power systems.

The funding level in fiscal year 2003 would be about $125 million.

How would this initial increment of funding be used?

Answer. This initial increment will fund initiation of the Stirling Radioisotope Generator and Multi-Mission Radioisotope Thermoelectric Generator development projects; both technologies are under consideration for the 2009 Mars Smart Lander/Mobile Laboratory mission. In addition, technology research and development for next-generation power conversion for radioisotope power systems will be started via competitive solicitations.

In the area of fission electric power and propulsion research and development, fiscal year 2003 funding would be used to support four principle areas: (1) electric propulsion research and development (via competitive selection of several proposed approaches) for electric thrusters that are about 10 times more powerful than those that have been flown before (e.g. the Deep Space-1 ion electric thruster); (2) power conversion research and development (via competitive selection of several proposed approaches) for power conversion about 25 times more powerful than what has been flown before (e.g. the SNAP–10A power conversion system); (3) reactor research to investigate design options for a fission reactor capable of supporting a nuclear electric propulsion system (which could ultimately be used for expanded exploration of the solar system); and (4) mission and spacecraft system design studies to enable the selection of the optimal fission power and propulsion technologies for expanded solar system exploration.

Question What will be the division of responsibilities between NASA and DOE for this nuclear program?

Answer. The DOE is responsible for developing all civilian technologies directly involving nuclear materials. Therefore, the DOE is responsible for Stirling Radioisotope Generator and Multi-Mission Radioisotope Thermoelectric Generator development, and for fission reactor development.

NASA is responsible for power conversion and electric propulsion research and development, overall spacecraft design and integration, mission planning and design, and expanded scientific exploration of the solar system using radioisotope and fission power and propulsion systems.

Your testimony makes reference to the Naval Nuclear Propulsion program, which has a proud history in the State of Idaho. The Naval Reactors Facility in Idaho continues to receive all expended Navy fuel cores for examination and storage.

Question. The Naval Reactors program operates under strict secrecy requirements because of national security implications. Will that environment of secrecy be a complicating factor in collaboration?

Answer. Any potential area of coordination or collaboration involving the Naval Reactors program must and will attend to national security requirements.

Because the NASA Nuclear Systems Initiative is in the early stage of research, NASA and DOE are exploring available technical options to assess their applicability to, and utility for, expanding the exploration of the solar system using fission power and propulsion. At present, it is too early to determine the optimal combination of technologies for this task, and therefore too early to determine whether Naval Reactors program technologies might be appropriate.

Question. NASA has traditionally worked with DOE's Office of Nuclear Energy on space nuclear applications. Is NASA collaborating with DOE–NE on the Nuclear Systems Initiative?

Answer. DOE has supported NASA for over 30 years to enable solar system exploration, including exploration of the outer planets, using radioisotope power systems (e.g., radioisotope thermoelectric generators, or RTGs). This work has been accomplished by DOE through its Office of Nuclear Energy (NE) or its predecessor organizations. DOE has identified NE (specifically NE–50) as the lead for radioisotope power system development (at present, this includes the Multi-Mission Radioisotope Thermoelectric Generator, and Stirling Radioisotope Generator). DOE has also identified NE (specifically NE–50) as the lead for reactor system development planning.

We anticipate that our close relationship, built over several decades of cooperation, will be a critical factor in the success of the Nuclear Systems Initiative.

QUESTION SUBMITTED BY SENATOR TED STEVENS

GILMORE CREEK TRACKING STATION

Question. With the potential of the Gilmore Creek Tracking Station, coupled with the other two facilities, cannot more be done to maintain or upgrade our domestic satellite tracking capabilities and not ship our Nation's meteorological satellite systems of the Department of Defense, Department of Commerce (DOC) and NASA to a foreign country?

Answer. The Fairbanks, Alaska area hosts many satellite tracking stations, including the National Oceanic and Atmospheric Administration (NOAA) Tracking Station at Gilmore Creek and the NASA Tracking Station hosted on the University of Alaska's Poker Flat research launch range. There are commercial Datalynx and Universal Space Net stations, as well as a station associated with the Alaska Synthetic Aperture Radar Facility on the University campus.

NASA's Ground Network (GN) is composed of a mix of assets owned by NASA and commercial service providers. The capabilities of NASA's and associated commercial tracking stations are focused on supporting science research missions rather than operational meteorological satellites. The locations of NASA's tracking stations are driven by mission needs related to on-board satellite data storage capacity, data delivery latency, and orbit geometry.

Concerning the NOAA Fairbanks Command and Data Acquisition station (FCDAS) at Gilmore Creek, Alaska, the station is now and will remain an important capability to support multi-agency satellite programs. Indeed, significant resources have been expended and additional investments are planned in the future to maintain and upgrade NOAA's FCDAS. A recent upgrade added the NASA Ground System Interface Processing facility at Gilmore Creek, which makes the FCDAS a telecommunications hub. The new capability sends data collected from NASA's Earth Observing System (EOS) satellites to Goddard Space Flight Center in Greenbelt, MD. This connects the NASA Poker Flats operations to the FCDAS for initial processing of EOS mission data through local fiber optic telecom links.

More broadly, the communications infrastructure in Alaska has benefited from approximately $29.5 million in investments in the last 3 years alone. These include three new 13-meter antenna systems, signal and data processing equipment upgrades and control software upgrades. The upgrades added new commercial satellite communications systems to receive and disseminate mission data to Department of Defense and Department of Commerce operational weather users within the continental United States.

QUESTIONS SUBMITTED BY SENATOR PETE V. DOMENICI

NUCLEAR PROPULSION

Question. One of the highlighted programs in this year's submitted budget, as well as in your testimony today, concerns research with nuclear propulsion. The research necessary to conduct this research may be able to be done through collaborative work with other Federal agencies. As an example, the DOE labs in New Mexico have extensive expertise in fission electric power systems.

How does NASA intend to ensure that expertise of the national laboratories will be strongly incorporated into development of the fission electric power systems that will be required by NASA?

Answer. The majority of this program will be competitively sourced, and NASA fully expects that the national laboratories will propose to lead or to team with industry for nuclear fission reactor research and development.

Question. Can you explain further where the nearly $1 billion in funding comes from and how NASA intends to proceed with research on the feasibility and safety of nuclear propulsion in space?

Answer. The budget for the Nuclear Power and Nuclear Electric Propulsion programs represents mostly new funding for NASA. There was some rebalancing within the overall Space Science program to cover a portion of this initiative; however, no Space Science missions were cancelled to pay for this initiative. The nuclear electric propulsion portion of this initiative will likely be a research program for the near future, leading to engineering test components that could then be developed for flight. During this stage, NASA will have the lead for non-nuclear portions of the initiative, and will work closely with the Department of Energy (who will have the lead for nuclear fission reactor research) to research and develop the safe and effective propulsion systems we will need to continue our exploration of the solar system.

MANAGEMENT EFFECTIVENESS

Question. The Administration in its submitted budget has taken to reviewing programs, throughout the Federal Government to see what is being done effectively, and what is not. Two of NASA's highest profile endeavors, the International Space Station and the Space Shuttle, for safety upgrades, were assessed as being ineffective. The Mars exploration was given only a moderately effective assessment, with a comment that "recovery from failures successful so far."

What will NASA be doing under your leadership to make all of NASA's programs more effective, and are these reforms addressed in your proposed 2003 budget?

Answer. The President's Management Agenda is at the center of NASA's efforts to make its programs more effective. In pursuit of this Agenda, NASA has completed a pilot of its first agency-wide human resources tracking system, increased the number of positions that could be open to competition by 70 percent over its fiscal year 2000 FAIR Act inventory; and developed an interim plan for competing up to 40 percent of the positions identified as potentially commercial on its 2000 inventory. We have aligned our budget structure with program outputs and prepared for full cost and performance budgeting in fiscal year 2004. We will be working this fall with the Office of Management and Budget to review four major programs as part of the President's Management Agenda in Budget and Performance Integration. Those four programs will be the Space Shuttle, Space Station, Space Launch Initiative, and the Mars Exploration Program.

As a major effort at removing internal barriers to program effectiveness, NASA has devoted considerable effort to its Freedom to Manage tiger teams. At the initiative of NASA staff and leadership, numerous personnel authorities previously held at Headquarters have been delegated to Center Directors; the number of overlapping Councils and Boards has been reduced, and on-going efforts are aimed at combining responses to numerous internal and external reviews.

The major management reforms being undertaken at NASA, such as greater use of human resources flexibilities, competitive sourcing, e-government initiatives, full cost accounting, and integrated financial management, are designed to create a more efficient and productive agency. This is accomplished by creating greater cost transparency across the agency, lowering the transaction costs involved in maintaining a competitive, diverse work force, and improving productivity in creating more scientific and technological results and research opportunities in line with NASA's Vision and Mission.

ATTRACTING AND RETAINING SCIENTISTS

Question. Many agencies within the Federal Government are going to see large amounts of employees retiring from Federal service in the next decade. There has also been difficulty within the Federal Government to keep and attract scientists and employees with high technical skills.

The National Space Grant College and Fellowship program is one of the tools at NASA's disposal to help promote research at the undergraduate and graduate education levels. This program is funded in the President's request at $19.1 million. (The New Mexico Consortium is ranked 8th in funding out of the 52 consortia nationwide.)

How is NASA working to keep its scientists at NASA, as well as working to attract new scientific talent to come work for NASA?

Answer. NASA reduced its civil servant workforce during the 1990's. This reduction along with little turnover in the scientist occupations has significantly compounded the phenomenon of the "aging" NASA S&E workforce. As these men and women choose to draw their successful and productive careers to an end, NASA may experience a serious loss in scientific competencies in addition to existing skills imbalances. While NASA does, and will continue to, take advantage of existing human resource flexibilities to recruit and retain needed talent, the current retention incentives are not always adequate to retain employees with critical skills. NASA is emphasizing strategic recruitment initiatives and creating long-term "pipeline" interest in scientific and engineering occupations to address skills imbalances.

Our recruitment strategy to increase interest in NASA jobs includes personal networking and extensive networking with professional associations and universities to increase awareness in interested individuals of our NASA employment opportunities. As you mention, we do have access to some of the leading scientists through our promotion of research at the undergraduate and graduate education levels. We plan to aggressively leverage our alliances by networking with principal investigators at these colleges and universities to ensure that we have access to the students who are working on projects through our research and grant programs.

We have identified scientific professional associations and established internet links on these associations' and universities' website to our NASAJobs web site *(http://www.nasajobs.nasa.gov/)*. Adding instant access to NASAJobs from these websites will increase the level of awareness of NASA employment opportunities in the scientific community and will also serve as a catalyst to increase the number of highly qualified scientists who apply for our vacancies.

NASA uses all available and appropriate financial incentives to make competitive job offers, including recruitment bonuses, salaries above the minimum rate of the grade, and repayment of federally insured student loans. In offering jobs, we emphasize the entire Federal package since our retirement, health, leave, and life insurance programs are competitive with those offered by many private sector companies. We also emphasize the other benefits we can offer, such as flexible work schedules, family friendly programs, professional development opportunities, and tuition support.

But the currently available tools are no longer enough. We are faced with the convergence of several trends: a decrease in the number of students entering the scientific and engineering fields, an increase in competition for the S&E graduates from both the traditional aeronautics private sector and new, non-aeronautics business sectors (e.g., banking, entertainment) and the upcoming retirement wave mentioned earlier. NASA is finding it increasingly difficult to attract and retain the best and brightest S&E talent.

NASA needs more tools to enhance our current efforts and initiatives to reshape and reconfigure our workforce. For example, we need streamlined and flexible recruitment and employment processes, recruitment and retention incentives that are flexible and meaningful to "fresh out" and mid-level employees, and a position classification and compensation system that is market sensitive and rewards performance. We also need voluntary separation and early retirement incentives not tied to a reduction in the workforce, but to reshape the workforce; that is, to reallocate the slots to areas where they are needed.

These tools are critical for NASA to compete successfully for scientific talent in this increasingly competitive marketplace, and they require legislation. For these reasons NASA earlier this year submitted a series of legislative proposals to Congress and is working with its oversight committees to secure their enactment.

SUBCOMMITTEE RECESS

Senator MIKULSKI. The subcommittee stands in recess until next Wednesday, May 8, on which we will be taking testimony from FEMA.

Mr. O'KEEFE. Thank you, Madam Chair. I appreciate your courtesy.

Senator MIKULSKI. Thank you.

[Whereupon, at 11:38 a.m., Wednesday, May 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 2003

WEDNESDAY, MAY 8, 2002

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

The subcommittee met at 9:35 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Barbara A. Mikulski (chairman) presiding.

Present: Senators Mikulski, Kohl, Johnson, Bond, Shelby, Craig, Domenici, and Stevens.

FEDERAL EMERGENCY MANAGEMENT AGENCY

STATEMENT OF JOE M. ALLBAUGH, DIRECTOR

ACCOMPANIED BY GEORGE OPFER, INSPECTOR GENERAL

OPENING STATEMENT OF SENATOR BARBARA A. MIKULSKI

Senator MIKULSKI. Good morning, everybody. The subcommittee of VA–HUD will come to order. This morning we are going to take the testimony of Mr. Joe Allbaugh, the very able director of FEMA, and we have many issues to talk about. First of all, we want to acknowledge the tremendous role that FEMA has done in the last fiscal year. Who knew what was going to happen to our communities and to the United States of America. We know that FEMA has responded to over 50 disaster declarations that have ranged from the aerial terrorist attack on the United States of America to a tornado in my own State.

We want to hear from the director of FEMA on what we can do to be able to help FEMA continue to be first responders, through prevention, readiness, response and recovery, we can save lives, save jobs, and save our community.

Speaking as the Senator from Maryland, last week we were once again reminded how important FEMA is to our country. An F4 tornado swept through three counties, Calvert, Charles and Dorchester hitting a number of our communities now called La Plata. I visited La Plata with my senior Senator and I will never forget what I saw, destruction and devastation. As I walked down St. Mary's Avenue, we saw the courthouse and across from that we saw Delegate Van Mitchell's Value City business just absolutely destroyed. Residential areas and parks devastated, local banks de-

stroyed. The Catholic church and Catholic school and other churches, other schools and as the Senator from Maryland I am going to do everything I can to help those communities rebuild and recover.

The people of Charles, Calvert and Dorchester County should know I am on their side as the Senator for Maryland. I am making sure the Federal Government is an active part in the rebuilding efforts. I talked to the county officials and all of the counties to hear directly from them about their needs. Today I want to thank President Bush for his very swift response to this tragedy. He signed a disaster declaration within 24 hours. We want to thank the President. Mr. Allbaugh, we want to thank you and the very able FEMA team that rushed to the aid of our State and local government. FEMA's role really shows that they can count on FEMA.

This morning I want to go over some of the issues involved with that and I am going to hear from him what the people are doing, how the families need to connect to FEMA to get help. What actions they can expect in short term and long term and what can we do to start looking at recovery. As I visited La Plata, I was once again struck by the heroism of our first responders. Throughout southern Maryland, police, fire and emergency workers risked their lives to save others. It is so clear that we need to continue to support our first responders. That is why I am going to do everything I can to provide the $900 million for the program to give our firefighters the best equipment and training. We have to look at how we are going to spend the money.

We also, I think, need to be really committed to make sure our first responders are all hazards, again whether it is a terrorist attack or tornado, whether chemical incident, our responders need to be ready. I am concerned that as we provide more resources to fight the war on terror, we make sure that we reinforce FEMA's role also in natural disasters.

Fifty disasters, not including September 11. It is amazing. We want to hear what you do, what we need for your team and for those at the local levels so that we are getting double value for our taxpayers' dollars by being ready for all hazards, both natural disasters and other attacks. We want to hear about State preparedness as well. We also want to hear about your new thinking on hazard mitigation. Of course, there is the issue of flood modernization because so many Americans are hit by floods. Just over this weekend in West Virginia and once again FEMA had to respond, and I know you are very interested in flood insurance. Issues we need to talk about in the beginning of the year and that, of course, FEMA has been a partner in the emergency food and shelter program which gives FEMA really high marks for this program. So Mr. Allbaugh, we really want to thank you for the job that you have been doing in keeping up the spirit of reform that was started many years ago in both reform and at the same time response. So we look forward to hearing what you need and how we can show that by helping you we are helping the American people. Senator Bond, do you wish to have an opening statement?

STATEMENT OF SENATOR CHRISTOPHER S. BOND

Senator BOND. I certainly do, madam chair. Thank you very much and my welcome to Director Allbaugh as well. We have had

the pleasure of hearing the director testify on several occasions this year regarding the President's proposal on homeland security, and making FEMA the primary Federal domestic agency. That is an important area, one that we are going to have to address, but this is an important opportunity to focus on the needs for FEMA in carrying out its more traditional and primary responsibility in responding to natural disasters.

As we all know, since its founding in 1979, FEMA has been the backbone of the Federal response to all types of hazards through a comprehensive emergency management program of mitigation, preparedness, response, and recovery. An area of responsibility for FEMA that has not been discussed this year as it has been overshadowed by the tragedy and horrific terrorist events of September 11 and FEMA's new efforts in developing a comprehensive homeland security strategy.

I believe generally that FEMA has been doing a very good job in responding to the needs of States and localities, as well as our citizens in harm's way. I know Senator Mikulski has been very much involved and concerned as we all have been about the swath of damage and death left by tornados in La Plata and others. Those of us who see those tornados frequently know the extent and the scope of the damage they can cause. Missouri also has not had a good spring, ice storms in Kansas City late January and February and more recently, severe storms and tornados that struck Bollinger, Butler, Carter, Howell and Madison Counties in late April.

We lost a 12-year-old boy from Marble Hill in those storms, but the tragedy simply reinforced FEMA's ability to respond quickly to national disasters. I have just been handed an article in today's Cape Gerardo Southeast Missourian saying Tornado Victims Have Trouble with Federal Aid. While others are speaking, I am going to see what the problems are in Southeast Missouri and I will share that with you later. But we do appreciate the response of FEMA.

Nevertheless, a lot needs to be done as the chair has already mentioned and that includes improving accountability for disaster relief expenditures, revamping the flood insurance program, streamlining disaster field operations and improving the management of mitigation programs. FEMA is also proposing a number of controversial reforms to the flood insurance program, as well as a controversial new program for funding disaster mitigation efforts that would replace several current successful mitigation funding approaches. I guess you thought we weren't paying attention. We are.

But I look forward to working with the chair, members of the subcommittee and FEMA on these important issues, but effective implementation, accountability with respect to the disaster relief program and the flood insurance program are my key priorities. They become even more important as we begin to face a series of natural tornados throughout the Nation that we have already discussed, and FEMA is already responding to major disasters in 11 States. The year is still young. We want to make sure that you have adequate resources to respond to what nature does to us as well as the other problems we may have.

I would also ask that FEMA work closely with your FEMA Inspector General. As I noted the appropriate expenditure of FEMA funds accountability is key to FEMA's credibility and effectiveness. And in particular, the Federal Government and FEMA are dealing with really huge sums of money as we try to rebuild the New York City portions destroyed on September 11. There is great pressure to get FEMA money funds out quickly, however, we have seen in the past that quick sometimes means sloppy, and can result in excessive expenditures of tax dollars. They say we need to do it right, and I think FEMA can help make sure it is done right and I think the same is true as FEMA winds down to Cerro Grande office in New Mexico. A lot of it has gone up as the system, an appropriate system, has been in place to make sure that the people who need it got it and others did not.

I also want to make sure that FEMA is not strapped with so many responsibilities that it cannot meet its primary mission in responding to disasters. There has been so much focus on homeland security and more recently on related new proposals such as the CitizenCorps that I am concerned that FEMA's disaster relief responsibilities may be forced to a back seat to homeland security issues.

We need to ensure that FEMA is capable and committed to meeting all of its responsibilities. FEMA needs to be balanced in how it meets them. I know we on this subcommittee will want to ensure that you, your staff had the funding and the capabilities to meet whatever responsibilities are placed in your portfolio. Thank you, madam chair.

Senator MIKULSKI. Senator Stevens? As a courtesy?

Senator STEVENS. Thank you very much. I have no statement.

Senator MIKULSKI. Senator Shelby?

STATEMENT OF SENATOR RICHARD C. SHELBY

Senator SHELBY. Madam Chairman, Thank you, I would like to welcome Mr. Allbaugh to the committee. We had a nice conversation about a lot of issues that I will bring up with him in a few minutes publicly. We welcome you and look forward to your testimony.

Senator MIKULSKI. Mr. Allbaugh, why don't you proceed to address the committee.

Mr. ALLBAUGH. Thank you Madam Chairwoman, Senators Bond, Shelby, Stevens. It is an honor to be before this committee primarily because you have been strong supporters of our agency over the years. I am pleased to come here today to talk about three particular priorities. I have submitted for the record a written statement and I will just take a few minutes, Madam Chairman.

Senator MIKULSKI. Without objection.

Mr. ALLBAUGH. I will talk about three priorities in our budget that deal first with FEMA and homeland security and part of that is driven by our new responsibilities, visibility and scope that has grown since 9–11. Two primary areas in homeland security. The first responder initiative that the President has talked so much about as well as myself and our new responsibility for our Office of National Preparedness. Management in the First Responder ini-

tiative will capitalize on FEMA's great ability to expedite grant money out the door to those who actually need it.

FIRST RESPONDER INITIATIVE

First, let me speak about the First Responder initiative. $3.5 billion for planning, training, equipment and exercising will focus on two particular areas within that. Interoperability, both of individuals and communities. I witnessed as you may have heard me say before individuals in New York City passing notes back and forth, communications was a disaster in and of itself. When it comes to personnel, oftentimes individuals show up at a disaster who are not properly trained, and put into harm's way, and thus putting additional lives in jeopardy.

Second to that, is planning. We do not provide enough assistance, in my opinion, for States and the local level in the area of planning and exercise. We want to improve our intra and interstate mutual aid agreements, which means that we need to do a certain amount of resource typing. When one county across the State calls for assistance from another county 100 miles away, we need to ensure that the assets that they are calling for are exactly what they need and everyone understands that.

I hope that the $3.5 billion will be a down payment for years to come. There is no way, in one budgetary year, that we can address all of the needs. And I know you all feel the same way, quite frankly. This is a problem nationwide trying to improve our infrastructure. $175 million in the supplemental, which I will talk about in a minute, will be 100 percent money to the States this year. From the $3.5 billion, we want to give all States $5 million and distribute the remainder based on a population formula.

Our supplemental funding request is critical, so that States and communities can start to develop their plans now. We will distribute the money down to the local level, but at the same time, our Office of National Preparedness will be charged with developing national standards to use that money. We desperately need national standards. The central role of the Office of National Preparedness is to be the focal point for coordination for all Federal response activities.

In addition to developing those standards, will deal again with equipment standards, interoperability, training standards. We want to make sure that everyone knows the capabilities of their neighboring responders and again to re-emphasize the importance of mutual aid agreements.

ODP TRANSFER

Let me speak for a minute about the transfer that the President has proposed from ODP to Justice to FEMA. It makes sense. One, as I said earlier FEMA has a great history of grant management. Last year alone we did $3.5 billion in grants. We are on our way to $8 billion currently. We also want to eliminate the redundancy in our Federal training programs. The recipients of these training programs across the country are the State and local individuals who are the first responders. I want to make sure that there is uniformity in our training.

And lastly, I want to build upon the positive relationship with our first responder community. Let me say, as a couple of members have already addressed, that our new responsibilities, our enhanced responsibilities, will not compromise our responsibilities in natural disaster response management. That is one of our core responsibilities. I know everyone is focused on weapons of mass destruction, terrorism preparation, training since 9–11, but at the same time, we have responded just since Sunday evening, five disasters. Our core responsibility will not fall away, which brings me to point number two of our priorities.

PRE-DISASTER MITIGATION

It is the hazard mitigation grant program. The President wisely has suggested in his 2003 budget for FEMA a new program which will amount to $300 million in the first year, a predisaster grant process. We want to be able to help communities who have identified their risk before a disaster hits. Right now, communities identify their risk and they sit on the shelf at city hall until the disaster happens and we can come in with post disaster mitigation. I want to make sure, as the President does, that we can address these risks up front prior to a disaster and at the same time keep our post disaster mitigation intact. And this will require us, which we are in the process of developing a competitive grant process as I said to take effect before, any disaster that takes place. The third component and third priority of our budget this year is another mitigation program that the President requests.

FLOOD MAP MODERNIZATION

It is our flood map modernization project. Everywhere I go, everyone, members in both houses, members from State legislatures across the country, mayors, city council members, all are asking about flood mapping. And quite frankly to solve the problem it is a matter of money. We have historically been given $5 to $15 million annually to address a billion dollar problem. I think the President has wisely stepped forward, stepped up to the plate, and asked the Congress for $300 million to update and digitize our current flood mapping problem.

We can address this in a 3-year program to improve these maps, and they are absolutely essential for better planning for these communities and again identifying those risks up front. The 3-year program at $300 million a year will essentially wipe out our current backlog of flood mapping.

SUPPLEMENTAL APPROPRIATION REQUEST

Finally, let me take a moment to highlight FEMA's portion of the supplemental appropriation request. The request totals were $3.07 billion, $2.75 billion of which is requested for further World Trade Center relief efforts, focusing on public infrastructure. The other $326 million for planning and assistance are broken down in the following ways. $175 million for planning to first responders, $56 million for State and local planning for emergency operations centers, $50 million for Citizen Corps and $32.4 million for weapons of mass destruction training, for the balance of our urban search

and rescue teams. As you know we only have six of our 28 USAR teams that are WMD trained. I think it is inexcusable for our agency not to go forward and fund the rest of the teams, the other 22 teams, to make sure that they are WMD trained and qualified. We need to be prepared. We never know when an incident is going to be taking place, and it is important that all 28 teams are trained to the same standard.

THE FEMA TEAM

Those basically complete my, conclude my oral remarks. I want the members to know that it is an extreme honor and privilege for me to serve our President, to serve our country, to be a part of a great FEMA team.

I am not the one that makes this thing work. It is the long hours, the sweat, the toil, the sacrifices that FEMA employees make, not only the full-time employees, but the disaster assistance employees who are at each one of our open disasters right now across the Nation and they number about 5,000 that we have the ability to draw from. This is a tremendous responsibility. It is our core mission and I am honored to be in this position for a short period of time and I thank you for the opportunity to be here today.

[The statement follows:]

PREPARED STATEMENT OF JOE M. ALLBAUGH

INTRODUCTION AND BACKGROUND

Good morning Madam Chair, Senator Bond, and members of the subcommittee. I am Joe Allbaugh, Director of the Federal Emergency Management Agency (FEMA). Thank you for the opportunity to brief you today on FEMA's budget proposal for fiscal year 2003.

FEMA is the Federal Agency responsible for coordinating our nation's efforts to mitigate against, prepare for, respond to and recover from all hazards. Our success depends on our ability to organize and lead a community of local, State, and Federal agencies, volunteer organizations, private sector entities and the first responder community. We know whom to bring to the table when preparing for a disaster and when a disaster strikes in order to ensure the most effective management of the response and recovery effort. We provide management expertise and financial resources to help State and local governments when they are overwhelmed by disasters.

When I say "we" do that I'm talking, of course, of FEMA. FEMA has a lot of Cal Ripkens; the folks that come to work each day and do their job with skill and grace. I depend on those staff for their counsel and advice due to the experience and perspective they possess.

But I am also referring to this Committee that has provided us so much support, and the resources we need to do our job. You have a great amount of experience—you have seen FEMA through the rough times and the good times. In fact, a lot of those good times were partly a result of your efforts, so I want to acknowledge that help and express the thanks of our staff for that steady support.

As I explained, we don't profess expertise in every subject area, but we do know whom to bring to the table. The best example of this convening process is the Federal Response Plan (FRP). The FRP forms the heart of our management framework and lays out the process by which interagency groups work together to respond as a cohesive team to all types of disasters. This team is made up of 26 Federal departments and agencies, and the American Red Cross, and is organized into 12 emergency support functions based on the authorities and expertise of the members and the needs of our counterparts at the State and local level.

Since 1992, in all manner of horrific natural disasters like the Northridge Earthquake and Hurricane Floyd and also in response to the Oklahoma City bombing and the terrorist attacks of September 11, 2001, the FRP has proven to be an effective and efficient framework for managing all phases of disasters and emergencies. The FRP is successful because it builds upon existing professional disciplines, expertise, delivery systems, and relationships among the participating agencies. FEMA has

strong ties to the emergency management organizations—fire service, law enforcement and emergency medical communities—and we routinely plan, train, exercise, and operate together to remain prepared to respond and recover from all types of disasters.

FISCAL YEAR 2003 REQUEST

First, I will outline our 2003 request. Then, after I've completed that review, I will explain our recent request for emergency supplemental funding for this fiscal year.

As you are aware, FEMA's budget request is for appropriations totaling $6.44 billion. A significant increase from the 2002 budget, the bulk of this funding is requested to dramatically enhance the homeland security preparedness capabilities of our nation's first responders. In addition, this budget will fully fund FEMA's core operations for responding to disasters and continues to emphasize empowerment and personal responsibility as they pertain to disaster preparedness and mitigation.

NATIONAL PREPAREDNESS—HOMELAND SECURITY RESPONSIBILITIES

The President has requested that FEMA receive $3.5 billion to administer a major component of the Homeland Security efforts—the First Responder Initiative. Grants based on this initiative will give the first responder community—firefighters, police officers, and emergency medical personnel—critically needed funds to purchase equipment, train their personnel and prepare for a Weapons of Mass Destruction (WMD)/terrorist incident. The Office of National Preparedness (ONP) within FEMA will be responsible for administering these First Responder grants.

Following the events of September 11, and in light of the funding this Committee approved as part of the December 2001 Emergency Supplemental, FEMA has staffed up and refined the mission and functions of the ONP to fully support the budget initiatives of the President.

Some of the goals established by ONP for the First Responder Initiative are as follows:

—Giving the first responder community critically needed funds to purchase equipment, train their personnel and plan;
—Provide states and localities with the proper balance of guidance and flexibility so that the funds are used in the local areas where they are needed most;
—Establish a consolidated, simple, and quick method for disbursing federal assistance to states and localities;
—Foster mutual aid across the nation so that the entire local, state, federal and volunteer network can operate together seamlessly;
—Create an evaluation process to make sure that all programs are producing results and to direct the allocation of future resources, and;
—Involve all Americans in programs to make their homes, communities, states and nation safer and stronger.

ONP will first concentrate on developing a streamlined mechanism designed to speed the flow of resources to the States and localities. The $3.5 billion will be used to sustain the first responder activities with a special focus on the following areas:

—*Planning.*—Support state and local governments in developing comprehensive plans to prepare for and respond to a terrorist attack;
—*Equipment.*—Allow State and local first responder agencies to purchase a wide range of equipment needed to respond effectively to a terrorist attack, including personal protective equipment, chemical and biological detection systems, and interoperable communications gear;
—*Training.*—Train firefighters, police officers, and emergency medical technicians to respond and operate in a chemical or biological environment;
—*Exercises.*—Support a coordinated, regular exercise program to improve response capabilities, practice mutual aid, and assess operational improvements and deficiencies.

We fully intend to keep the focus of this program at the State and local level. The program will be run through and coordinated by the States. States will be allowed to use up to 25 percent of the funds, with at least 75 percent of the funds distributed to local jurisdictions.

But we will also insist on the funds being based on comprehensive planning. As a condition of receiving these grants, States will receive plans from local jurisdictions, submit their own plans, and allocate funding based on locally driven needs identified through various assessments. The funding will have a matching requirement, and in-kind matches will be allowable. This match can be part of the money that States have spent to secure a facility for training, or the costs that have been

incurred paying overtime to employees who are providing coverage for other employees participating in exercises or training.

The final component we will insist on at all levels—from FEMA to the State to the local governments—is full accountability. We must maintain the confidence of our citizens that the funds are being used swiftly but wisely to provide increased protection for our nation.

TRANSFER OF THE OFFICE FOR DOMESTIC PREPAREDNESS TO FEMA

Of the $3.5 billion funding request, $235 million represents the President's request that the Office for Domestic Preparedness (ODP) be transferred from the Department of Justice to FEMA. With this proposal the President has shown true leadership in his willingness to address a long-standing problem—the need for central coordination among the myriad Federal programs dealing with terrorism preparedness.

Some forty Federal Departments and Agencies have been involved in the overall effort to build the national capability for preparedness and response to the consequences of terrorist incidents. Many of these activities have been primarily focused on the development or enhancement of Federal capabilities to deal with terrorist incidents, including plans, personnel and physical security upgrades, and specialized resources such as protection and detection technology and response teams. Other Federal programs and activities are focused on building the local and State first responder and emergency management capabilities, to include the provision of resources and funding to support planning, training, exercises and equipment acquisition.

Various independent studies and commissions have recognized the problems inherent in this uncoordinated approach. Recommendations by the Gilmore Commission, for example, stress the importance of giving states and first responders a single point of contact for Federal assistance for training, exercises and equipment.

At the request of the Appropriations Committees we recently completed an "Assessment of Federal Terrorism Preparedness Training" report that we transmitted to the Committees last month. The study found that Federal training is generally effective, but that it is also fragmented and, in some instances, redundant. State and local officials continue to be frustrated by the lack of a single coordinating point through which they can obtain the needed training.

In the post-9/11 environment, we can ill afford to wage turf battles that in effect protect the inefficiencies of the status quo. We must instead focus on the merits of a proposal that seeks to address duplication, shore up gaps, eliminate confusion and reduce complication. As the attacks of September 11 have drawn much comparison to the attacks of December 7, 1941, there is a forward to a book about Pearl Harbor that has been brought to my attention that speaks of the worst-case scenario in a government's preparation and response:

"Surprise, when it happens to a government, is likely to be a complicated, diffuse, bureaucratic thing. It includes neglect of responsibility but also responsibility so poorly defined or so ambiguously delegated that action gets lost . . .

". . . It includes the contingencies that occur to no one, but also those that everyone assumes somebody else is taking care of. It includes straightforward procrastination, but also decisions protracted by internal disagreement. It includes, in addition, the inability of individual human beings to rise to the occasion until they are sure it is the occasion—which is usually too late," (Thomas Schelling, forward to Roberta Wohlstetter's Pearl Harbor: Warning and Decision).

FEMA's core responsibilities are its all-hazard emergency management activities involving preparedness, response, recovery and mitigation. FEMA's involvement in terrorism preparedness and response is based on statutory authorities, executive orders, and Presidential Decision Directives (PDDs). As the designated lead agency for consequence management, FEMA coordinates Federal disaster and emergency assistance programs and activities to support state and local governments in their preparedness and response efforts.

FEMA's role in planning for the response to and the recovery from any type of disaster or emergency, including WMD/terrorist incidents, is clear under the authority granted by the Robert T. Stafford Disaster Relief and Emergency Assistance Act. Also clear is the fact that FEMA is the lead Federal entity empowered by statute and executive direction to facilitate and oversee the implementation of the national preparedness effort as it applies to consequence management. This includes the responsibility for ensuring that a coordinated and comprehensive emergency preparedness and response capability exists among Federal, State, and local governments for dealing with all hazards, natural and man-made.

Lest there be any question about FEMA's commitment to our communities or our ability to live up to the mission of ONP, we have available upon request a chart that documents FEMA's long and successful record of distributing grant monies to States and local jurisdictions. Indeed, that track record and the relationships our people have made with local communities around the country have made FEMA the first federal point-of-contact for local First Responders for many years.

CITIZEN CORPS

In order to help Americans strengthen their communities, President Bush tasked FEMA with overseeing the Citizen Corps. This initiative is part of the overall effort of Freedom Corps, whose mission is to assist individuals and communities with implementing Homeland Security Programs in their areas.

Since September 11, 2001, Americans are more aware than ever of the threat of terrorist acts on home soil. In the days following the attacks we saw immediate and selfless volunteering, generous monetary gifts, blood donations, and an outpouring of support and patriotism across America. The President has understood the need for people to be involved, to feel that they are making a contribution toward the health and safety of their communities. Citizen Corps taps into those civic desires through the organization and coordination of a lot of ongoing efforts across the nation. Sustaining that spirit of volunteerism and unity is crucial to defending the homeland.

FEMA expects that $230 million will be needed to help with the Citizen Corps initiative. This broad network of volunteer efforts will harness the power of the American people by relying on their individual skills and interests to prepare local communities to effectively prevent and respond to the threats of terrorism, crime, or any kind of disaster.

The Citizen Corps will build upon existing crime prevention, natural disaster preparedness, and public health response networks. The Citizen Corps will initially consist of participants in the following five programs:

—the Volunteers in Police Service Program—this unique program provides volunteer support for law enforcement by tapping volunteers to perform administrative and non-intervention policing activities to free up officers to be out in the community;

—an expanded Neighborhood Watch Program—will incorporate terrorism prevention and education into its existing crime prevention mission;

—the Medical Reserve Corps—currently practicing and retired health care professionals will augment emergency medical response resources during large-scale emergencies. These volunteers can also support non-emergency public health needs of the community throughout the year;

—Community Emergency Response Teams (CERT)—the CERT program trains individuals in emergency preparedness and basic response techniques to enable them to take a more active role in personal and public safety; and

—Operation TIPS—the Terrorist Information and Prevention System, will tap millions of workers who, by the nature of their jobs, are well-positioned to serve as eyes and ears for law enforcement. Operation TIPS will provide them with a toll free number to report suspicious activity to the nearest FBI field office.

FEMA has the responsibility for approving additional programs to be affiliated with Citizen Corps in the future. We will call upon our communities to employ their creativity and inventiveness to develop other programs that will encompass the needs of the community and encourage more people to be involved.

Finally, the Citizen Corps will bring together local government, law enforcement, educational institutions, the private sector, faith-based groups and volunteers into a cohesive community resource. The Federal role is to provide general information, to develop training standards and materials, and to identify volunteer programs and initiatives that support the goals of the Citizen Corps.

THE U.S. FIRE ADMINISTRATION

The U.S. Fire Administration (USFA) provides a unique focus on fire programs within the Federal Government. These programs are included in the Agency's mission-related preparedness and mitigation strategies.

The Assistance to Firefighters Grant Program remains an important element in supporting the most pressing needs of at risk communities and fire service providers in reducing the loss of life and property from fire, including loss of life and injury to firefighters. As a result of the last year's appropriations, the Grant Program has received $150 million that must be obligated by September 30 of the current fiscal year and an additional $210 million received in last December's Emergency Supplemental that is expendable until September 30, 2003. We expect most of the supple-

mental appropriation will be obligated in fiscal year 2002 with almost all of the remainder obligated in the first quarter of fiscal year 2003.

I have confidence that we can do that, and that confidence is based on our experience last year. In less than a year the USFA, with a lot of dedicated work from other parts of FEMA, especially Financial Management, was able to get out $100 million in grant funds to more than 1,800 communities. This was a cooperative effort not only within FEMA but also with the Fire Service organizations that volunteered their expertise to make our peer review panels just that; the work of true peers that understand fire fighting issues and needs. So I'm pleased to take on this challenge again this year.

The fire fighters obviously were heroes on September 11, that's a given. But we need to remember that they are heroes every day of the year in towns large and small across the country. So we at FEMA are particularly proud to administer programs that help them to carry out their jobs.

Our nation's firefighters will continue to bear an increasing portion of the burden for Homeland Defense, responding to a variety of emergent issues including terrorism. I would like to again thank the Subcommittee for all of the support they have given to the fire community over the last few years.

While FEMA's role in Homeland Security is expanding, we will continue to meet our core functions of natural disaster response and mitigation. I would like to touch upon just a few of our major funding requests in our other program areas.

FLOOD MAP MODERNIZATION FUND

FEMA's 2003 request includes $300 million in new discretionary appropriations for our Flood Map Modernization Fund and $51 million from the federal policy fee for a total appropriation of $351 million.

Since the late 1960's, the Federal Government has produced flood maps for over 19,000 communities. The maps and flood data are used an estimated 20 million times a year by communities, lenders, insurance agents, and many others to make critical decisions on where to build, where insurance is required, and what is the appropriate premium to pay. Two-thirds of these maps are over 10-years old, and many do not reflect the change in risk that has occurred due to increased development. Nearly all of the maps have out-dated streets that make it difficult to accurately determine if a property is located in the most risky flood zones. Furthermore, there are 2,700 flood-prone communities that have never been mapped. This adversely affects the ability of communities to guide new development away from flood risks, impacts the ability of the National Flood Insurance Program to collect appropriate premiums to pay flood claims, and the Federal government is forced to pay more in disaster assistance. It is estimated that some $800 million in new funding is needed to fully update and modernize the maps. It is conservatively estimated that benefits exceed cost by a factor of two, and over the next fifty years, the savings will amount to $26 billion.

FEMA has reengineered the way we make maps with increased focus on technology, such as GIS, exciting new remote sensing techniques, and the opportunities for Internet distribution that will reduce costs. In addition, FEMA has established the Cooperating Technical Partner initiative, a program that brings together other Federal, state, and local governmental agencies into long-term partnerships to actively participate in the re-mapping process, and to share in the cost. This partnership is essential. These are not just FEMA maps, they need to belong to the communities. Through this partnership communities will take on ownership of these maps, both in their quality and in their responsibility to reflect the risks outlined in the maps when they go about their planning and policy-making at the local level.

In my 12 months as Director of FEMA, I have not come across many who disagree with the map modernization initiative, and I have heard from environmentalists, homebuilders, realtors, lenders, insurance companies, engineers, planners, surveyors, and numerous organizations representing state and local governments. Each year that implementation is delayed, the cost of the plan, and the cost to the Nation, increases.

The result of getting this funding will be greater reliability and accessibility for State Emergency Managers, local planners, and developers alike. It's a win-win investment situation, and again, I thank you for your help on this issue.

NEW PRE-DISASTER MITIGATION GRANT PROGRAM

The fiscal year 2003 budget proposal includes $300 million in no-year monies under the National Pre-Disaster Mitigation Fund to initiate a shift from a post-disaster grant system to a pre-disaster, competitive grant process. These changes will in no way limit FEMA's basic Disaster Relief efforts—as always, when tragedy

strikes, we will be there. However, I also believe we must refocus our efforts to save lives, protect property, and, over the long term, increase overall Federal assistance for local communities.

The proposed program creates a separate funding source for pre-disaster mitigation and continues to support the goals of the Disaster Mitigation Act of 2000 (DMA2K). DMA 2000 provides a real incentive for communities to assess their risks, evaluate their vulnerabilities, and incorporate an action plan into the ongoing planning processes that many jurisdictions undertake already. With the recognition of the importance of mitigation planning, many communities are better positioned to develop cost-effective proposals for mitigation projects and activities.

An annual grant program that provides a consistent source of funding would allow States and communities to develop more comprehensive proposals and projects to reduce their overall risks. Communities would no longer be dependent on a disaster declaration in order to obtain a FEMA grant to help protect their constituents.

Specifically, the proposal calls for the grants to be awarded on a competitive basis. This will help to ensure that the most worthwhile, cost-beneficial projects receive funding. In addition, grants will be made without reference to State allocations, quotas or other formula-based allocation of funds.

The goal is to fund activities that will reduce the risks of future damage in hazard prone areas, thereby reducing the need for future disaster assistance. Eligible activities would include: vulnerability assessments; State and local mitigation planning; the reinforcement of structures against seismic, wind, and other hazards; elevation of flood-prone structures; acquisition or relocation of structures at risk; and minor flood control or drainage management projects.

As States currently play an essential role in the implementation of all of FEMA mitigation grant programs, FEMA's strategy is to include the States in the new program. States provide technical assistance to communities, solicit and review applications, and coordinate statewide mitigation activities. A project evaluation process will be established to determine how well projects achieve mitigation goals. This effectiveness evaluation would help to better link resources to performance information for planning and reporting purposes. Results will also be used in reviewing and adjusting the evaluation criteria for future grant competition, as appropriate.

Mitigation should be a regular investment priority and should not only track with the unpredictable level of disaster activity in a given year. The new competitive process will make sure the best thought out and cost-effective programs get funded every year, so that our communities are prepared before disaster strikes.

NATIONAL FLOOD INSURANCE PROGRAM

The 2003 Budget proposes several reforms to the National Flood Insurance Program to improve financial performance and transfer greater financial liability to individuals building in flood-prone areas. Some of the primary reforms are as follows:

(1) Phase out insurance policy rate subsidies for non-primary residential structures, including second homes, vacation properties, rental properties and non-residential properties. Rates for primary residences, which represent the majority of the program's policies, would not change under this proposal.

—The net savings in fiscal year 2003 would be $13 million;

—The estimated net savings grows to about $200 million annually in the outyears;

—Approximately 350,000 policyholders would be affected by this proposal;

—The average premiums for the policyholders impacted would increase from $650 to an average between $1,600 and $1,800; and

—Assuming a 5-year phase-out, premium increases for these policies would average about 20 percent a year during the phase-out.

(2) Require that mortgage borrowers insure the full replacement value of their properties. Under current law, lenders must only ensure that flood insurance covers the outstanding principal balance of a loan.

—Changing the requirement for the amount of insurance to be the value of the property brings the requirement in line with what is the general practice in the insurance and lending industries for about the last 25 years.

—By providing full coverage this reduces the need for disaster assistance and tax write-offs for uninsured losses.

DISASTER RELIEF FUND

The 2003 Budget request fully funds the Disaster Relief Fund's (DRF) 5-year average obligation level of $2.9 billion. The President's Budget includes $1.8 billion in new funds for the Disaster Relief Fund. An aggressive campaign is also promised

during the remainder of 2002 and 2003 to recover unspent balances from previous disaster declarations.

Once a Hazard Mitigation Grant Program (HMGP) project has been approved and funding has been obligated, the performance period for construction grants ranges from 1 to 5 years, depending on the complexity of the project and length of the construction season. Given the 5-year window for completing projects and liquidating funds, FEMA is focusing its efforts to liquidate and/or recover funds on HMGP grants obligated during and prior to fiscal year 1997.

DISASTER, RESPONSE & RECOVERY

In fiscal year 2003, the Readiness, Response and Recovery (RRR) Directorate will continue to focus resources on carrying out its core function of coordinating the activities of the interagency community to prepare for, respond to, and recover from all significant disasters and emergencies to minimize the suffering and disruption that they cause. Emphasis will be placed on working with the interagency community to incorporate disaster lessons learned into the Federal Response Plan to continue its improvement and ensure that it can be effectively implemented to manage the consequences of all types of disasters, including acts of terrorism. By utilizing lessons learned from past disasters, such as the World Trade Center, we can develop more effective and efficient response and recovery capabilities. Related to this, work will continue on enhancing existing plans and preparedness measures to address special events, such as the Weapons of Mass Destruction Contingency Plan that addresses terrorist attacks in the National Capital Region.

The RRR Directorate programs will work toward improving disaster response capabilities and the speed and effectiveness with which disaster assistance can be provided to disaster victims, while reducing costs and achieving greater accountability of disaster equipment and assets. We are also examining a number of possible alternative approaches for building a more nationally integrated and robust operational capability to address more complex future Federal disaster operations. We will continue to work with the States to maximize their role in managing disasters and will begin producing incident-specific response plans for truly catastrophic disasters, such as hurricanes, earthquakes, and terrorist attacks. The importance of satisfying the needs of disaster victims is paramount in our Individual Assistance and Public Assistance disaster recovery programs. In this capacity we will provide resources to ensure timely and efficient inspections of damages to residences and provide the capability to respond to multiple disasters requiring manufactured housing.

THE EMERGENCY FOOD & SHELTER PROGRAM

The 2003 Budget proposes the transfer of the Emergency Food and Shelter Program to the U.S. Department of Housing and Urban Development (HUD). The purpose of this proposal is to permit better coordination of services for the homeless under one agency.

Funds for this program are obligated to a National Board, which is chaired by FEMA and whose non-profit partners (The Salvation Army, American Red Cross, United Way of America, and others) provide professional expertise to the board. The National Board then works through similarly composed Local Boards to advertise the availability of funds, assess community needs, and make allocation choices.

In fiscal year 2002, FEMA is allocating $140 million for this program. Due to the proposed transfer, no resources are shown in the FEMA Budget request for the Emergency Food and Shelter Program.

FISCAL YEAR 2001 INDEPENDENT AUDITOR'S REPORT

I would also like to discuss briefly the fiscal year 2001 Independent Auditor's Report. We welcome this kind of review of accounting practices government-wide. After 3 years of "clean" opinions, FEMA's 2001 financial statements were issued a "qualified" opinion.

There are two reasons for the qualifications: (1) adjustments to unliquidated obligations and (2) property and equipment tracking and accounting. First, FEMA reduced it unliquidated obligations by $77 million or 1.27 percent. This reduction was necessary because of errors made when converting financial data to a new general ledger based financial management system in 1996. It is FEMA's belief, however, that the one time adjustment has improved the overall accuracy of the financial statements and should satisfy any further audit requirements on obligations.

Second, with regard to property and equipment tracking and accounting, FEMA did not maintain customary records for its equipment and related depreciation, therefore the auditors determined that it was not practicable to extend their audit-

ing procedures to sufficiently satisfy themselves as to the accuracy of the equipment with a net book value of $10.8 million.

Finally, the audit concluded that FEMA has long-standing internal control/material weaknesses in several areas. We generally agree with the overall findings of the audit and have in fact already taken many steps to correct the identified shortcomings. For instance, a remediation plan, developed in September 2001, will be refined and updated to address needed improvements to assure compliance with the ever-changing government-wide accounting standards and OMB and Treasury reporting requirements. A JFMIP compliant version of our financial management system is currently being implemented. This system upgrade will greatly enhance FEMA's reporting capabilities and correct many of the deficiencies cited in the report. Resources and expert personnel are key to assuring changes and improvements. We are seeking additional qualified staff and contractor support to help us improve FEMA's financial management operations. FEMA will continue to address the issues identified in the audit and work toward making improvements.

FISCAL YEAR 2002 SUPPLEMENTAL REQUEST

The President's request for supplemental appropriations includes just over $3 billion for FEMA. From that total, $2.75 billion is devoted to the Disaster Relief Fund to assist in the ongoing recovery efforts from September 11.

The remaining $326 million is requested to enable FEMA to immediately begin getting our Urban Search and Rescue Teams WMD-capable, to assist the States with comprehensive planning that includes mutual aid and other important operational elements, and to begin the Citizen Corps initiative.

This supplemental, if approved, will give FEMA the opportunity to jump-start several critical preparedness-related initiatives that shouldn't wait for the changing of the fiscal year.

The additional funds for the Disaster Relief Fund will ensure that our commitment to New York and New Jersey and Virginia to assist in their recovery from the events of September 11 will proceed without interruption.

The start-up funding for the First Responder Grant Program is vitally important. The funding will allow us to begin to construct an infrastructure at the State level to support the larger grant program next year. For example, this will include secure phone and fax lines for the States to use.

Senator Mikulski, you have often mentioned the importance of having strong offices at the State level that would be able to coordinate with the Federal agencies. A good example is the funding in the Supplemental to support security clearances at the State level. Getting these basic administrative steps in place is going to make the program of real help to the State and local first responder community from the moment the funds are available. It can increase both their effectiveness and their long- term accountability.

Another important element in the request will support improvements and greater support to our Urban Search and Rescue (USAR) Teams. Senator Bond, I know this is of great interest to you because you have introduced legislation recently along these lines. I think you can see from the details of the Supplemental that we are in synch on the importance of these teams. We agree on the need to provide them with increased support that will allow for updated equipment and additional training. Believe me, my experience in New York with our USAR teams as they searched, day after day, 24 hours per day, will always be etched in my memory. And I intend to turn that experience into informed support for those teams.

This Supplemental legislation also puts in motion our new Citizen Corps program. These funds will assist communities in organizing their volunteers and giving their citizens the opportunity to realize their greatest wish since September 11; to be of service in protecting the health and safety of their communities.

While this hearing is rightly devoted to the 2003 budget, I hope you will be able to look favorably on this Supplemental request as a logical and appropriate starting point to move us toward the direction of the 2003 funding proposals.

CONCLUSION

While there are more goals for FEMA in the coming year, these are some of the major ones. I look forward to working with this committee on these priorities. Again, I thank you for the opportunity to be here this morning and will be happy to answer any questions you may have.

LA PLATA, MARYLAND DISASTER

Senator MIKULSKI. Thank you very much, Mr. Allbaugh. We have a lot of ground to cover. I'd like to ask some questions about southern Maryland. First of all, I understand that as of yesterday, FEMA received close to 360 applicants from Charles, Calvert and Dorchester County. The bulk of the applicants were from Charles County and also Governor Glendening is also asking for disaster declaration.

Could you tell us what is FEMA's current estimate of the cost of the tornado that hit southern Maryland last week?

Mr. ALLBAUGH. I can't give you a hard number. We are in the process of reviewing with our disaster assistance teams the damage that has taken place. I believe we amended the disaster declaration yesterday for two of these three counties, adding those counties for public assistance. We will add the third should the teams agree with the governor's request. But it will take a while to recover from an F4 tornado, as you heard me talk last week. Then-Governor Bush and I participated after the fact in an F5 tornado in Jarrell, Texas. Lives were lost. That community is still rebounding.

FEMA will be there as long as we need to be there. I think my numbers show 87 homes were totally destroyed, 174 received major damage, 368 received minor damage. We are there. We have already processed I do not know how many hundreds of thousands of dollars in assistance to those individuals, and the businesses who have been affected.

DELIVERY OF ASSISTANCE

Senator MIKULSKI. That is exactly right. There were three categories of injury. One, of course, was the homes. The others were to people's livelihoods such as the hardware store, florist shop, bank building; at the same time was the public infrastructure aspect. How long do you think it will take to provide assistance to everyone who is eligible and when do you think that we can expect that the checks will start to arrive?

Mr. ALLBAUGH. The checks were electronically transferred or in the mail within 24 hours of when the President declared this disaster when we got his request. We have a fabulous system that Larry Zezinger runs in our office for the agency. We have that ability, normally within 2 to 5 days, to put money in the hands of those individuals who are harmed, and we have already done that.

Senator MIKULSKI. I know that our very able county commissioners established something called People's Place. I bet you like that because it put all of the agencies like FEMA, SBA and some that were going to help families in one place while they had an incident management operation center someplace else. If you recall, our rescue squad even lost its roof. From the people operating out of People Place, would you describe for committee how it works, how someone comes in and how they apply and what can they expect in terms of timeliness?

Mr. ALLBAUGH. Normally what takes place is we try to lean as far forward out of the foxhole as we can when one of these incidents takes place. That basically entails a disaster response team that is flown to the site. They start searching for an area where

we can house all the Federal and State agencies under one roof so we can offer in a disaster field office setting a one-stop shopping for those individuals who have been harmed. This happens in two ways: they can either come to the disaster field office to register in person for State and Federal assistance, and even local assistance, and also charitable organizations are a part of that disaster field office, or mainly the norm is to call our 800–621–FEMA, our hotline, where we teleregister those individuals who have been harmed or even think that they have been harmed.

Senator MIKULSKI. We think that is a terrific system. I think part of preparedness has to do with where would you operate an incident management situation which goes then to your need for technology, interoperibility, and mutual aid. We were gratified in southern Maryland the way others responded to help our responders. Therefore we need to be looking at interoperability incident management and then preparedness which is where would the people go if they need to seek shelter, where do the people who are going to help them get benefits need to go and where would be the command and control environment.

Is that part of what you see needs to be, therefore not only helping, would help both as I said against tornados or national disasters, as well as against terrorism?

CITIZENS CORPS

Mr. ALLBAUGH. The interesting thing about our agency is that we believe we are an all hazards agency, whether it is man-made or of natural design. We implement the same process. We go through the same procedures. Our people are very well trained in going in and quickly making assessments as to individuals, businesses and a community's need. Nine times out of 10, the individuals who respond to a disaster are those innocent citizens who were right there if they have not been harmed themselves. That is why I think one of our programs which is a part of Citizen Corps is a great program. It is a Community Emergency Response Training that we do. We certify individuals with 18 hours of training. And we essentially have a fabulous program in Pittsburgh where we train the trainers trying to reach as many people as we possibly can to identify when they are in a disaster situation and respond immediately to before fire, police and utility individuals can show up at the scene and clearly before the Federal assets are able to arrive.

But our system works. We reach out with great regularity to State and our local partners and communities to make them aware of how our programs work, and again, it is the tireless effort of the FEMA employees who actually make this work day in and day out.

Senator MIKULSKI. Thank you. Just one final question. How many offices do you have in southern Maryland, and how long will they remain open?

Mr. ALLBAUGH. They will remain open as long as they need to be open in assessing and assisting those individuals. We have 77 FEMA employees on the site right now. I think there is one main disaster field office and two satellite offices. We may even have a mobile office in the area. I do not know. But I will find out exactly and respond back.

Senator MIKULSKI. Again, the next time you see the President and the next time I do on behalf of all of southern Maryland and all of Maryland, we just want to say thank you. I think our colleagues know when they are hit by something, nobody knows that lady with that flower shop or that man with his business or that senior citizen with their home, nobody knows if they are Republican or Democrat. They just know they are Americans. And thank you very much for your response.

Mr. ALLBAUGH. Thank you, Senator.

Senator MIKULSKI. Senator Bond.

HAZARD MITIGATION GRANT PROGRAM

Senator BOND. Thank you, madam chair. You mentioned the proposal to replace the hazard mitigation grant program which now retroactively awards percentage of the disaster relief for future mitigation. With a forward-looking approach. This is something that I have asked about over the last several years. I believe your IG is also supporting it. Now FEMA is proposing to establish a new $300 million competitive mitigation program. I'd like to ask you sort of a three-part question.

How—what benefits do you see accruing in this program, rather than in the current HMGP program since we do not have any authorizing language, how would the program be structured, two. And three, what would be the priorities for funding? Advantages. Structure. Priorities.

Mr. ALLBAUGH. Senator, the biggest benefit is that you remove individuals from harm's way immediately by buying out those businesses or homes that have been identified as being at risk. I remember last year touring the Red River of the North in the Grand Forks area. They identified many areas from the flood of 1993 where the community had gone in, identified after the fact and subsequently bought out those homes and businesses that were in harm's way. This time around, last year when flooding was severe, those homes and businesses were not at risk. Basically that area had been turned into a green belt area or park and—

Senator BOND. I fully support mitigation. I am just saying with a, what would be, how do you see the advantages of the new program, rather than the previous program which did provide mitigation resources on a percentage basis to the disaster relief?

Mr. ALLBAUGH. The biggest thing immediate would be that the vast communities across the country already know where their risk are. They have identified them. They are on the shelf. They do not have the ability to buy those properties right now and remove them from any type of threat. This allows them up front a competitive basis to remove those properties from risk, as opposed to waiting until a disaster takes place where we go in after the fact and offer up mitigation money to buy individuals out.

Senator BOND. How would the program be structured? What would be the guidelines? What would be the priorities?

Mr. ALLBAUGH. Well, we are in the process of establishing that. There would be eligible activities based upon vulnerability assessments.

Senator BOND. Maybe we ought to ask you to submit that for the record. Maybe part of the answer is in my second question. Accord-

ing to FEMA's IG's 2001 report, as of April 2001, out of more than $2.5 million for the HMGP program since 1989, 48 percent had not been disbursed. The bulk of the funds that make the disasters have been sitting there 5 to 11 years. In particular the HMGP funds generated by two disasters, Northridge Earthquake and Hurricane Georges in Puerto Rico account for more than one-third of the total amount of HMGP funds awarded since the program's inception and nearly 75 percent of all undisbursed funds. It appears that only a couple of areas backed the tank truck up to suck out of that wonderful trough.

What is, what is happening? What is the problem with everybody else?

Mr. ALLBAUGH. Well, we had a history of allowing communities to not step up to the plate and take advantage of those HMGP funds. I realize it is a problem. It is a priority for me to close out those loans. They are given 4 or 5 years to tap into HMGP and we need to reclaim that money. We have not done a good job on that and the IG is absolutely on target.

TORNADO DAMAGE IN MISSOURI

Senator BOND. I mentioned the article. I just read the article today's Southeast Missourian, tornado victims have problem with Federal aid. 19 areas hit, 86 homes completely destroyed. They had been denied individual assistance. My own friend, the fire county chief, Chief Bollinger appropriately enough said we got people here that are beyond welfare. One is living out of a car. Other is living in a house with a tarp over it and they say we do not qualify. If the tornado hit a metropolitan area, the situation would have been handled differently. People in rural areas are penalized and he is aggravated. I guess the other thing that is aggravating is that FEMA put in place a toll free number urging families to apply for individual assistance and when they called the number they found out that they were not eligible for individual assistance, which kind of raised some expectations that were destroyed.

If you followed——

Mr. ALLBAUGH. This is the first I have heard about it. I will sure check in and respond back to you. There could be a sizable portion of those individuals who are insured and that may preclude them from being eligible.

Senator BOND. There is some that are insured. We have not looked at it.

Mr. ALLBAUGH. I was just handed it as well.

Senator BOND. That brightens your day.

Senator MIKULSKI. Senator Shelby.

Senator SHELBY. Thank you, Madam Chairman. We talked about Maryland and Missouri. I thought I would get into my home State of Alabama, Mr. Director.

Mr. ALLBAUGH. Good.

CHEMICAL STOCKPILE EMERGENCY PREPAREDNESS PROGRAM (CSEPP)

Senator SHELBY. I have been working, as you know with Senator Sessions, and Congressman Riley to facilitate the discussions between the Army and FEMA and our State and local officials in Ala-

bama regarding critical CSEPP safety requirements associated with chemical weapons. CSEPP, you are familiar with that?

Mr. ALLBAUGH. Yes, sir.

Senator SHELBY. Officials from your agency participated in all the operational assessment team meetings which were convened at the direction of Secretary Rumsfeld and overseen by Under Secretary Pete Aldridge regarding funding for critical CSEPP safety requirements. Two issues remain unresolved as of today. While the Army has transferred the necessary funding to FEMA and the State and county EMA have developed training to make those plans, funding for level A suits and protective hoods remains blocked. The OAT process provided numerous opportunities for FEMA representatives to raise important concerns. But none of the recent criteria produced by FEMA for the level a suit and protective hoods were brought up during the process.

Several questions. First, tell us why FEMA officials, your officials, did not raise objections to these protective suits and hoods during the OAT process and second, since DOD and the Army have transferred the funding to you, this is not an issue—it shouldn't be an issue of money. What are the reasons FEMA continues to refuse to agree with DOD and the Army that protective suits and hoods are a safety device?

Mr. ALLBAUGH. Senator, I have no idea why FEMA employees who attended those meetings failed to speak up. They have known our position from day one and there is no excuse for them not making people's position well-known.

Senator SHELBY. Will you look into this?

Mr. ALLBAUGH. Sure. I will report back to you.

Senator SHELBY. And straighten that out.

Mr. ALLBAUGH. To the best of my ability. I sure will.

Senator SHELBY. You are the director. I think you can straighten it out. In FEMA. Maybe not elsewhere in the government. In FEMA. I have confidence in you as the director to run your agency, and if you run your agency as I believe you have and will, you will straighten that out.

Mr. ALLBAUGH. Well, I have been about the business of trying to straighten out the issue on Anniston since this has come to my attention several months ago. What I am concerned with first and foremost and if you want to blame someone for the holdup, you can blame me and hold me responsible.

Senator SHELBY. We are more interested in performance. We have talked about this. I am not here to blame you. I am here to get it straightened out.

Mr. ALLBAUGH. I understand. We are in the position right now of trying to work with the community to make sure that they have a certain amount of training. We have asked for a plan and proposal from the city after they were not too interested in what we had offered up and I expect that to take place in short order, Senator, and we can resolve those issues. I do want to make sure that individuals if we are going to be buying hoods or masks are properly trained.

Senator SHELBY. Absolutely. We are all interested. The bottom line at Anniston dealing with chemical demilitarization is nothing

but safety. Safety at whatever because the people there have no one to speak up.

Mr. ALLBAUGH. I agree.

Senator SHELBY. If we do not speak up, if we up here do not speak up, no one will. I want to commend again Senator Mikulski for conducting the hearing regarding other issues in Anniston several weeks ago.

Mr. ALLBAUGH. There is not anything more paramount to our agency than safety. We are about the business of protecting lives and saving properly property, and just as soon as it is feasible, I have the ability to sit down with the Anniston folks, I think we can resolve this issue. We have given them everything that the Army has promised except for the issue on the hoods and I see no reason why this cannot be solved in short order.

FEMA'S ROLE IN CSEPP

Senator SHELBY. Mr. Director, I only have a minute. Given our recent conversation about your level of frustration with the CSEPP program, I want to know what your thoughts are regarding FEMA's continued involvement in the program. Second, do you believe any statutory changes need to be made that would improve FEMA's ability to execute the CSEPP program and third, what discussions have you had with Dr. Fiori and Secretary Aldridge regarding these unresolved OAT safety issues?

Mr. ALLBAUGH. I have not had any personal conversations with Dr. Fiori. I know numerous members of our staff have. I believe the CSEPP program is better served returning to the Department of the Army. We have nine facilities nationwide. Our only role in CSEPP programs needs to be continued and that is one of planning, assisting those communities with their evacuation routes, and their planning. But I believe the Army runs a program that is a good program. I think they should have the entire program, just not part of the program.

Senator SHELBY. Thank you, Madam Chairman.

Senator MIKULSKI. Senator Johnson?

Senator JOHNSON. Thank you, Madam Chairman. Welcome.

Mr. ALLBAUGH. Good to see you, Senator Johnson.

PROJECT IMPACT

Senator JOHNSON. Thank you for your attendance. I observed the Project Impact is not part of the initiative we are talking about today. It has been a popular program in my State, numerous communities have been able to secure the resources they have needed to prepare in advance of disaster. How does FEMA intend to support legal strategic disaster planning at the local level outside of the project impact?

Mr. ALLBAUGH. The President's First Responder program serves that purpose, to offer assistance, technical assistance and planning, training, equipment purchases and exercises. Standardization is probably one of our number one priorities across the Nation. Many communities have plans that have not been looked at in recent years. They need to be taken off the shelf once again, dusted off and we can provide that assistance through our State partners to improve those disaster response plans.

Senator JOHNSON. Any sense of what kind of, you not only have to work with communities that have no plans but update communities that do have old plans which may not be up to date, may not be appropriate to contemporary needs. How far down the road are we going to get in assisting these communities?

Mr. ALLBAUGH. Well, the supplemental has $175 million to be used totally for planning. We already asked States and communities to start their planning process so if Congress acts in the affirmative with the $175 million it will be 100 percent grant money and we can expedite getting that money out the door to further assist those communities.

Senator JOHNSON. Very good. Thank you.

Senator MIKULSKI. Mr. Allbaugh, I'd like to pick up on that—excuse me. Senator Craig. Sorry.

Senator CRAIG. If you have got a follow through on that.

Senator MIKULSKI. You go right ahead. You have been waiting very patiently. Please proceed, sir.

INTER-AGENCY FIRE CENTER

Senator CRAIG. Madam chair, welcome. Joe, welcome to committee. One question—well a couple in relation to the fire administrations and the National Fire Act. Do you see expanding roles with the Interagency Fire Center in Boise? I know FEMA has a presence there now on a concurrent basis with all of the other agencies that interface as it relates not just to fire, but they also deploy equipment materiel in national disasters?

Mr. ALLBAUGH. Actually, I'd like to have a more expanded role there at the center. It is a fabulous facility. We only have personnel there located during the seasonal hot spots.

Senator CRAIG. The peak of the season. That's right.

Mr. ALLBAUGH. Yes, sir. We have a great organization in the United States Fire Administration led by chief Dave Paulison. I would like to improve that relationship. I was there last year. There is a willingness with the Ag department to do the same thing. As you know we are about the business early on in the fire season of administering our fire management grants which used to be called fire suppression grants. We have done several over the last several days, I think 5 in the last 3 days alone where private property and public buildings have been threatened. It is an area that we need to work closer with Ag to improve our relationship, and I'd like to achieve that.

FIRE GRANT PROGRAM

Senator CRAIG. Fire management grants are different than the kind of grants that are going to the local communities and local fire departments?

Mr. ALLBAUGH. That is correct. Yes, sir, they are. Fire management grants tend to be one of an emergency nature where there is an immediate threat to property and individuals. The fire grant program that Congress in my opinion wisely passed last year, we had a 5-month period to get the first $100 million out. We were successful. That goes to basic firefighting needs to local fire departments. This year Congress has given us $150 million plus $210 million in the supplemental for a total of $360 million, which I

know will be out the door by the end of this calendar year and I thank you for that support. It is a strong program, and it makes a difference in those local fire departments.

Senator CRAIG. That is a strong program. It is very popular in my State. I have been visiting most of my fire departments. They just do not want it lost inside the bigger issue today.

Mr. ALLBAUGH. I agree with that, Senator if you do not mind me interrupting. I know OMB wants to combine the fire grant program with First Responder program. I am dead set against that. It is for two different purposes. And I think it is a mistake to try and put those—I am going to get in trouble for this, but it is a mistake quite frankly.

Senator CRAIG. You won't get in trouble with this Senator and my guess is my colleagues will agree with that.

Senator BOND. Last time I agreed with somebody disagreeing with OMB, he was canned 3 days later. We wish you well, Joe.

Senator CRAIG. I will leave you my phone number.

Senator BOND. Mike Parker.

Mr. ALLBAUGH. I consider myself not only working for the American public, but directly for the President of the United States and I think I still have a fairly good relationship. I might survive this area.

Senator CRAIG. The program that you have talked about is very popular amongst fire departments because it picks up some of the pieces they cannot afford to pick up in training, equipment and material. It remains very valuable. I met with Idaho's fire chiefs a couple of weeks ago and that was their first request. Do not lose this program. It is the best we have seen to date. It is quick to respond to our needs. And it is an opportunity. I am pleased also to hear you talk about the potential of an expanded role at the Interagency Fire Center in Boise because while we look at it as a fire center, it will also buy caches of equipment and readiness, it does respond and has responds to communities all over the country with the deployment of communications equipment and all kinds of things. It is a natural for the area, the region because it services the whole western States that it literally is the whole national center. I am glad that you see that in its provincial and present management system.

Mr. ALLBAUGH. It is a tremendous facility. I look forward to expanding our role there. Back on the fire grant program just for a minute to refresh everyone's memory. Last year the first year we had over 20,000 applications for $100 million. Twenty thousand plus applications represented over $3 billion in needs and requests. This year, we are right at 19,000 and some applications and we are going to be moving quickly getting that money out the door, so it is an extremely popular and successful program.

Senator MIKULSKI. I just want to reiterate how supportive we are of the fire grant program because it helps particularly the volunteer fire departments where we are asking people on their own time and in their own mind, to meet the bottom line. This has been an excellent program. This then also takes me to the whole issue of State and local, strengthening State and local emergency management.

INTEROPERABILITY AND MUTUAL AID

First of all, we want to thank Governor Tom Ridge for taking a look at our capital region in terms of the need for disaster planning. That is the District of Columbia, my own State of Maryland and Virginia. We are the capital region. I must say, we are a high security issue but also as part of that, is southern Maryland and La Plata, a little county run by commissioners and a lot of great volunteer fire departments. So let me get to the point. I'd like you to elaborate what is in this year's budget to help with interoperability and mutual aid. What I heard you talk about was in New York people wanted to help but they couldn't because of the failure for interoperability. When I walked the streets of La Plata, what I saw was that county executive Doug Duncan from Montgomery County rushed to be able to help La Plata. That the Ocean City mayor had come because they had some experience with natural disasters, and it showed why we need to have mutual aid and also the need for interoperability in communications. Mr. Duncan of Montgomery can talk to Mr. Curry of Prince George's, but I am not sure both of them can talk to Charles County or be able to even go across the river to get help from Northern Virginia.

I note this is a high priority with you. Could you tell us how we could put money in the Federal budget to ensure interoperability and also this great approach of mutual aid where I think is the key to a successful rescue and recovery operation.

Mr. ALLBAUGH. Thank you Senator, for the question. Interoperability comes in many forms, not only in communications, but equipment, personnel. In our first year, which would be this year I hope with the supplemental, $175 million we are requesting which is 100 percent money to go to those local departments to start that planning process. It is basically similar to playing a football game. You do not want to go out and put your players on the field until you have a game plan, and it is important that States and local communities have that game plan and we need to assist those communities in that game plan. Coupled with that, there are two particular areas in mutual aid arena that we want to spend $5 million in assisting those communities in crafting the requirements when it comes to mutual aid, and $7 million for secure communications with State and local individuals nationwide.

It is important for us, when there is an incident that is ongoing, to have the ability to communicate in a secure fashion, something that we do not have between the governors and other State officials and the Federal Government. We do among most Federal agencies, but not at the State level. So there is $7 million we would like to spend in that arena. We are asking for $50 million in the area of Citizen Corps. This is probably one of the greatest programs that can help a community be prepared. And the reason we are asking for that money is to accentuate an already excellent program that started in Los Angeles in 1985 and we picked it up in the later 1980s, which is the community emergency response team, the CERT training. It's a fabulous opportunity to train the trainers, get them out of the communities and train individuals on how to respond to a disaster to assist their fire, police utility departments, city council, hospitals, EMTs. Many people just do not know what

to do and what we will do by making this training available is enhance the already well-established local response capability. That is just some of the dollars we will be spending this year, I hope.

Senator MIKULSKI. Mr. Allbaugh, I want to assure you that I regard the whole issue of interoperability and mutual aid to be one of our highest priorities to be able to serve our communities and serve the Nation. I am going to work with you through the appropriations process and any help that you need with other Federal agencies on establishing national standards for equipment and using other resources like the National Institutes for Standards and Technology. The private sector is developing excellent technology and improving it every day and second, we want to have this interoperability and mutual aid. I have seen it at the Pentagon when Maryland and Northern Virginia responded with citizen soldiers helping our American military and now I have seen it in my own disasters and you have heard it from my colleagues. So we really want to work with you because I think this is how we are going to get maximum value for our dollar and maximum assistance for our communities.

Mr. ALLBAUGH. If I could add two more points, Senator. At the Federal level, there has been some confusion in the interoperability arena. We have taken steps with Treasury to head up a consortium of all Federal agencies called SAFCOM that will solve this interoperability problem at the Federal level. I believe first we have to get our own house in order before we can help others.

Second to that, Bruce Baughman, who is heading up our Office of National Preparedness, second from your left is doing a fabulous job. One of his challenges is to set nationwide standards in the area of communications and equipment interoperability. I hate to be redundant but I remember so vividly showing up at the Pentagon and people had their own breathing apparatus with them and they couldn't use the freshly charged bottles because the threads would not be interchangeable.

In New York City we had pumper trucks that we desperately needed from lower Manhattan and Yonkers and New Jersey, great vehicles, great equipment, people with the drive and training to use them and we couldn't use those pumper trucks when we wanted to use them because the threads weren't uniform. We had a variety of uniformity issues across the board in equipment and personnel we are going to solve.

Chief Paulison and I are going to have all the manufacturers in the next couple of weeks to use my 275 pounds of intimidation and kind of beat them about the heads and say we are putting lives at risk unnecessarily because we cannot solve the interoperability problem and we are going to solve it.

Senator MIKULSKI. Terrific. Senator Bond?

Senator BOND. Senator Domenici has come in.

CERRO GRANDE FIRE

Senator DOMENICI. I think my first round here I will talk about a parochial issue, the fire in New Mexico that you are wrapping up in terms of the management plans, the Cerro Grande forest fire in the Los Alamos area. First, I want to thank you personally for the attention that you have given to the recovery of Los Alamos and

the surrounding areas around the Cerro Grande fire. Just about 2 years ago is when it occurred. The fire consumed about 50,000 acres, 48,000 I think, destroyed about 400 homes, caused damages and injuries to a thousand families and countless businesses. The county of Los Alamos, State of New Mexico, four Indian Pueblos and the Federal laboratory. I want to remind my colleagues that this was started by Federal Government when a monument burned out of control.

For that reason Congress enacted the Cerro Grande fire claim assistance act of 2000 and appropriated $455 million to FEMA to establish a claims program to compensate victims of the fire. Senator Bond, I remember vividly your cooperation after you went through this issue and made sure that we understood that FEMA had not, before that had not been doing this kind of work but remember they had an emergency response and then somebody else would do the kind of things that we had here, Small Business Administration, HUD, etc.

But I want to suggest to you that from what I know, they have done an excellent job. They are not quite finished, but I think today you can wrap this up for us and perhaps you could, we could start by saying as of the 28th of August the fire claims under this act will expire. There will be no more time to file their claim. They had a short time fuse if they wanted to participate under this act this they to file claims. Perhaps some will save their claims and file in Federal court.

Director, would you please give the subcommittee the latest figures on the fire, the number and amount of the claims filed, the number of claims approved, and the number of claims paid and the pending number of claims and the number of claims anticipated to be filed by August 28. Could you do that or would you rather do it——

Mr. ALLBAUGH. I will take a stab at it, Senator, based on what I recall. Principally to remind everyone, I was aware that the program would not be extended. The clock is running. They need to file their claims by August 28 of this year. Originally the program officials on site only estimated they would be the recipient of about 1,500 claims. We have handled over 20,000 claims to date thus far and we spent almost $300 million of the original $455 million that was granted by the Congress. We expect another 2,000 claims to be added to that prior to the 28th of August.

I have not paid any insurance company the subrogation of claims because I wanted to make sure that 95 percent or so of the claims of individuals would be paid prior to the insurance companies and we are adhering to that and I am proud of all of our agency folks for helping us achieve that goal.

I do believe that there, in my request for an additional $80 million there is a need to have a safety net. I would prefer to disclose and play all my cards on top of the table. There is no reason to believe we are going to go beyond the $455 million, but to protect ourselves and make sure everyone is taken care of I think it is a prudent course and action to take. If this committee gives us the $80 million extra, we would turn back anything that is unused. I would be happy to do that. We are well on track. We still have

about a, 45 individuals at the Los Alamos office every day and I am pleased with our progress of this program.

Senator DOMENICI. I am going to submit further questions to you for the record.

Senator MIKULSKI. Absolutely, Mr. Chairman. We really look forward to cooperating with you. We know that it is a most devastating, devastating situation.

Senator DOMENICI. I have some other questions, but I will wait.

Senator MIKULSKI. Senator Kohl.

FIRST RESPONDER GRANT PROCESS

Senator KOHL. Thank you, Mr. Allbaugh. There were a number of concerns regarding FEMA grant process and I will address just two of his and my concerns. First the emergency response community in Wisconsin is pleased that FEMA is taking over the Office of Domestic Preparedness programs in the Department of Justice for First Responder assistance and I have heard several complaints regarding the complex process that the Office of Domestic Preparedness had used to provide equipment grants to first responders. Many local people believe that these programs were too cumbersome and took too long for the money to filter down to the people who needed it. So will FEMA make a concerted effort to make the process easier for local communities so that the money can be spent more rapidly?

Mr. ALLBAUGH. That is our plan, Senator. I think our fire grant programs our application is down to a page and a half, maybe two pages maximum. We believe training for first responders ought to be consolidated into one location regardless of where it is as opposed to a fragmented system that we currently have right now. The Office of Domestic Preparedness of Justice has focused in my opinion on the small part of the entire emergency response arena. It is something we do. This is our core mission. This is why we exist, and I hope that at some point we will be able to consolidate these programs but I appreciate what you are saying.

Senator KOHL. Second, State and local emergency management officials are concerned that all the additional funds provided at the Federal level will not be well used if there is not a strong foundation at the local level to absorb these funds. They tell me they need money to hire full time staff, coordinate local and regional efforts. This funding for emergency management performance grants should be boosted so States and localities can have the staff and infrastructure to handle these new funds as widely as possible.

Mr. ALLBAUGH. I'd like to see that we improve our funding to assist the States in those arenas. I know they cannot do it with the resources they have right now. We need to assist them with personnel and technical assistance to make sure the money goes exactly where it is intended to go.

Senator KOHL. So we can hope maybe there will be some additional funds for personnel?

Mr. ALLBAUGH. I hope so, too. For a number of years EMPG funding has been level. I am not sure I understand the rationale why we did not include an upgrade in our EMPG money for the 2003 budget, except we were totally focused on events after 9–11. It is my plan to increase that money. State directors in NEMA

know that. They understand that. If there is any money that I can utilize in the interim, I would be happy to do that.

Senator KOHL. I thank you so much. I thank you, madam chair.

Senator MIKULSKI. Senator Bond.

CERRO GRANDE AUDITS

Senator BOND. Following up on my good friend from New Mexico there asking questions about the Cerro Grande program, I wonder if the FEMA IG Mr. George Opfer could come forward and answer a couple of questions if you would please. We want to find out how you think it is been going. Are there adequate accountability requirements to assure that payments were consistent with losses? Was the office providing accountability, were they cooperative and were the payments consistent with the types of models used by insurance company for losses?

Mr. OPFER. Senator, there was a learning curve for both for the FEMA and OIG personnel who were assigned there. We had some coordination problems in the initial stages of operations, that is, making sure program officials understood the role of the Inspector General both in terms of our audits and investigations. That relationship has worked out very well recently and, we are seeing a number of improvements. We have full time audit personnel assigned there who are now working closely with FEMA management. Once our work is done, we intend to prepare an after-action report from the General's perspective addressing questions concerning operational effectiveness and accountability, as well as our own experiences in dealing with program officials.

Right now we think that the process or the experience level of the people who are involved with the Cerro Grande program has dramatically improved and it is functioning quite well.

Senator BOND. Joe, you had a view on that? It is not as bad?

Mr. OPFER. We had some problems in the field in the beginning. We had to address it at a higher level in the agency. Program staff appear to be cooperating now, however. I would like to comment on the efforts of the Acting Deputy Director, Mike Brown, in helping us attain that cooperation. When things came to my level, I oftentimes turned to Mike for assistance. He was very helpful in making sure personnel from the management side of the Cerro Grande program were responsive to our inquiries. We have had excellent cooperation from Mike.

NEW YORK INVESTIGATIONS

Senator BOND. While you are up there, Mr. Opfer, we indicated lots of money going into New York after the tragedy of 9–11. Are there adequate controls in place, procedures in place to ensure that any fraud or abuse or misuse of taxpayer money with regard to New York City assistance are in place? Can we be comfortable that all the money going there is being spent well?

Mr. OPFER. I think you can understand from my accent that I am quite familiar with New York, being born and raised there. I started my government career with the Secret Service in 1969 working in the New York field office. I was with the Secret Service for 25 years before coming to FEMA.

Senator BOND. Takes one to know one.

Mr. OPFER. We worked very hard with the District Attorney in New York. He has opened up his office to us. We actually have our agents located in the Manhattan District Attorney's office so, from an investigative point of view, we are working quite well with the city of New York and their police department, investigators, and all their appropriate law enforcement agencies. We are also working with the U.S. Attorney's Office in Manhattan. I believe we have a very good handle on how the money is being used in New York City. Furthermore, some of the other Federal agencies involved, Social Security Administration Inspector General, for example working very closely with us are reviewing all complaints or allegations that are referred to us to determine whether. Federal funds are involved, and to determine who would be best equipped to address the issue. We are on site, and from our perspective, we feel very comfortable at this stage that all the appropriate Federal guidelines are being followed.

Senator BOND. Are there a relatively large number of actual indictments or criminal proceedings which have been commenced in New York City?

Mr. OPFER. At this stage, we have made 39 arrests, mostly dealing with false applications for Federal assistance. In one case an applicant claimed that her spouse was killed in the World Trade Center, but was actually alive and well in another State. We are also looking at some contractor fraud that is, false billings. Unfortunately, what we are seeing is not anything that we do not see in other major disasters. In the Northridge Earthquake, for example, we had people that would take the identity of the deceased victims and file for Federal assistance. We are basically, unfortunately, seeing the same type of problems in New York.

Senator BOND. Thank you very much.

MERGER OF TRAINING PROGRAMS

Senator SHELBY. Thank you, Madam Chairman. Director Allbaugh, in earlier conversations, you discussed the need to collapse all training programs into one. Could you explain to me in detail what you mean by collapse? Does this merely mean put all existing programs under one roof or literally collapse them all and give rise to another, to one specific training program? In other words, could you discuss exactly how you envision FEMA operating at the current national domestic preparedness consortium that the President has proposed your agency take over?

Mr. ALLBAUGH. I think what we have to do is merge those programs that we know about that exist at the Federal level already, and take advantage of the pluses of all the programs, improving those programs and training so that the recipients of the training can go one place, as opposed to hunting around for training. Now what concerns me right now is that I cannot certify the type of training that ODP is conducting nor can they certify the type of training that we are doing. The American taxpayer deserves to know that there is one entity, regardless of where it is, that is going to be held accountable for that training that local responders desperately need.

Senator SHELBY. Mr. Director, could you discuss how FEMA proposes to deal with a live agent training facility at the center for do-

mestic preparedness? How does FEMA propose to obtain live agents for training? Under the current law I believe it authorizes the Secretary of Defense to transfer chemical agents to the Department of Justice. In addition, there are issues relating to the existing Chemical Weapons Treaties. If you could comment on these issues and how FEMA proposes to address them?

Mr. ALLBAUGH. Well, I can't speak to the law, Senator, directly. I will have to check on that and respond back. But there are two particular facilities that I know, have seen one and know about another. Yours at Fort McClellan is a first class facility that I think would do nothing but enhance the training that already goes on for our first responders. The other facility is the Nevada test site outside of Las Vegas. It is extremely important for individuals, whether it is hazmat, chemical, radiological or biological to experience as much as they possibly can reality in real live exercises.

Last week I was at the Nevada test site and witnessed a radiological exercise where a hazmat team had come in from another State, for the specific purpose of this type of training and those individuals learned so much from this exercise.

Senator BOND. Under real conditions.

Mr. ALLBAUGH. That makes a vast amount of difference as opposed to a table top exercise in a classroom, or even exercises that they may do in their own community. It is a vital asset to take advantage of what you have at Fort McClellan and at the Nevada test site.

Senator BOND. Thank you, Madam Chair.

Senator MIKULSKI. All right. I see Senator Domenici.

FIRST RESPONDER GRANT PROGRAM

Senator DOMENICI. Could we talk a minute about first responders.

Mr. ALLBAUGH. I will do my best.

Senator DOMENICI. First responders are statutory and they are created by law. As I understand it, what you wanted to do, I do not have any feelings as to whether I favor it or do not. I would assume that for consolidation purposes if nothing else that I will. But as I understand it, this activity by our Federal Government has been shifted from one place to another over the last three or 4 years. It is very hard at this point to decide who really has jurisdiction. I think it is the Justice Department. I am not sure. Have you been told that to do the consolidating that you desire you are going to have to pass a statute permitting this First Responder training?

Mr. ALLBAUGH. What I understand, Senator, is that for the most part under the fire act we really have broad authority to implement and operate these programs, but we are working with our authorizing committees in both houses with language that OMB has brought forth to further clarify the authorization that some individuals believe that we need to have. And we will continue to do that.

Senator DOMENICI. Under the First Responder program that the Appropriations Committee finally put into effect through the great efforts of Senator Judd Gregg who worked for a year and a half, as I understand it, that program has been used in 128 cities of America to bring the responders together programmatically and

they worked together, the fire department, the police department, the doctors in the town, the hospitals and they prepared a so-called preparedness First Responder plan. Now, that whole effort is going to change and be under FEMA?

Mr. ALLBAUGH. I wouldn't say it is going to change. I think we will merge the two programs and it will be a stronger program at the end of the day. We do that with the rest of the communities across the country right now to the best of our ability along with the States.

Senator DOMENICI. Well, I think it ought to be in one place and if we can get it in your shop, I am all for it, count me as one at this point from what you have told me we ought to do something like that. There is no reason to have it in three places.

Mr. ALLBAUGH. I commend Senators Shelby and Gregg and Hollings. They were caring about this program long before others did. It was shopped around and it was, ended up in Justice and probably, in my opinion based upon what my 15-month exposure has been at FEMA, it should have been in FEMA all along.

Senator DOMENICI. Actually that is a statute prepared by Senators Lugar, Nunn and myself. We left it up to the President as to the whole program and where it would be headquartered. We thought it would be best as part of a national security effort with the country but nobody wanted it and he did not want to push too hard so maybe we could make it work in a consolidated matter.

Mr. ALLBAUGH. It is a high priority for this President, as all of you know.

FIRE MANAGEMENT ASSISTANCE

Senator DOMENICI. One last question has to do with forest fires. Actually it hardly seems realistic that the fire season is back upon us, but—for forest fires, but it is. And New Mexico is currently in a drought State, which you know from going out there, and on top of that, we had already some major fires. We now have a fire management assistant system assistance grant program. We did not have that before, and it is kind of a program that is born out of frustration that there weren't any adequate assistance grants for drought areas that had forest fires.

Could you explain to the subcommittee what authorities you have and how you are responding to wildfire forest fire emergencies now?

Mr. ALLBAUGH. Yes, sir. I have learned also in that 15-month period that many of the programs that we now have, have been born out of frustration with the inability to respond immediately, which is why FEMA exists to begin with.

Senator DOMENICI. That's right.

Mr. ALLBAUGH. Fire Management Assistance Program is a wonderful program that gives us real time ability to respond to a States request when life and property are in danger. We turn this around within a 24-hour process. It is a verbal communication. We have done five in the last 3 days. We have three or four in New Mexico, a couple in Colorado that we utilized. It is a successful program and the greatest benefit of this program quite frankly, most of these small communities worry about how they are going to pay for a fire that could get out of control. We removed that responsi-

bility right at the outset, that way they can focus on putting out the fire when they need to do it and utilizing the assets they need to and to the State it is a 75/25 match program.

It is a very successful program and unfortunately, as you pointed out we will probably use this program quite a bit this year. We are suffering a drought all over the United States and fires tend to start in the South but later on in the year and move North, Northwest and I remember vividly using a couple of fire management grants in January and February of that year, which is basically unheard of. It is going to be a tough year, but it is a successful program and I appreciate your support for the program.

Senator DOMENICI. I just wondered since every one knew that was going to be a tough year, was there an extra amount of money asked for in the President's budget because of this, it was pretty obvious we would all predict you would have a heavy load in this area. Do you remember whether there was any extra money?

Mr. ALLBAUGH. This comes out of our disaster relief fund. I don't remember if we asked for extra money. It is treated as part of a whole. I know that Congress will always make sure we have enough money in the disaster relief fund to do what we need to do.

Senator DOMENICI. Thank you.

FLOOD MAPPING

Senator MIKULSKI. The time is growing short and we have so many questions. I am going to submit for the record my questions on flood insurance reforms, as well as the very important need for mapping because I feel that so much of our communities are hit by flooding that really flood mapping would go a long way to maximizing resources for hazard mitigation. In fact, that was the flooding in Senator Bond's State and my own.

CITIZENS CORPS

I really need to ask some questions about the Citizen Corps initiative. First of all, we support President Bush's effort for renewed and reinvigorated sense of volunteerism and the concept behind freedom Corps but the Citizen Corps is something that I have questions about whether not the need to volunteer, but the need for FEMA to be in charge of a volunteer effort.

Looking at the President's request, he is talking about, for example, five programs under FEMA, one would be what you are doing already, the CERT program. You spoke about that. But then there are three Department of Justice programs, volunteers in police service, a neighborhood watch program and something called TIPS, terrorist information and prevention. Why FEMA would be involved in that I do not know. Then there is the Medical Reserve Corps, $10 million which I think would be a new program which I think offers tremendous potential. Why you and not HHS that interacts with the timing they have this excellent office of bioterrorism that my own former head of the school of public health Dr. Henderson was involved in.

I am concerned that we are going into a corps du jour with a lot of new corps and then second, others that are just not connected to FEMA where a CERT definitely is. I see volunteers in disasters even in La Plata for many nights showed up really to help with

building, women who had heard that a senior citizen in the hospital lost her wedding band and some key things and over 30 women showed up to dig to help her find her treasures. You know what, they found it. They found her wedding ring of over 60 years. This is terrific.

But at the same time why would you be involved in terrorist information tips. What do you have to do with the Neighborhood Watch Program? And I will tell you, the volunteer firefighters are prickly about this because they feel they are the volunteers and last year we were foraging for funds to put money in the fire program. So we have got $360 million, we have a request here for $230 million more than we put in fire grants so you see where we are headed here?

Mr. ALLBAUGH. I sure do.

Senator MIKULSKI. We want to encourage volunteerism, to have them really help you in response to any disasters, but I think we are not so sure the Citizen Corps is the way to go. Could you tell us about this?

Mr. ALLBAUGH. The best logic I can offer is one that makes sense is that we do well in coordinating other activities at Federal agencies when there is any type of response mechanism required. We have a great relationship with all of these agencies you mentioned, and I believe the President, what he had in mind was one of a coordinating role. Except for Citizen Corps. There we have the ability to specifically offer technical assistance.

I know it is a concern of members of the committee that it detracts from our obligations day-to-day. Thus far from what I have seen there has been no inability to provide those services. Quite frankly, it occupies a few individuals, their time on a regular basis, but it is not something that will ever detract from our core responsibilities responding to man-made or natural disasters. That is probably about the best logic on the coordination of those other programs that I can offer you at this time, Senator.

Senator MIKULSKI. Let me conclude. First of all, you have got the CERT program. And there is a request in that, there is a line item for $61 million. We absolutely want to help you with CERT but let me ask, are you going to own and operate the Medical Reserve Corps?

Mr. ALLBAUGH. No, ma'am. That will be at HHS.

Senator MIKULSKI. I apologize. Are you going to own and operate that?

Mr. ALLBAUGH. That will be under coordination.

Senator MIKULSKI. Same with the Neighborhood Watch Program?

Mr. ALLBAUGH. Correct.

Senator MIKULSKI. Same with the police search program?

Mr. ALLBAUGH. Yes, ma'am.

Senator MIKULSKI. How do you coordinate it, and why does it mean anything to FEMA? Particularly with the watch program and TIPS program. The Medical Reserve, of course, is very important.

Mr. ALLBAUGH. I think there is an advantage to be in a coordinating role because of our relationships with State and local officials already. We are just trying to capitalize to make sure that everyone knows what is going on. It is not that we are going to be

running those programs. It is more one of awareness than anything else.

Senator MIKULSKI. Well, I do not know. I do not know. But I do know that some of the programs have been outstanding. The CERTS program. We really do applaud the Medical Reserve Corps. Those are the programs that we respond to. But Neighborhood Watch and TIPS. I am not sure. I will yield now to Senator Bond.

FIRE FIGHTER GRANTS

Senator BOND. Thank you very much, Madam Chair. I want to say thanks and amen to a couple of things. Number one, the fire grant program, the firefighters in my State is I think as in all States really believe strongly in the peer review process and we are delighted to understand where you are coming from, and whatever your position was, I think we could say that Congress was probably going to keep that fire grant program administered by fire professionals.

CITIZEN CORPS AND VOLUNTEERS

Second, I concur 100 percent with the chair on the Citizen Corps. I admit having daily conversations with my good friend John Ridgeland. I have a minimum amount of high enthusiasm for adding that responsibility of coordinating those programs to people. We have gone down a whole list of things that you have to do and we are going to give you more and you have got, you have got every kind of crisis to handle and if you think that with just a few individuals and taking away very little time from your other responsibilities, you could coordinate large groups of volunteers, you have not had the same experience with volunteers I have.

We have traditionally had the best volunteer organization when it comes to politics in the State of Missouri. We have a dynamite volunteer organization, but if you do not have a good professional staff running it, they are going to run into each other, run over each other, get you in trouble and absolutely drive you nuts. Volunteers well managed are the greatest resource we have. I think we have got something called National Service Corps, which has been in the business of dealing with volunteers. I'd like to see them use their people, their recipients as wholesale coordinators. We will have, we will continue that discussion later, but I just, I like the President's idea. I think it is great. I just think that you have got more than you can shake a stick at and you do not need to put a new volunteer coordinator hat on.

Mr. ALLBAUGH. Senator, thank you for your comments on the fire grant program. And one of the reasons I feel so strongly about the fire grant program is that for years and years firefighters have always been the first in line for budget cuts and the last in line for recognition and for the first time in a very long time Congress has recognized the need, Congress has stepped up to the plate to devise a very successful program and we are doing a good job of implementing it, and I thank you for your support.

FLOOD INSURANCE PARTICIPATION

Senator BOND. I have just got two quick questions remaining. They are not brief ones and you may want to submit more for the record. The first is what can we do about the poor participation in the flood insurance program? I have seen ads. This thing, this thing requires more people involved. We are not getting involved in it. And really what can we do? How can we get more people?

Mr. ALLBAUGH. I would like to respond because it does take an elaborate answer that is pretty lengthy to solve this. There are ways to improve it. I think we have taken some concrete steps just recently with Bob and hopefully today Anthony Lowe is having his hearing as new Federal Insurance Administrator. We will have him on board. That will be a tremendous step.

PREVENTION AND CONSEQUENCE MANAGEMENT

Senator BOND. The final one I will pass along to my colleagues. We are, I believe very strongly that FEMA should handle the consequence management in any kind of homeland security emergency. I think that is very clear that is what you do. That is what you ought to focus on. The question is how do we draw the line between prevention and consequence management and that is I think that is going to be a lengthy discussion. We have already raised a lot of troubling questions and we would like to be able to discuss with you and that your thoughts on how we draw that line.

Mr. ALLBAUGH. I would be happy to do that, Senator. We have had great conversations about this. I would point out to the members here that we may have stumbled into a process and a template that works in the future, and by that I mean the setup between the Secret Service, the FBI, and FEMA that we utilized at the Super Bowl this past year and the Olympics that took place. It was a relationship. It was a partnership that absolutely worked when it comes to delineating those lines of responsibility between crisis and consequence and response. I think it is something that we can look to to talk about in the future.

Senator BOND. Thank you very much.

Senator MIKULSKI. Senator Shelby.

FIRST RESPONDER TRAINING BUDGETS

Senator SHELBY. Mr. Director, you might want to, submit this answer for the record, and I hope you will. Could you please explain to the subcommittee the budget request for the existing consortium members, specifically, how much money FEMA proposed to spend on each of the consortium members and how those programs will expand or contract in light of the new focus on First Responder training?

Mr. ALLBAUGH. It is a great question. I would like to respond for the record. I'd like to do a little research. I know a little bit about it, but I would respond for the record.

Senator SHELBY. Thank you for your appearance today.

Mr. ALLBAUGH. Thank you.

CONCERN FOR FEMA

Senator MIKULSKI. Well, thank you very much, Mr. Allbaugh. I think the number of Senators that appeared, the length of questions shows our concern of course, like yours and the President's for the Nation and we do look forward to working with you and making sure that FEMA has the right sources as well as the right framework to respond. We look forward to seeing you again and we look forward also in seeing you take a tour of southern Maryland and also for the excellent responsibilities that you have assigned to the Fire Academy in Emmitsburg. So again, 50 disasters, an aerial attack on the United States. You and your team have had a lot on your plate.

ADDITIONAL COMMITTEE QUESTIONS

We would like to thank you for really all that you have done and know that you and your team are not alone.

Mr. ALLBAUGH. 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 PATRICK J. LEAHY

Question. Director Allbaugh, I am very happy to see the proposal to add $300 million for FEMA's flood map modernization initiative. Many town and regional planners in Vermont do not have updated maps, so it is difficult to know exactly what areas might be affected by different rain or run-off levels. I am concerned, though, that a small State like Vermont will not receive adequate funding from the program, either because it lacks the matching funding or because funds might be distributed in a manner that favors more urban areas. Can you please tell me exactly how FEMA plans to distribute this funding? Do you see the need for Congress to include strong small-State minimums when it authorizes the modernization program?

Answer. It is important to note that FEMA's Map Modernization Plan, if funded and implemented as planned, will result in the issuance of modernized flood hazard mapping for all States and territories, regardless of size. The plan requires funding in fiscal year 2003 and the two subsequent fiscal years to accomplish this.

Over the past several months, FEMA has been working with the States and territories to develop statewide mapping plans to accomplish the remapping effort. These plans call for remapping work to commence in all fifty States in fiscal year 2003. Accordingly, FEMA sees no need for Congress to include strong small-State minimums when it authorizes the modernization program.

Question. Director Allbaugh, I am very concerned about proposed reductions to the Hazard Mitigation Grant Program, otherwise known as 404 mitigation funds. This funding allows communities to reduce potential repeats of disasters, permitting such sensible moves as buying out homes located in floodplains. This program needs improvements, especially in disbursing funds more quickly and fairly to small States. Yet it will save lives and reduce disaster costs over the long-term. Don't you think it would have been more effective to make changes to the program, including adding in very strong small-State minimum funding levels, than to request a total elimination of the program?

Answer. The President's 2003 Budget did not propose a reduction in funding for FEMA mitigation programs overall. In general, the Hazard Mitigation Grant Program has been a flexible and effective tool for States and communities to accomplish mitigation priorities in the aftermath of a disaster, while at the same time assisting residents affected by the disaster. However, because the funds are tied to specific disaster events, implementation of long-range mitigation priorities established through a comprehensive planning process at the State and local community level is sometimes difficult to achieve. Therefore, I believe that some combination of both pre and post-disaster mitigation is worth considering.

QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER S. BOND

HMGP PLANS

Question. HMGP permits States to receive an increased amount of HMGP's funding from 15 percent to 20 percent of the disaster funds if the State has an approved State Hazard Mitigation Plan. This plan would ensure that HMPG funds are used for important and comprehensive mitigation efforts. How many States have these plans in effect and what is FEMA doing to ensure that States develop these plans.

Answer. The Disaster Mitigation Act of 2000 (DMA) amended the Stafford Act by adding Section 322 on Mitigation Planning. FEMA's new planning regulation, 44 CFR Part 201, Hazard Mitigation Planning, which was published as an Interim Final Rule in the Federal Register on February 26, 2002, establishes new criteria for State and local hazard mitigation planning consistent with the requirements of Sec. 322. The deadline for approval of State and local mitigation plans as a condition of receiving Hazard Mitigation Grant Program (HMGP) grants will be November 1, 2004. A November 1, 2003 deadline for plans has been set as a condition for local governments to receive Pre-Disaster Mitigation (PDM) grants (authorized by Section 203 of the Stafford Act, as amended by the DMA) for "brick and mortar" mitigation projects. The Interim Final Rule:

—Continues the requirement for State mitigation planning as a condition of disaster assistance (which allows a State, tribal or local government to receive HMGP funding based on 15 percent of the total estimated eligible Stafford Act assistance), and;

—Provides incentive for strengthening mitigation programs by establishing criteria for States to receive increased (20 percent) HMGP funding if, at the time of the declaration of a major disaster, they have an enhanced mitigation plan in place;

—Establishes a new requirement for local mitigation plans as part of the HMGP, which will be phased in; and

—Allows States to use up to 7 percent of HMGP funds for the development of State, Tribal, and local mitigation plans. This provision has been in effect for all disasters declared after October 30, 2000.

The new planning initiative provides a framework for linking pre- and post-disaster mitigation planning and initiatives with public and private interests to ensure a comprehensive approach to disaster loss reduction. Such decision-making, based on sound understanding of vulnerability to hazards and appropriate mitigation measures, is the best indicator of a successful mitigation strategy that can be sustained over the long-term.

Because meaningful, effective mitigation planning takes both time and resources, FEMA established the 2003 and 2004 deadlines to give States, tribal and local governments sufficient time to understand the intent and scope of the requirements, and to undertake the planning process that will meet those requirements. It is in the States' interest to submit and have approved an Enhanced Mitigation Plan as soon as possible. Although no States have yet met the requirements for an Enhanced Plan, several States have submitted plans to their FEMA regional offices to get feedback on what it will take to upgrade them to the Enhanced level, so we know that work is underway to develop these plans.

FEMA has undertaken an aggressive technical assistance effort to ensure that States develop plans that meet the Standard Plan requirements at a minimum, and to go beyond those to meet the Enhanced Plan requirements as well. Technical assistance is also being provided to support local and tribal governments efforts to meet the new plan requirements.

Shortly after publication of the Interim Final Rule, FEMA conducted mitigation planning workshops in all 10 FEMA Regional Offices for Regional and State mitigation staff, to provide a detailed orientation on the planning provisions of the DMA and requirements of the Interim Final Rule. In addition to training on the requirements of local plans and Standard and Enhanced State Mitigation plans, the workshops included an opportunity for each State, in close coordination with the FEMA regional office staff, to begin developing its approach to meeting the requirements for the Enhanced Plan.

Each workshop also explained and provided copies of planning technical assistance tools developed by FEMA to assist State and local governments in undertaking a meaningful mitigation planning process that will meet the requirements of the DMA. These materials include Mitigation Plan Guidance and Evaluation Criteria, a "canned" workshop for local mitigation planning that each State may use "as is," or adapt as it chooses, a series of "How-To" Guides for Mitigation Planning, and numerous other publications, courses, etc.

In fiscal year 2002, FEMA awarded PDM grants to every State as well as the District of Columbia, the U.S. Virgin Islands, the Commonwealth of Puerto Rico, American Samoa and the Commonwealth of the Northern Mariana Islands. FEMA placed an emphasis on mitigation planning in fiscal year 2002 in order to position States and local governments to meet the new criteria for State and local hazard mitigation plans. Most States have chosen to use fiscal year 2002 PDM funds to support planning and risk assessment for local governments. In addition, we awarded 18 PDM grants directly to Indian tribal governments for hazard identification and risk assessment, comprehensive multi-hazard mitigation planning, and public education and outreach.

The mitigation planning process begun at the Regional workshops held in March and April, 2002 envisioned continual two-way communication between States and their respective FEMA Regional Offices to facilitate the development of effective mitigation plans that will meet the new requirements. We know from our Regional Offices that this process is, in fact, occurring. Further, FEMA Regional and Headquarters staff are also taking every possible opportunity to speak at national, regional and State-level conferences and meetings held by professional associations, States, etc., to discuss the mitigation planning process and the new requirements, and disseminate our technical assistance materials. FEMA is providing materials in both traditional hard copy, as well as on CD–ROM, and posting them on our website.

FEMA is confident that all States will have an approved Standard Plan in place by the November 1, 2004 deadline, and that several States will have approved Enhanced Plans by then, if not sooner.

GOALS FOR ASSISTING DISASTER VICTIMS

Question. Per the Budget, the Administration has set a goal of meeting the needs of disaster victims for shelter, food and water within 12 hours after the President declares a major disaster. What has FEMA done to meet this goal?

Answer. Mission assignments are one tool that FEMA uses to meet requests for Federal assistance. When a State lacks the capability to perform or to contract for eligible emergency work, FEMA may issue direct Federal assistance (DFA) mission assignments to provide essential assistance for eliminating an immediate threat to life and property resulting from a major disaster or emergency. FEMA has been working with the U.S. Army Corps of Engineers to develop pre-scripted statements of work (SOWs) under FEMA issued mission assignments. These pre-scripted SOWs are intended to expedite the mission assignment process and provide the needed assistance quickly and effectively. When mission assignments are required, it is anticipated they will be issued from the Regional Operations Center and/or the Disaster Field Office.

FEMA has also improved its ability to preposition essential supplies and equipment in affected States and has accelerated the establishment of FEMA's field infrastructure, including disaster field offices and disaster recovery centers.

FEMA DISASTER RELIEF FUND

Question. Outside of the available FEMA Disaster Relief funds for New York City, how much Disaster Relief funding is available for the rest of the Nation for fiscal year 2002? Are these funds consistent with the 5-year rolling average that FEMA uses to assess its needs for disaster assistance?

Answer. Outside of the set-aside for the Inspector General and the funding provided as a result of the September 11 terrorist attacks, there was approximately $2.7 billion available for other disasters in 2002. Fortunately, 2002 was a less than normal year in disaster activity with no disasters that exceeded $500 million in projected costs.

BUYOUTS

Question. As you know, former FEMA Director Witt was a big supporter of buyouts of properties in the floodplain. Unfortunately, despite massive dollars provided by Congress for buyouts, FEMA still does not have a coordinated cohesive buyout program with clear rules and procedures. What is your view about the role of Federal buyouts in terms of a national mitigation plan?

Answer. FEMA's Mitigation grant programs generally operate successfully as flexible and effective tools for States and communities to accomplish mitigation priorities, including buyouts. In fact, these programs have become an integral part of the overall recovery process. Many States across the nation have successfully used buyouts to move homes and businesses out of harm's way. As many as 24,000 properties have been purchased nationally as part of this program since 1993. In many

of those cases, the land left behind has been flooded again. Without a buyout, those homes and families would have suffered once more.

To the extent allowable, given differences in the authorizing statutes, FEMA guidance on buyouts for all funding sources is consolidated and consistent. Our guidance provides adequate flexibility to States and local communities to plan and implement the best project to meet their unique situations and needs.

FEMA continues to evaluate the implementation of buyouts in order to strengthen our ongoing program. During fiscal year 2002, FEMA entered into a cooperative agreement with the University of North Carolina to conduct a study on the Impact of Property Acquisition Programs on Participating Communities. The purpose of this research is to conduct a national study that focuses on the process of conducting buyout programs as well as an evaluation of outcomes of these programs. The research focuses on examining the structure of buyout programs and their impact on individual decision-making. The study will provide FEMA with useful information to evaluate existing practices in the property acquisition program, and to identify steps to strengthen coordination and collaboration with other Federal programs, such as the National Flood Insurance Program (NFIP) and the Small Business Administration (SBA) in order to better assist households and communities affected by disaster events.

In addition, FEMA's believes that effective coordination and planning at the local, Tribal, State and Federal Government levels, as well as the coordination of pre- and post-disaster mitigation funding opportunities, is essential to achieving mitigation goals and the prevention of disaster losses. FEMA's new planning regulation, 44 CFR Part 201, Hazard Mitigation Planning, establishes new criteria for State and local hazard mitigation planning, carrying out the authorities provided by Congress in the Disaster Mitigation Act of 2000. With this emphasis on mitigation planning, many communities will be better positioned to develop proposals for cost-effective mitigation projects and activities, including buyouts, and to link pre-and post-disaster mitigation planning and initiatives with public and private interests to ensure a comprehensive approach to disaster loss reduction. Such decision-making, based on sound understanding of vulnerability to hazards and appropriate mitigation measures, is the best indicator of a successful mitigation strategy that can be sustained over the long-term.

In fiscal year 2003, FEMA expects to publish a proposed regulation that will amend the existing regulations for HMGP. The proposed rule revises the existing regulations to implement amendments to the Stafford Act that provide for delegating the administration and management of the HMGP to States. FEMA is taking this opportunity to amend the existing regulations to clarify implementing procedures for buyout projects and open space maintenance, to more fully reflect program and grants management practices previously detailed in guidance, to strengthen the use of cost-effectiveness in prioritizing and selecting projects at the State level, and to make the rule more reader-friendly.

CERRO GRANDE FIRE ASSISTANCE

Question. On May 4, 2000, the National Park Service initiated a prescribed burn that exceeded the containment capabilities and destroyed a significant amount of New Mexico. In response, the Congress appropriated $455 million through the Cerro Grande Fire Assistance Act to compensate residents for losses from the Cerro Grande fire. What is the status of this program? I also would like to understand what accountability requirements were put in place to ensure that any payments were consistent with losses.

Answer. Earlier this year, FEMA notified Congress of a projected $80 million funding shortfall. In July, $61 million of the projected $80 million shortfall was included in a $20 billion supplemental appropriations bill passed by Congress. This $80 million was included in the $5.1 billion in non-emergency funding contained in the supplemental appropriation and, as a result, was not funded. Without an additional appropriation, FEMA will run out of claims money early in fiscal year 2003 before all valid claims are paid. Consistent with the priority provisions of the Cerro Grande Fire Assistance Act, FEMA has not paid any of the subrogation claims, which are estimated to total around $104 million.

FEMA plans to prioritize payments within the remaining appropriation pending receipt of additional funding. FEMA will use the following order of priority in paying claims: individual claimants, business claimants, claimants awarded compensation during the administrative appeal process, claimants awarded compensation in an arbitration decision, claimants seeking individual mitigation measures and lastly, insurance subrogation claimants. If insufficient funds remain to pay claims,

FEMA will notify claimants with valid claims that the claim will be paid pending the appropriation of additional funding.

The deadline to receive all claims except those seeking mitigation assistance passed on August 28, 2002. Now that the final date to submit most claims has passed and the universe of claims is known, FEMA estimates that as of September 17, 2002, an additional $150 million plus $5 million in administrative costs will be needed to complete the program.

Initial claim evaluation and approval is now nearly completed, and the program is beginning to transition the remaining files to FEMA's National Processing Service Center in Denton, Texas. As FEMA brings the initial claim process to a conclusion, however, claimants who are dissatisfied with the award continue to pursue the internal appeal process implemented by regulation that serves as the preliminary to statutorily-mandated arbitration. FEMA anticipates that the appeals and arbitrations procedures will not be completed for most claims until well into 2003 and for claims for mitigation assistance through 2004.

FEMA has implemented procedures to ensure that payments from the Cerro Grande Fire fund are consistent with losses suffered in the fire. First, the Agency prepared policy guidelines that deal with the most common types of losses and provide guidance on the appropriate methodology to document, analyze and pay each claim. To ensure consistency and accountability, each claim is processed by a minimum of four people: (1) a thorough review is made by claims reviewers who make an initial payment recommendation; (2) the recommendation is reviewed and approved by a supervisor; (3) an authorized official then independently reviews the claim on the merit of the documentation provided and either approves or reduces the recommended amount; and (4) a comptroller signs the payment schedule.

Computer systems and a mandatory review help us to identify and avoid duplicating benefits from insurance companies or other aid providers. FEMA's Office of the General Counsel provides periodic legal review of the policies and procedures to ensure that our determinations are consistent with New Mexico law. An experienced private contracting firm with expertise in evaluating medical records and personal injury claims reviews the bodily injury claims and assists us in determining whether an injury was caused or aggravated by the fire and in setting a fair amount of compensation consistent with similar claims paid elsewhere in New Mexico.

NEW YORK CITY 9/11 LOSSES FROM TERRORISM

Question. What steps has FEMA put in place to ensure that fraud and abuse with regard to FEMA disaster assistance funds are minimized?

Answer. Under the direction of FEMA's Inspector General, George Opfer, the Office of Inspector General at FEMA became proactively involved within a week after the September 11 attack. Both auditors and investigators were dispatched to New York and have remained on site since that time actively auditing and investigating allegations or complaints of fraud, waste and abuse involving the FEMA programs. They provided fraud awareness and financial accountability briefings to FEMA, State, and City disaster personnel. They created a permanent satellite office in New York and staffed it with five full-time employees. In addition, they continue to rotate five to six temporary disaster assistance employees to the Disaster Field Office on a regular basis. They are currently auditing the City's major debris removal contracts and working criminal investigations with the Manhattan District Attorney's Office, the Southern and Eastern Districts of the United States Attorney's Offices, and the State of New York Attorney General's Office. The OIG's investigative cases are being coordinated with the New York Police Department, Port Authority Police Department, New York Department of Investigations, Small Business Administration OIG, Internal Revenue Service Criminal Investigation Division, General Services Administration OIG, Social Security Administration OIG, and others. Following are their investigative statistics as of September 30, 2002:

Information/Indictment	61
Arrests	60
Open Complaints	91
Closed Complaints	619
Open Investigations	104
Closed Investigations	24

FLOOD MAP MODERNIZATION

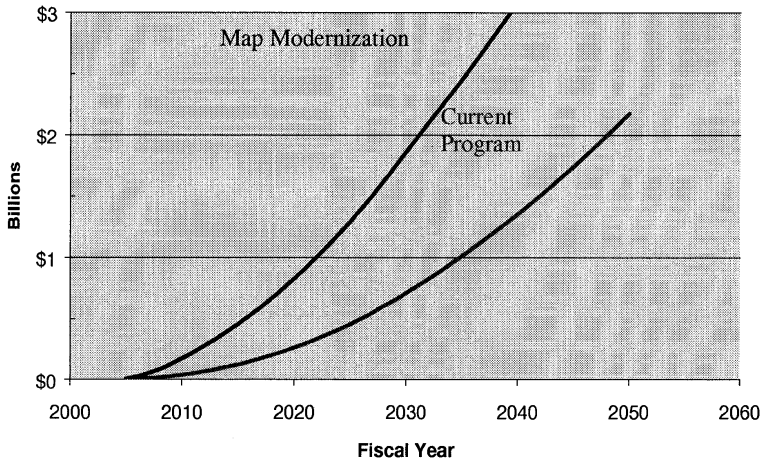
Question. FEMA's Budget Request for fiscal year 2003 includes $300 million for flood map modernization as well as $51 million derived from flood insurance premium fees. This must be a priority since flooding causes some $6 billion annually. Unfortunately, 63 percent of the flood maps are more than 10 years old and some

38 percent are more than 15 years old. How much are the overall costs to improve or replace the old and inaccurate maps? Does FEMA have any estimate for savings once all flood maps are modernized? How does the flood map modernization program work with the Flood Insurance program?

Answer. Funding levels of $300 million in new monies (over and above $51 million derived from flood insurance premium fees through the National Flood Insurance Program) in fiscal year 2003 and the two out years are planned to fund the Map Modernization Program. Program costs will be evaluated and refined as scoping meetings are held with the individual communities to be mapped, and community needs are factored into the mapping process.

The following chart illustrates that that modernized flood mapping for the Nation will help avoid an estimated $45 billion in flood damages to new buildings and infrastructure over a 50-year period.

Potential Annual Losses Avoided to New Buildings and Infrastructure



The modernized flood maps will serve as the actuarial and floodplain management bases of the National Flood Insurance Program. Moreover, the digital form of the flood mapping will facilitate policy rating by insurance agents, enhanced floodplain management by communities, and more accurate determinations by banks of whether a structure must be protected by flood insurance.

FLOOD INSURANCE PROGRAM

Question. FEMA is recommending that the Flood Insurance program be reformed to, among other things, (1) phase-out the pre-firm taxpayer subsidy on second homes, vacation properties and rental properties; and (2) include the expected costs of coastal erosion in the premiums for policies in coastal areas. I assume that these changes need legislation. Are you working with the appropriate authorization committees?

Answer. Yes, legislative changes will be needed in order to bring about these proposals. FEMA has briefed key staff on the appropriate subcommittees of both the Senate Committee on Banking, Housing and Urban Affairs and the House Committee on Financial Services, on the legislative changes needed for these proposals.

Question. The Flood Insurance program is not actuarially sound. What does this program owe on its Treasury line of credit? What other steps can FEMA take to make this program actuarially sound?

Answer. Although the NFIP is not actuarially sound in the traditional sense the term is used of charging full actuarial rates for all coverage, NFIP enabling legislation authorizes the charging of actuarial rates only for structures that are newly constructed after being provided with detailed flood risk information by FEMA. At the same time, such legislation has required the charging of highly subsidized rates for older, existing structures in Special Flood Hazard Areas. In the aggregate, NFIP

premium levels are sufficient to pay losses associated with the average NFIP historical loss year.

In addition to the proposal contained in FEMA's portion of the President's fiscal year 2003 budget, to phase out the pre-FIRM taxpayer subsidy on second homes, vacation property and rental property, as mentioned above, FEMA engages in a number of activities that assist in making the program more actuarially or financially sound. FEMA continues to review its annual and historic loss experience to determine and make annual adjustments to NFIP rates, as needed, and within the limitations contained within the NFIP's enabling legislation. At this point in time, more than 70 percent of NFIP policyholders are charged premiums that are considered to be full-risk premiums. Annual review and adjustment maintains the integrity of these rates. Slower progress is being made in reducing the levels of program subsidy by gradual rate changes for older construction.

FEMA also continually promotes sound floodplain risk management among State and local governments to minimize the risk of flooding to new structures, which lowers their flood risk exposure and related loss potential. FEMA estimates that these efforts result in reduced damages by about $1 billion each year.

Finally, FEMA further promotes sound floodplain risk management by aggressively administering the Flood Mitigation Assistance and Hazard Mitigation Grant Programs, encouraging State and local governments to take definitive flood loss reduction actions to properties at risk. Marketing the NFIP Community Rating System and providing technical assistance to local communities also promotes loss reduction which contributes to a more actuarially sound program.

Question. FEMA has a poor record of getting homeowners to participate in the Flood Insurance program. What is the current rate of participation? How does this compare over the last 4 years and what is FEMA doing to ensure increased participation?

Answer. As of July 31, 2002, the NFIP has 4,370,066 policyholders with over $617 billion of insurance coverage in force. Participation in the NFIP varies around the country. In areas without recent flood threats or with low mortgage activity, it can be particularly low. On the other hand, market penetration in much of the Southeast and States bordering the Atlantic and the Gulf of Mexico is relatively high.

As an example of the result of that market penetration, in 2001 the NFIP paid over $1.1 billion in claims to more than 30,000 flood insurance policyholders in Texas and Louisiana after Tropical Storm Allison—the NFIP's biggest payout to date. Tropical Storm Isidore struck in September 2002 and is projected to result in 9,200 claims from policyholders in Louisiana, Mississippi, Alabama, Florida and Texas. Hurricane Lili affected many of the same Louisiana and Mississippi policyholders in October 2002, with 3,000 claims projected.

Total flood insurance policies in force over the last four calendar years are as follows:

Calendar Year	*Policies in Force*
2001	4,476,836
2000	4,369,087
1999	4,329,985
1998	4,235,138

In fiscal year 2001, through the work of our stakeholders, new business increased nearly 15 percent with the addition of 630,944 new policies to the National Flood Insurance Program's (NFIP's) books. These gains in flood insurance policies, however, were offset by attrition (552,783 policies) from the previous year's total number of policies in force. While a certain degree of policyholder non-renewal has to be expected, we recognize that to improve overall NFIP participation we must not only continue to attract new business, but also boost the retention of current policyholders. Therefore, we have initiated a number of strategies and tactics to improve policy retention, both from a mandatory and a voluntary purchase perspective.

FEMA will be working to reinvigorate its marketing and advertising campaign. FEMA will be developing a fresh campaign with a paramount objective of increasing the number of NFIP policies. This new national marketing and advertising campaign will be grounded in effective risk communication principles and practice. In this way the campaign will address one of the major obstacles to flood insurance purchase, the lack of perception of risk. It is expected that the campaign will effectively convince consumers of their vulnerability to flood damage and the value of buying and retaining flood insurance protection. Retention has been identified as a key issue.

FEMA does not have oversight authority for lending institutions. Nevertheless, we foster lender compliance with mandatory purchase provisions by conducting lender training seminars across the country, developing guidance materials for lenders

both in hard copy and electronically via our website, and by maintaining regular communication with Federal lending regulators, Government Sponsored Enterprises (GSE's), and the lending community.

Recent analyses indicate that lenders may be correctly requiring the purchase of flood insurance as a condition of mortgage loan origination. We believe, based on policy attrition rates for the past several years and other data, that enough borrowers may not be maintaining flood insurance throughout the term of the loan, as required by law, to have a significant impact on our policy retention. GAO issued a June 2002 report on this issue, "Flood Insurance: Extent of Noncompliance with Purchase Requirements Is Unknown".

We plan to work with Federal lending regulators and GSE's to identify actions we can take to ensure borrowers are required to renew flood insurance policies annually. Although we do not have oversight authority, we can help identify whether there are any means by which we can prevent renewals of mandatory purchased policies from "falling through the cracks."

Also, we plan to assess State escrow laws and systems to determine whether any obstacles to flood insurance escrow may exist and, where necessary, work with the States on amendments. It bears further research and consideration because monthly-automated payments have been shown to improve the persistency of flood and other lines of insurance.

To better guide our strategies we need current information regarding customers' views of our products. FIMA is in the process of contracting for research to determine why policyholders do or do not renew their policies. Another research project will assess the relationship of customers' perception of risk to the pricing and structure of the flood insurance product.

To encourage retention of policies voluntarily purchased, we are seeking opportunities to drive the message that flood insurance should be maintained. When maps are updated and a flood risk zone is determined to be of lower risk than before, the message will be for policyholders to switch to a lower premium policy, not to drop coverage. Additionally, as the memory of certain significant flood events fades, we are working to convey to policyholders the importance of renewing their coverage, and that damaging floods can occur again. These efforts involve working through the media and asking lenders, insurance companies and agents to amplify the messages through their own direct mailings, advertising and public relations.

A pilot project is underway to enable certain State risk pools to sell flood insurance to publicly-owned buildings. These risk pools will operate under the same rules as insurance companies that participate in the Write Your Own Program.

Additionally, FEMA published an interim final rule on September 30, 2002 to adjust the Group Flood Insurance Policy (GFIP) to be consistent with changes in the disaster assistance program. At that time we asked for comments about allowing the States to renew GFIP policies after the 36 month expiration, provided the States pay the premium on behalf of certificate holders. This rule has a 6-month comment period.

Last, we are implementing a number of technology improvements over the next several years that will make flood insurance easier for insurance companies and agents to sell and for consumers to buy.

EMERGENCY FOOD AND SHELTER PROGRAM

Question. The Administration is recommending that FEMA transfer the Emergency Food and shelter program from FEMA to HUD. This program has a long history of success at FEMA. What are the advantages to moving this program to HUD?

Answer. The success of the Emergency Food and Shelter (EFS) Program is primarily due to the structure in which Congress established the program. As such, the program is administered by FEMA and governed by a board whose membership includes representatives from six national non-profit organizations. The National Board, as it is referred to, governs the day-to-day operations of the program, develops program policies and requirements, ensures the timely distribution of funds, monitors program compliance by the funded agencies, and compiles reports detailing accounting of the use of all program funds. FEMA's role is to chair the National Board and provide oversight and guidance to ensure adherence to Federal laws. Therefore, continued success is predicated on preserving the current structure of the EFS Program, which is allowing the National Board to continue to govern the program and allowing a Federal agency to administer it. Should the program be transferred to HUD and operated in the same manner, it will continue to be successful.

The advantages of transferring the program to HUD are:

—It will be easier to assess how the EFS Program is being coordinated with other major Federal homelessness prevention and assistance programs and to deter-

mine if structural changes to the program are necessary to ensure an integrated approach to assisting persons facing housing emergencies.
—It will enable the EFS Program to link housing and services for the chronically homeless to other comprehensive services. Linking emergency homeless services for the homeless would mean that a full range of needs of the homeless could be addressed in a coordinated and comprehensive manner.
—It would decrease duplication of services and allow for scarce resources to be utilized more efficiently and effectively. Currently, several Federal homeless assistance programs are providing funding to the same agencies for the same services and same individuals.

FISCAL YEAR 2001 INDEPENDENT AUDITOR'S REPORT

Question. After 3 years of clean opinions, FEMA's 2001 financial statement was issued a qualified opinion. What are the key concerns raised in the qualified opinion and what steps is FEMA taking to address these concerns?

Answer. A qualified opinion was received in the fiscal year 2001 Independent Auditor's Report for the following reasons: (1) the auditors could not sufficiently satisfy themselves as to the accuracy of the net amount ($10,753,000) of FEMA's equipment and related depreciation and (2) FEMA recorded an unsupported reduction ($77,000,000) to unliquidated obligations. FEMA management has addressed these areas and both financial management and the IG expect an unqualified opinion for fiscal year 2002. To resolve the equipment issues, a complete inventory of equipment is being conducted and values established for fiscal year 2002 statements. This effort and new procedures for the current year should eliminate this qualification in fiscal year 2002. To resolve the reduction to unliquidated obligations issue, a complete reconciliation of all unliquidated obligations has been completed which will eliminate this qualification.

PREVENTION VS. HOMELAND SECURITY

Question. There remain significant concerns among Members as to how best to allocate Homeland Security responsibilities among Federal agencies. The President supports FEMA as the lead domestic agency over DOJ because of its experience and expertise in responding to natural disasters, such as earthquakes, hurricanes and tornados. In addition, FEMA has been developing additional expertise to plan and respond to acts of terrorism through its Office of National Preparedness. Others suggest that DOJ is the appropriate agency because of its experience in developing strategic planning through the Office of Domestic Preparedness. What are the strengths and weaknesses of each of these agencies in taking on the responsibilities for being the lead domestic agency in preventing and responding to acts of terrorism?

Answer. In preparing and responding to a man-made national disaster or emergency, FEMA's core mission is to save lives, limit casualties, and minimize damage to property. Police officers, firefighters, and emergency medical teams are America's front-line responders in the event of both man-made and natural disasters, including a terrorist attack. With the right training and equipment, these first responders have the greatest potential to accomplish the mission of saving lives, limiting casualties, and minimizing damage to property. In the same terrorist scenario, Justice's core mission is to gather intelligence to prevent or mitigate the event, and to conduct the criminal investigation to identify and prosecute the perpetrator(s).

FEMA has an established history of working with the State and local governments and the first responder community to prepare for, mitigate against, and respond to all-hazards. Our mission is to provide leadership and support to reduce the loss of life and property and to protect our nation's institutions from all types of hazards through a comprehensive, risk-based, all-hazards approach. As evidenced in the Federal Response Plan, FEMA coordinates all facets of emergency management without directly "owning" many of the specific programs and activities. The First Responder Initiative will require an agency well skilled in coordination, and FEMA is the lead agency in both Federal and State and local government coordination. This permits FEMA to coordinate programs in the most effective manner possible.

One of the primary reasons for locating the new consolidated program within FEMA is the agency's strong record for quickly distributing emergency planning and assistance grants. FEMA has extensive experience providing direct assistance to local governments through its disaster assistance programs and its Fire Grant program. Because First Responder grants will be allocated to States according to a formula, FEMA will be able to disburse these funds quickly and without difficulty. We are already working with our State and local partners to establish a sound, working grants management process specifically for this program so that a system is in place and ready should the First Responder Initiative receive Congressional approval.

Since FEMA is the lead agency for consequence management and for preparing State and local governments for all hazards, including weapons of mass destruction terrorism, FEMA is the most logical agency to coordinate all these functions.

Question. There seem to be a clear demarcation in how we view the responsibilities of domestic Federal agencies with regard to acts of terrorism. First, there is prevention and then there is response and consequence management. It seems clear that DOJ is best equipped to handle prevention and FEMA is best equipped to handle response and consequence management. The key appears to be, in part, how we define prevention and how we define consequence management. How do we define these issues? Are there overlapping issues? What are those issues and how do we reconcile overlapping issues in order to allow DOJ and FEMA to work together?

Answer. FEMA is not seeking the transfer of a law enforcement function. In preparing and responding to a man-made national disaster or emergency, FEMA's core mission is to save lives, limit casualties, and minimize damage to property. Police officers, firefighters, and emergency medical teams are America's front-line responders in the event of a terrorist attack. With the right training and equipment, these first responders have the greatest potential to accomplish the mission of saving lives, limiting casualties, and minimizing damage to property. In the same terrorist scenario, Justice's core mission is to gather intelligence to prevent or mitigate the event, and to conduct the criminal investigation to identify and prosecute the perpetrator(s). FEMA has not, nor does it intend to train and exercise law enforcement officials with respect to these core investigative duties.

In the President's Executive Order establishing the Office of Homeland Security, elements of preparedness and prevention were defined. Preparing for and mitigating the consequences of terrorist threats or attacks involves working with Federal, State, and local agencies and private entities to review and assess emergency response plans, coordinating domestic exercises and training programs, ensuring the readiness of response teams, and ensuring national preparedness programs and activities are evaluated under appropriate standards.

Prevention involves working with Federal, State, and local agencies and private entities to facilitate the exchange of information related to preventing the entry of terrorists and terrorist materials, coordinating investigations of threats and attacks, and coordinating the security of borders, water, and airspace.

To reconcile these issues, the President has recommended in both the fiscal year 2003 Budget and the Department of Homeland Security proposal that the Office for Domestic Preparedness be transferred to FEMA. With this proposal, the President has shown true leadership in his willingness to address a long-standing problem—the need for central coordination among the myriad of Federal programs dealing with terrorism preparedness.

FEMA looks forward to enhancing the training provided by ODP and serving as a "single point of contact" for State and local governments as numerous Commissions and recent GAO reports have recommended. In fact, by eliminating the duplication, confusion and inefficiencies of the current system as the fiscal year 2003 budget proposes, we will be helping to ensure that our nation's first responders are better trained, better equipped and better prepared. This consolidation and simplifying of the Federal Grant process by consolidating all First Responder grants at FEMA will allow our terrorism preparedness programs to mirror our terrorism response programs and satisfy repeated State and local government requests.

FIRE ACT GRANTS

Question. FEMA currently is administering the FIRE Act Grants program at $360 million in fiscal year 2002. This is a popular program that targets funds to firefighters, who are the first line of response to both disasters and terrorism. The program is authorized at $900 million for both Fiscal Years 2002 and 2003. Nevertheless, the Administration's budget assumes that this program will be absorbed into a proposed larger block grant program that is administered by States. There are real concerns that these funds will be slowed by a new bureaucracy and watered down at a time of great need. I believe that we need to preserve this program. However, if we do, how will this impact the proposed Homeland Security block grant and is there a way to reconcile this program with the block grant proposal?

Answer. We believe as you do that the FIRE Act program does need to be preserved separately from the grants provided to States for the first responder initiative. Subsequent to the President's submittal to the Congress of the 2003 budget, the Administration is on record as supporting separate programmatic funding between the first responder grant program and the Assistance to Firefighter grants. There are numerous reasons to maintain this separation: (1) the governing statute for the fire grants emphasizes fire prevention as well as response capacity (2) the

first responder program funding priorities will be based on a different threat profile (i.e., terrorism) than the fire grants; and (3) the fire grants are required by statute to be made directly to local fire departments, not to the States as the first responder grants will be made.

Nevertheless, there clearly are ties between the two programs, and therefore we also believe these two programs demand a close coordination with each other.

LEGISLATION

Question. Many of the Administration's proposals for Homeland Security depend on appropriations without any authorization structure. I believe that we need authorizing legislation in order to ensure a set of standards and benchmarks with regard to Homeland Security as well as ways to ensure accountability on how Homeland Security funds are spent. Please provide your comments.

Answer. We believe FEMA's current authorities, transferred to the Department of Homeland Security as well as sections 502 and 506 of H.R. 5005, or section 102 of S. 2452 should provide adequate authority and accountability.

Question. On March 21, 2002, I introduced the S. 2061, the National Response to Terrorism and Consequence Management Act of 2002, which is designed to provide a statutory structure for the full funding of the Urban Search and Rescue Response System as well as a new FEMA program to provide technical and planning grants for States to develop State and local capacity to respond to acts of terrorism, including those involving weapons of mass destruction. If you have had an opportunity to review the legislation, I would like your views on the bill. If not, I would like your views on the need to fund fully the urban search and rescue response system.

Answer. We have reviewed the legislation and believe that it contains important authorizing language for the National Urban Search and Rescue System. We have taken steps to develop a rulemaking for the system, which is currently under review. Your legislation provides FEMA with an important framework for the system and will allow for better financial support to the program in future years. Under the legislation the number of teams will continue to be 28, with the option for expansion resting on the judgment of the agency based on need and the expectation that all 28 teams will be fully capable and mission ready. We support this concept as we work to develop greater capability within the existing system. We feel that it is critical to provide the utmost support to the existing teams before adding additional teams.

We believe it important to fully fund the National Urban Search and Rescue System to include the 28 teams and their equipment, training, exercises and support for deployment. It is also critical that we have the staff resources within the program office to provide an outstanding level of support to the teams before, during, and after deployment. Toward that end we have requested the $32 million in the emergency supplemental for fiscal year 2002 to bring the teams up to status to respond to WMD situations. Thanks to your support that effort to equip and train all of the teams is underway. We also have requested $16 million for fiscal year 2003 to develop the training and exercise program further and to allow us to implement improved team accountability and peer review programs. We are looking at the addition of at least seven critical positions to the National Urban Search and Rescue Division of USFA to carry out these tasks. It is essential that we develop the system with care to provide increased capability, while meeting the needs of the teams and providing them with the training and equipment they need.

DISASTER ASSISTANCE CRITERIA

Question. Congress has repeatedly sought to have FEMA establish clear criteria for evaluating a Governor's request for a presidential disaster declaration. However, FEMA has continued to employ county-wide and State-wide per capita cost thresholds as its primary means of determining whether damages exceed a State's capabilities. The FEMA Office of Inspector General and the General Accounting Office have suggested alternative methods to determine a State's financial ability to respond to a disaster, including assessments of its total taxable resources. Recently, the President, in his fiscal year 2002 budget plan, called on FEMA to develop "improved guidelines for disaster assistance that provide States with meaningful criteria that must be met in order to become eligible for Federal disaster assistance." What is the status of these efforts and review?

Answer. During fiscal year 2001, a FEMA-State Working Group consisting of staff from FEMA headquarters, regions, and selected States, including leadership from the National Emergency Management Association, conducted a broad review of the disaster declaration factors and considered various options for revising them. A considerable amount of discussion focused on the specificity of the factors—if the factors

are very definitive and precise, they are perceived as too stringent and inflexible (and possibly too complicated), not allowing the agency the discretion to address the varying nature of disasters and the range of impacts on States. The opposing viewpoint is that factors that are more flexible and open to interpretation are seen as too vague and subjective, not defining a true baseline for assistance. Though a number of possible revisions to the factors were discussed (including using total taxable resources as a criterion), the Working Group generally supported the current factors, stressing their simplicity and the agency's inherent discretion in using the factors to evaluate Governors' requests for disaster assistance. One common concern within the Working Group was that any effort to revise the factors that would devolve more responsibility to the States for responding to and administering disasters, would equate to passing on additional costs at a time when State budget surpluses were turning into budget deficits.

As a result of the Working Group's efforts and subsequent discussions, FEMA is continuing to use the current disaster declaration factors, as they provide general guidelines for the States to use in determining whether they are eligible for disaster assistance. For example, the factors that provide a baseline for assistance from the Public Assistance Program (which represents the majority of FEMA disaster assistance expenditures) are generally well understood. For example, the factor that focuses on the per capita impact of disaster damages on a State, clearly establishes that a figure of $1.09 per capita is used as an indicator that the disaster is of such size that it could warrant Federal assistance. Other more general factors (such as whether other Federal program assistance is available and the amount of insurance coverage in force) are also considered, allowing the agency to look at the collective impact of all of the factors when making a recommendation to the President. This approach considers the total impact and specific circumstances of a unique disaster within a particular State. Thus, the current declaration process provides an appropriate level of executive discretion, as well as flexibility for the President and the Governors.

QUESTIONS SUBMITTED BY SENATOR PETE V. DOMENICI

Question. Director Allbaugh, those of us in the west are facing a 100-year drought by some accounts, and the forest fire season looks to be the worst in decades. New Mexico has had its first fires of the season, and I was interested to see that FEMA has a role in responding to wildland fires under its fire management assistance grant program. Could you explain to the Subcommittee what authorities FEMA has in responding to wildland fire emergencies? What new activities can FEMA undertake in these situations that it couldn't under earlier authorities? What actions did FEMA take in assisting New Mexico communities in the recent fires? What is the fiscal year 2003 request for these grants, and what is FEMA's estimate of the potential need for this type of assistance next year? Did FEMA anticipate a significant fire season when it developed its fiscal year 2003 budget request?

Answer. Could you explain to the Subcommittee what authorities FEMA has in responding to wildland fire emergencies?

The Fire Management Assistance Grant Program (FMAGP) is the primary vehicle FEMA uses to provide assistance to State and local governments for wildland firefighting activities. Section 420 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act), 42 U.S.C. 5187, as amended by the Disaster Mitigation Act of 2000, established FMAGP. Under approved fire management assistance declarations, FEMA provides assistance, primarily in the form of grants, to any State or local government for the mitigation, management, and control of any fire on public or private forest or grassland that threatens such destruction as to constitute a major disaster.

Under fire management assistance grants, total eligible costs are reimbursed at a 75 percent Federal and 25 percent non-Federal cost share. Eligible wildland firefighting activities covered under FMAGP may include costs for field camps; equipment use, repair, or replacement; tools, materials, and supplies; mobilization and demobilization; limited pre-positioning; emergency work; and temporary repair of damage caused by firefighting activities.

In addition to submitting requests to FEMA for fire management assistance declarations, States may submit requests to the President for emergency or major disaster declarations for wildland fire emergencies. If a declaration were warranted, the President would authorize FEMA to provide the Federal disaster assistance designated in the declarations. It should be noted however, that funds for recovery and hazard mitigation can be designated only under a Presidential major disaster declaration.

Question. What new activities can FEMA undertake in these situations that it couldn't under earlier authorities?

Answer. Section 420 of the Stafford Act, Fire Management Assistance, expands the scope and level of assistance previously available under Section 420 of the Stafford Act, Fire Suppression Assistance. Instead of limiting Federal assistance to the "suppression" of forest or grassland fires that threaten such destruction as would constitute a major disaster, Section 420, Fire Management Assistance, expands the range of eligible activities to include the "mitigation, management, and control" of such fires. In the final rule for FMAGP, "mitigation, management, and control" is interpreted as a flexible and broad-based provision intended to reduce the spread of a fire, reduce associated health and safety threats, prevent potential damages by the fire, repair damage caused by the firefighting activities, and provide for the limited pre-positioning of certain types of wildland firefighting resources.

Another activity FEMA is authorized to undertake under FMAGP are those activities allowable under Section 403 (42 U.S.C. 5170b), Essential Assistance, of the Stafford Act necessary to mitigate, manage, and control the fire. Section 403 authorizes assistance for activities required to meet threats to life and property. Section 403 activities that may be eligible for funding under FMAGP include police barricading and traffic control, evacuations and sheltering, search and rescue, arson patrol, and the dissemination of public safety information.

Under FMAGP, FEMA is also authorized to provide funding to State and local governments. Previously, we could only provide assistance to the State as the sole applicant eligible for assistance.

Question. What actions did FEMA take in assisting New Mexico communities in the recent fires?

Answer. Between March and August 2002, the State of New Mexico submitted and FEMA approved nine requests for fire management assistance declarations. The State has a maximum timeframe of up to one year from the date of the fire management assistance declarations to submit its grant applications to FEMA for review and processing. We have already obligated approximately $5 million to the State for one fire management assistance declaration and our Regional staff is continuing to work with the State and local governments to document actual eligible costs so that the State can submit its eight other fire management assistance grant applications within the timeframes allowed.

Question. What is the fiscal year 2003 request for these grants, and what is FEMA's estimate of the potential need for this type of assistance next year?

Answer. FMAGP provides reimbursement to State and local governments in the form of grant assistance for actual costs incurred in the performance of eligible wildland firefighting activities for a declared fire. We have not received any requests for fire management assistance declarations since October 1, 2002, the beginning of fiscal year 2003. It should be noted, however; that as part of the Regulatory Planning and Review requirement published as part of the final rule for FMAGP, we estimated that in extraordinary years, with severe fire conditions and a high level of fire activity, fire management assistance grants may total more than $50 million.

Question. Did FEMA anticipate a significant fire season when it developed its fiscal year 2003 budget request?

Answer. FEMA did not anticipate a significant fire season when it developed the fiscal year 2003 budget request due to uncertainties in trying to forecast the number and severity of wildland fires that would be eligible for assistance under FMAGP.

Question. Director Allbaugh, I want to thank you for your personal attention to the recovery of Los Alamos and surrounding areas from the devastating Cerro Grande Fire that occurred in New Mexico just about two years ago. This fire consumed almost 48,000 acres of forest, destroyed nearly 400 homes and caused damage or injury to 1,000 families, countless businesses, the county of Los Alamos, the State of New Mexico, four Indian pueblos, and Los Alamos National Laboratory. I would remind my colleagues that this fire was started by the Federal Government when a controlled burn at Bandelier National Monument burned out of control. For that reason, the Congress enacted the Cerro Grande Fire Claims Assistance Act of 2000, and appropriated $455 million to FEMA to establish a claims program to compensate victims of the fire. New Mexicans had until August 28 of this year to file claims under the Act, and according to recent assessments of the Cerro Grande fire claims program, additional appropriations will be needed to pay anticipated claims.

Would you please give the Subcommittee the latest figures on: the number and amount of claims filed; the number and amount of claims approved; the number and amount of claims paid; the number and amount of claims pending; and the number of claims anticipated to be filed by August 28.

Answer. Claims filed: 21,512

Claims paid: 14,614 ($430 million)

Claims closed: 19,060 (included in $430 million)
Number of claims pending: 2,452 ($150 million)

Question. Under the recent assessment of the program, FEMA indicated that additional appropriations will be needed. What is FEMA's estimate of the additional appropriations needed to pay anticipated claims?

Answer. We estimate that we will need an additional $150 million to pay all claims. The amount is based on estimates of our current liabilities. Please see Table below:

OCGFC CLAIMS LIABILITY AS OF 10/03/02

Category	Sub-Totals	Totals
Total Appropriation		$455,000,000
Reimbursement from Stafford	$2,305,601	2,305,601
Total Paid to Date		(424,554,223)
Estimated Remaining Liabilities:		
Individual Claims Liability	23,311,587	
Business Claims Liability	18,004,441	
Government Claims Liability	16,313,928	
Pueblo Liability	4,984,127	
Appeals Liability	100,615	
Sub-total Liabilities		62,714,698
Liabilities Remaining without Subrogation and Unknowns		−29,963,320
Subrogation	103,775,814	
Projections for Inestimable Liabilities:		
Potential appeals	2,552,766	
Potential arbitrations/Federal Court	10,000,000	
Mitigation	2,910,000	
Sub-total Inestimable		119,238,580
Additional Funds Required		−149,201,900

The formula to determine the OCGFC liability will be as follows: Appropriation; Plus Reimbursement from Stafford; Less Total Paid to Date; Reserves on Individual, Business, Government and Pueblo Claims (Open Claims); Open Appeals; Subrogation liability.
Projections for Inestimable Liabilities: Mitigation; Future Appeals; Future Arbitrations/Federal Court.
Equals—Additional Funds Required.

Question. When does FEMA expect to need these funds, and for what purpose?

Answer. The funding will be needed by the end of the first quarter to continue processing payments. We continue to hold payments to insurance companies, as specified in the Act, until additional funding is available. However, we are fast approaching a time when additional dollars will be needed in order to continue payments to individuals and businesses affected by the fire.

Question. With these funds, will FEMA be able to keep on schedule processing and paying claims?

Answer. Depending on the amount of funding approved, whether it is the full amount or a partial amount, we could continue the processing of payments and delay payment of subrogation claims until funding becomes available.

Question. What would be the effect of not receiving these funds in the fiscal year 2002 supplemental appropriations bill now before Congress?

Answer. The effect of not receiving the funds would be that starting in late November 2002 any additional payments would be prioritized. We would continue to pay claims already in process. Those that cannot be paid would receive a letter detailing the agreed award to be paid contingent upon funding.

Initially, FEMA would cease making payments to all claimants other than individual and business claims received before a financially determined cut off date. Individuals and businesses who filed after the calculated cut off date would be paid initial awards on a first completed basis from remaining funds until funding was depleted. Remaining amounts awarded through appeals, mitigation claims, or arbitrations would not be awarded until funding was made available.

Director Allbaugh, I would first like to say that I support President Bush and his Administration 100 percent in their efforts regarding the war on terrorism. There is nothing more important and no higher priority for this country at this time in history. That having been said I would like to ask you some questions regarding the shift in funding regarding the training of our first responders, an activity that,

up until this particular Presidential budget request, has been administered by the Department of Justice (DOJ).

Question. Has the entire activity of first responder training been transferred to the Federal Emergency Management Agency (FEMA) or does DOJ still retain some aspects of this critically important function?

Answer. The fiscal year 2003 Budget and the President's Department of Homeland Security proposal would transfer all functions and activities of the Office for Domestic Preparedness (ODP) of the Department of Justice to FEMA. FEMA will continue the preparedness activities at facilities currently funded by ODP, and will build upon and enhance those activities at a greater level. These are not law enforcement functions. They include only those activities that have long been a part of the FEMA preparedness mission.

FEMA is not seeking the transfer of a law enforcement function. In preparing and responding to a man-made national disaster or emergency, FEMA's core mission is to save lives, limit casualties, and minimize damage to property. Police officers, firefighters, and emergency medical teams are America's front-line responders in the event of both natural and man-made disasters, including terrorist attacks. With the right training and equipment, these first responders have the greatest potential to accomplish the mission of saving lives, limiting casualties, and minimizing damage to property. In the same terrorist scenario, Justice's core mission is to gather intelligence to prevent or mitigate the event, and to conduct the criminal investigation to identify and prosecute the perpetrator(s). FEMA has not, nor does it intend to train and exercise law enforcement officials with respect to these core investigative duties.

Question. Director Allbaugh, I think we all agree that a shift in first responder training responsibilities would require legislative authorization by the Congress. You recently mentioned that you were working with the Environment and Public Works Committee on such legislation. As a new member of that Committee, could you tell me the nature of these discussions, and bring me and my staff up to date on those discussions?

Answer. Senator Jeffords introduced S. 2664, the First Responder Terrorism Preparedness Act of 2002, in June 2002. This bill would amend the Robert T. Stafford Disaster and Emergency Assistance Act to establish a program to provide assistance to enhance the ability of first responders to respond to incidents of terrorism, including incidents involving weapons of mass destruction. To accomplish this purpose, the bill would establish the Office of National Preparedness within FEMA to coordinate and build viable terrorism preparedness and response capability at all levels of government.

The Committee on Environment and Public Works met to consider S. 2664 on June 27, 2002. By voice vote, the committee agreed to three amendments offered by Senator Clinton. The first amendment, as modified, established a program to protect the health and safety of first responders. The second amendment required States to use criteria established by FEMA to disburse funds to local governments and local entities within 45 days and to coordinate with them concerning the use of this assistance. The third amendment provided that FEMA will coordinate with the Department of Justice in relation to the Community Oriented Policing Services program. The committee then agreed to favorably report S. 2664, as amended, by voice vote. Report Number 107–295 was reported by Senator Jeffords on October 1, and the bill, as amended, was placed on the Senate Legislative Calendar; Calendar number 625.

Under the leadership of Senator Judd Gregg as the then-Chairman of the Senate Commerce, Justice, State, and the Judiciary Appropriations Subcommittee, the Congress established the first responder training program in the Department of Justice, and it has been extremely successful in training 80,000 police, fire, and emergency personnel. Last May, when the President proposed the transfer of first responder training to FEMA, it was a program of about $30 million. For fiscal year 2002, the National Domestic Preparedness Consortium received $32.7 million with an additional $63 million added after the September 11 attacks. The President proposes to transfer $234.5 million for all Department of Justice counter-terrorism funding associated with domestic preparedness to FEMA, and the new program is now proposed at $3.5 billion!

Question. The proposed $3.5 billion program is a significant expansion of the first responder training program. I asked this same question to the Attorney General—would FEMA have the capability of implementing a dramatically expanded first responder training program in fiscal year 2003 considering that legislation has not yet been considered to establish this program?

Answer. Yes. FEMA believes it has existing authority to implement the First Responder Initiative as derived from the Stafford Act as well as the Federal Fire Pre-

vention and Control Act. Grant making or other financial assistance authority for training is found in a number of sections of the Stafford Act. The Stafford Act (42 USC 5196(f)) authorizes the Director of FEMA to "conduct or arrange, by contract or otherwise, for training programs for the instruction of emergency preparedness officials and other persons in the organization, operation, and techniques of emergency preparedness" as well as "conduct or operate schools" and "provide instructors and training aids as necessary."

In addition, the Federal Fire Prevention and Control Act (15 U.S.C. 2206) authorizes the establishment of the National Fire Academy and permits the Superintendent to "admit to the courses and programs of the Academy individuals who are members of the firefighting, rescue, and civil defense forces of the Nation and such other individuals [. . .] as he determines can benefit from attendance."

Question. Is FEMA prepared to implement this program in a fashion that will not delay critical first responder training activities while it sets up an internal structure to implement this new program responsibly? Other significant program expansions are proposed for FEMA in the budget that will also place administrative burdens on the agency.

Answer. One of the primary reasons for locating the new consolidated program within FEMA is the agency's strong record for quickly distributing emergency planning and assistance grants. FEMA has extensive experience providing direct assistance to local governments through its disaster assistance programs and its Fire Grant program. Because First Responder grants will be allocated to States according to a formula, FEMA will be able disburse these funds quickly and without difficulty. That being said, FEMA intends to monitor the funds closely, ensure they are awarded based on risk and need and require that mutual aid agreements are in place as a prerequisite to funding.

The Administration expects that FEMA will begin operating the First Responder program immediately following the passage of FEMA's 2003 appropriations bill. FEMA intends to award grants to the States shortly after receiving the appropriation from Congress. FEMA has developed a process for the distribution of the fiscal year 2002 supplemental grants that will be adapted and used for the fiscal year 2003 First Responder grants.

Question. How would FEMA utilize the current training partners of the National Domestic Preparedness Consortium, which includes the New Mexico Institute of Mining and Technology, under its proposed first responder training program?

Answer. FEMA intends not only to continue the preparedness activities at the New Mexico Institute of Mining and Technology and the other facilities currently funded by ODP, but also to build upon and enhance those activities at a greater level. Training is a crucial component of this countries' ability to prepare and respond to terrorism activities. The request for $3.5 billion will ensure that we begin providing the enhancements and new efforts necessary to get our First Responders on track for the level of preparedness that is necessary to deal with any future terrorist or WMD events.

ODP provides funding for a number of training programs and non-Federal terrorism centers. In 2003, FEMA will continue to fund those activities for which the Administration requested funding in fiscal year 2002, including:

—Center for Domestic Preparedness (Ft. McClellan)—chemical weapon training
—Texas A&M—Emergency response training
—Louisiana State University—Bio-preparedness training
—DOE Nevada Test Site—Large-scale WMD training
—New Mexico Institute of Mining and Technology—Live explosives training

Question. How would FEMA make provision to train first responders for weapons of mass destruction, including biological, chemical, and radiological weapons, which require highly specialized facilities to ensure safe exercises?

Answer. FEMA will continue the preparedness activities currently funded by the Office of Domestic Preparedness that offer specialized training activities, to include live-agent training and will build upon and enhance those activities at a greater level. Training is a crucial component of this country's ability to prepare for and respond to terrorism activities.

Question. Assuming that a comprehensive first responder training program is developed, it is clear that responding to potential attacks using weapons of mass destruction—chemical and biological agents and even nuclear devices—requires very specialized training. In your opinion, are there necessary trainers available throughout the country to carry out a significant first responder training program, specifically one that is comprehensive and coordinated to provide a seamless response to a disastrous attack?

Answer. It is critical that a comprehensive, coordinated and consolidated terrorism training program be established. This is why the President asked FEMA to

manage the First Responder Grant Program which would provide over $1 billion in training funding alone. It is also why I have put all FEMA training under the same directorate, so all first responder training could be centrally coordinated and each emergency discipline could learn to work as a team with others. FEMA has for many years used a robust and coordinated training system that utilizes over 50 State fire academies and State emergency management training programs, there are also robust State and local fire, emergency medical services and police academies as well. These systems train hundreds of thousands of responders each year and have largely been left out of the funding and support from DOD and the Justice Department's programs. There are thousands of trainers that can be brought to bear on this issue. We are also aggressively working to develop additional train-the-trainer opportunities to assist first responder training systems with the expertise they need. Chemical incidents are not dissimilar whether the cause is accidental or terrorism and our nation's hazardous materials teams are well suited to respond. We continue to work with the Environmental Protection Agency, the Department of Transportation and others to strengthen their training. Biological events, while having some similarities to chemical incidents, do require additional training and we look forward to working with the CDC and the Department of Health and Human Services to address these needs. The bottom line is that through FEMA, we need to fully utilize the existing robust training systems we have in place, that have not yet seen significant support, rather than creating new mechanisms that will perpetuate a disjointed program of Federal assistance. In that way we can make sure that our first responders are well prepared to respond to any attack regardless of cause.

Question. On Sunday April 28, 2002 a tornado touched down in Southern Maryland destroying many homes and businesses in Charles and Calvert Counties. It also caused an estimated $3.5 million in damages to Southern Maryland Electric Cooperatives (SMECO) facilities which serves the entire area. Can you give me a time frame as to when SMECO can expect reimbursement from FEMA and an approximate percentage of recovery?

Answer. Six Project Worksheets (PW) totaling $1,100,358.09 (75 percent Federal Share) were approved and obligated for the SMECO on or before 5/31/02. The majority of these projects were 100 percent completed at the time of the PW preparation and therefore actual eligible costs were reimbursed. There are currently no outstanding issues related to this applicant.

Question. Over the past decade FEMA has stepped in and provided vital support in helping to rebuild local communities and entire regions when natural disasters have occurred. Timely assistance in helping homeowners rebuild, small businesses recover from structural and economic damages, and providing grant assistance for public and cooperatively-owned utilities in order to restore critical infrastructure will be essential to Southern Maryland's recovery. Do you foresee any delays or problems with the State of Maryland's request?

Answer. The incident occurred on Sunday, April 28, 2002, and was declared on Wednesday, May 1, 2002. Tornado damage is normally covered by homeowners' insurance. While the majority of applicants received insurance settlements, FEMA was able to provide disaster housing assistance in the amount of $158,247.60 to 87 eligible applicants. The Individual and Family Grant (IFG) Program provided grant awards for serious unmet needs in the amount of $175,676.00 to 70 eligible applicants. Disaster Unemployment Assistance (DUA) was given to 50 applicants in the amount of $32,618.00. To date, Crisis Counseling grants have been awarded in the amount of $716,617.00. In addition to FEMA assistance, the U.S. Small Business Administration (SBA) has given 106 loans totaling $5,987,600.00 (70 home loans in the amount of $3,268,200 and 36 business loans in the amount of $2,719,400.00).

A total of $1,100,358.09 (75 percent Federal Share) was approved and obligated for Southern Maryland Electric Cooperatives to reimburse them for emergency costs incurred and to restore their infrastructure. All of these funds were obligated by 5/31/02.

SUBCOMMITTEE RECESS

Senator MIKULSKI. God bless you. God bless America. And this hearing stands in recess until next week Wednesday, May 15, when we will listen to the National Science Foundation and the Office of Science and Technology Policy.

[Whereupon, at 11:10 a.m., Wednesday, May 8, 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 2003

WEDNESDAY, MAY 15, 2002

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

The subcommittee met at 9:46 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Barbara A. Mikulski (chairman) presiding.

Present: Senators Mikulski, Johnson, Bond, and Domenici.

NATIONAL SCIENCE FOUNDATION

STATEMENT OF DR. RITA COLWELL, DIRECTOR

ACCOMPANIED BY:

DR. WARREN WASHINGTON, CHAIR, NATIONAL SCIENCE BOARD
TINA BOESZ, INSPECTOR GENERAL

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF SCIENCE AND TECHNOLOGY POLICY

STATEMENT OF JOHN H. MARBURGER III, DIRECTOR

OPENING STATEMENT OF SENATOR BARBARA A. MIKULSKI

Senator MIKULSKI. My colleague, Senator Bond, is on his way from a meeting, but I am going to go ahead and start the hearing and then he will be able to join in his statement, because we have to wrap up as close to 11 o'clock as we can, just because of all of the things going on, on the floor.

So, I want to state that the subcommittee on VA/HUD will come to order. And today we are going to take the testimony for fiscal year appropriations from Dr. Rita Colwell, the Director of the National Science Foundation, who is now approaching her fourth year of her term; and we welcome her.

To Dr. Warren Washington, the new chair of the National Science Board. And, Doctor, I understand that you were just elected by your peers to be the next chairman of the National Science Board, so congratulations and a most warm and cordial welcome to you.

And also we have asked Dr. John Marburger to come, as well. He is the Director of the Office of Science and Technology Policy,

the President's advisor on science. Dr. Marburger, this is your second appearance before this subcommittee. You and Administrator Whitman, the administrator of EPA, testified last year on the Anthrax situation concerning the Hart Building and the Brentwood Mail Facility, in which you helped to get the post office very important and crucial technical assistance. So, we welcome you as well.

In reviewing this year's appropriations requests from the administration, I was really taken aback at what I regard as a rather spartan budget for the National Science Foundation. I really, in the course of our testimony this morning, will want to ask all of you what you think the administration's long-term plan is for scientific research.

Last year—I was disappointed as well in the administration's budget, because it actually cut into research. And everyone from those who are advocating the United States of America maintaining its strategic and competitive edge, to those interested in national security and homeland security, we are all turning to science and technology, and we are turning to scientists to help maximize—to really maximize the human capacity we have in our country.

So looking at this, I was really concerned. Last year, Senator Bond and I worked on a bipartisan basis to increase NSF by 8 percent. It is well known that Senator Bond and I want to double the National Science Foundation. And he and I continue to be committed to that on a bipartisan basis.

And I know he will speak for himself in his usual unabashed way; it is the characteristics of who chairs this committee.

This year's budget sent up by the Administration is a bit better. It does contain a 5 percent increase, but one-third of the increase is made up from programs from other agencies, meaning a transfer of—from NOAA and other agencies. So it is really only 3 percent.

I find this really disturbing in light of: This is the beginning and the dawn of the 21st Century and some of the great institutions created in the last half of the last century are staying—seeing us well.

And I just point to NATO and the National Science Foundation. NATO has helped preserve the peace, bring about the end of a Cold War, has protected both this country and its allies, and was a very crucial institution in this century.

The National Science Foundation was created so that we could advance science and technology, particularly in the civilian sector. Science and technology helped us win World War II, and we knew that it would help win the war of the future, in terms of economics and national security.

So we want to make sure, of course, NATO is strong. But I want the National Science Foundation to be strong and funding the cutting edge research that needs to be done, and bringing along the next generation.

We have to do more than keep up with inflation if we are to expect our scientific enterprise to give us the ability to meet our national and economic security challenges. And, again, I will reiterate that Senator Bond and I want to double this budget.

In order to meet that goal, we would need a 15 percent increase in NSF this year, not 3 percent proposed by the Administration. So we are going to have a tremendous amount of work to do.

In the areas of research, the Administration is proposing transferring three programs from other agencies to NSF. NOAA's Sea Grant program—and Dr. Colwell, I know this is one of your great areas of interest, because of your previous job heading up the Marine Biotech Center at the University of Maryland.

But really, does Sea Grant belong at NSF, or does it stay at NOAA where it has done such an outstanding job over the years? Then there is EPA's environmental education program and, of course, the Administration wants to transfer the U.S. Geological Survey's water quality research program.

To me this is the illusion of creating an increase; this is not an increase. It simply moves the responsibility from one area to another. We want to be able to discuss this.

I do not believe a merger of these programs is warranted—but I do want to hear the justification of the Administration.

I am pleased, however, with proposed increases in information technology, nano-technology and bitechnology. I believe that these are cutting edge, and we will want to discuss these further.

Though in reviewing the basics, which is always the basics, I was disappointed with the funding level of basic science, or the core sciences, to really see that in areas like physics and chemistry that I know you, Dr. Colwell, have said have long been neglected, are really again at—they have gone from spartan to—I am afraid they are on the verge of skimpy.

We can see that the investments in science are yielding results. My colleague here, Senator Bond, has been a very strong advocate of mapping the plant genome. And we see the results of this.

They have completed the genetic map of rice, which, of course, could have untold consequences in terms of world food supply, disease resistance, all of these things. I mean, this is what—you know, this is what we want to be able to help do, not only the practical applications, but the basics, so that even the private sector can value add. This discovery will be a major step, as I said, in preventing world hunger.

Then we look at things like info-tech. That takes us to issues like cyber-security, when just about everything we do relies on a computer network, cyber-attacks could make us very vulnerable in the United States of America.

So, we want to discuss the core science programs and what really is needed to maintain this.

In the area of education, of course, I am interested in the next generation of science. I know that over 40 percent of our PhD's—students studying for PhD's, are from other countries. That is not a xenophobic statement on my part.

But what is happening to our young people? Where are they in science and in engineering and so on?

Well, I know that one of it is that the stipends used were really quite modest and we were able to increase that to $21,500. And I note that this goes a long way to increasing it to $25,000. So in my mind, one of the jobs of NSF is to be bringing along the next gen-

eration, which if it were medicine, it would be interns and residencies and so on.

And this is what we need to be thinking about here, as well as them being attracted to the basic sciences, so we can move ahead in other areas of science and technology.

I am concerned that undergraduate education funding declines by 5 percent and that programs for women and minorities decline by over 7 percent.

I think that is very shortsighted. Then there is the issue of work force readiness. I think it is well-known that I believe, like our Secretary of Labor, Elaine Chao, that we do not have a job shortage in this county; we have a skill shortage. And then that takes us, again, through this.

I will be at a press conference shortly after this on the issues related to the digital divide. So, we are looking at the basics—our basic scientists, our basic research, the future scientists of America. Well, we know that science education really starts at the K through 12 level and even before that.

Finally, we go to NSF management. We want to know what NSF and the National Science Board have done to improve its project and fiscal management of large-scale projects.

We need to understand how NSF sets priorities, particularly among new, major equipment projects and how are they being managed. We need to maintain a strong management focus particularly as—hopefully as the budget increases. This budget proposes a significant increase in salaries and—increases. So, we want to hear from you on that.

Dr. Marburger, also, we welcome you, as we will be asking you: What are the administration's over-arching objectives in science and technology? What is the role of OSTP when it comes to major agency science programs, such as the space station? Does it really do cutting edge research? Where are we going in areas that have specific strategic interest to the United States and, of course, the balance between the life sciences, and physical sciences and engineering science?

We really would like to also know what kind of interagency task forces are going on in the area of science and technology and particularly in the areas of education.

And we will have more to go in on this. I note that my ranking member has arrived. I want to really thank him for his very strong advocacy on the National Science Foundation.

We have worked on a bipartisan basis on this. And I think it is one of the things that we have really enjoyed working together. So Senator Bond, let me turn it over to you.

STATEMENT OF SENATOR CHRISTOPHER S. BOND

Senator BOND. Thank you very much, Madam Chair; I thank you for your kind words. I also thank you for your leadership and I could just say, "Amen, I agree with everything you said," but being this is the United States Senate, I am going to say it anyhow. Because this is an area where we both have a deep personal interest and concern, I want to share with you some of those concerns, some of the optimism, some of the hope.

I apologize to you, Madam Chair, and to the witnesses. I was late. I was on the phone with another friend from the White House talking about VA/HUD issues. It is certainly nice to be popular. They have our phone numbers and I apologize for the delay.

I join in welcoming Dr. Colwell, Dr. Marburger, and Dr. Washington.

Dr. Washington, in your first appearance as the Committee—before the Committee as chair of the National Science Board, I look forward to working with you. You have very big shoes to fill, since Dr. Kelly was very active, very helpful to us and played a major role in boosting NSF's budget.

I also understand that the Inspector General, Dr. Tina Boesz, is here. She has done an outstanding job in reviewing NSF management practices, especially of the large facility project area.

Also, I add a special commendation for the outstanding work of Dr. Bob Eisenstein, who is departing the Foundation at the end of the month. Dr. Eisenstein is a native Missourian, who is in charge of the math and physical sciences directorate at NSF, and leaves a very distinguished record. I wish him the very best and thank him for his great service.

This is our last budget hearing, or at least regularly scheduled hearing in this Committee. But it is very important to us, because it gives an opportunity to talk about the critical role that science and the National Science Foundation, OSTP play in the economic and intellectual growth and in the well-being of the Nation.

According to many economists, over the past half century, advances in science and engineering have stimulated at least half of the Nation's economic growth. Further, investment in scientific research has led to innovative developments in the high-tech industry, most notably the Internet, lasers, and supported notable scientists such as Carl Sagan and John Nash.

And that is why my colleague, Senator Mikulski, and I have led the bipartisan, effort to double NSF's budget. As she has said, unfortunately, we have a long way to go. We do not have the budget recommendation.

And while Federal support in life sciences, specifically NIH, has increased significantly. The combined share of the funding for physical sciences and engineering in the Federal research budget total has actually dropped.

I am very disappointed that the Administration has not demonstrated the same level of support for NSF, as we have continued to argue for NSF and ask Dr. Marburger to help us change the Administration's views about the importance of the physical sciences.

Support for NSF is vital to the research in the bio-medical field, as well. And that is what so many doctors have told me throughout Missouri and throughout the country.

They have been alarmed at the disparity in Federal funding between life science that NIH supports and the physical sciences that NSF mainly supports. Without NSF's supported research and the physical sciences, medical advances will stagnate.

Many medical technologies such as magnetic resonance imaging, ultrasound, digital mammography, genomic mapping, could not have occurred and cannot improve to the next level of proficiency without underlying knowledge from NSF supported work in biol-

ogy, physics, chemistry, math, engineering, and computer sciences. Simply put, supporting NSF supports the work of NIH.

Now, the Federal Government's drop in support of the physical sciences has also alarmed the high-tech industry, because of the significant decline in bachelor degrees in physical sciences. As the chair pointed out, this decline has put our Nation's capabilities for scientific innovation at risk; and equally important, at risk of falling behind other industrial Nations.

The high-tech industry is struggling to find qualified engineers and scientists and, as noted, becoming much more reliant on foreign nationals to fill those positions. That is fine if we can encourage those people to come here and stay here, but when they go home and take their knowledge with them, that is a serious brain drain.

Many notable researchers in the high-tech industry have told me that the shortages of trained American scientists and engineers has limited the growth potential of the electronics and software industries and allowed foreign competitors to catch up to U.S. industry.

To address the shortage of the tech talent in this country, I have joined with Senate colleagues, including Senator Mikulski, Senator Lieberman, Senator Frist, and Senator Domenici, in introducing legislation to improve undergraduate education in math, science, engineering, and technology.

I appreciate the Administration's support of the program and its budget request and hope we can provide more money there this year.

As, again, as the Chair has mentioned, one of my specific areas of interest is plant biotechnology. I strongly believe that biotechnology, namely the plant genome research, is critical in maintaining the long-term sustainability and competitiveness of our Nation's agriculture. In particular, NSF's plant genome program has generated exciting possibilities for improving human health and nutrition.

It can be a very powerful tool for addressing hunger in many third-world countries, as well as improving our own environment and our own nutrition values in food.

Now, while I would prefer to spend more minutes highlighting the importance of scientific endeavors, such as the plant genome, I need to raise some questions about the Foundation's management.

As you all know, I am a big advocate for the Foundation. But my enthusiasm for boosting the NSF's budget runs into problems when we have management problems.

In the inspector general's written testimony submitted for this hearing, she found three significant management problems related to post-award management, work force planning, and most notably, large facility project management. These findings are troubling, especially since these issues are not new and are not difficult to resolve.

The most troubling management issue is NSF's management and oversight in large research facilities. At my request, the I.G. audited NSF's funding and management of major research equipment and facilities, and recently issued its final report on May 1.

The I.G. report noted that the Foundation has made some effort to improve its management and oversight of large facilities; however, the I.G. found that the lack of adequate guidance "have allowed NSF to use multiple appropriation accounts to fund the acquisition and construction costs of major research and equipment and facilities, and led to inconsistency in the types of costs funded through the MRE account."

Unbeknownst to the science board and Congress, NSF practices have resulted in significant cost overruns and cannibalization of funds from other worthy research projects. For example, the I.G. report found that NSF's contribution to the Large Hadron Collider project would exceed its budgeted amount by $59 million or 73 percent. According to the I.G.'s report, this practice seems to be common in other large facility projects.

This report confirmed my fears about the oversight of NSF's large facilities. It appears that once the money is out the door, too little follow-up occurs.

Now, NSF has taken some important steps, such as developing a management and oversight plan, but much more needs to be done and needs to be done very promptly. I've seen how mismanagement often leaves other agencies open to budget cuts and NSF would not be immune.

Related to this issue is my concern about the Foundation's process for prioritizing its large facility projects. I have recently asked my staff to begin discussions with the National Academy of Sciences to see if the Academy could provide us some guidance on how NSF can better prioritize its numerous large facility projects.

I plan to pursue this matter and hope that the Science Board and the Foundation can work with us and we can develop a better plan.

Lastly, I need to express my concern about the proposed national underground science laboratory at the Homestake Mine in South Dakota. Since I first became involved with this subcommittee, I have defended the peer review system.

However, despite my remarks—or remarks made by the lab's political advocates that the Homestake project will be judged solely on the scientific merits, I am skeptical. I fear that the peer review system is in danger and that political pressure may prevail.

I have been concerned about the project ever since the Homestake Identification Bill was forced through Congress last year. I believe that the passage of the indemnification bill has tainted what could otherwise be a scientific worthy project. The bill has created a dark cloud around the Homestake Mine project, due to the dangerous legal, budgetary, and policy implications it may create.

And it could be, unfortunately, a great, big, black hole in the ground where we pour research dollars badly needed in other areas.

This very costly program may be largely redundant since there are already sophisticated neutrino labs in Canada and Europe. I urge NSF and the Science Board to review this project carefully and I assure you I intend to monitor it carefully as well.

With that, I thank the Chair for her indulgence. I have a lot to say, because this is a very important agency to me.

Senator MIKULSKI. Yes, absolutely.

Senator Johnson, did you want to have an opening statement or any remarks?

STATEMENT OF SENATOR TIM JOHNSON

Senator JOHNSON. Well, Madam Chairman, I will submit an opening statement. I want to expedite the opportunity to listen to this panel.

I would make just a very brief observation. One is just that I want to express my enthusiasm for Federal science and technology investments, despite the fact that my own State of South Dakota ranks 52nd in Federal expenditures in research and development, dead last behind the District of Columbia and Puerto Rico.

And I share your support for higher education, NSF stipends. I benefitted, myself, as a graduate student from an NSF grant.

I want to express strong support for the EPSCoR program, which has done a great deal to help small States develop the research infrastructure that they need to have at their colleges and universities. And lastly, I want to observe that a panel of experts convened by the NSF recommended the Home Stake Gold Mine as a potential site for a national underground science laboratory.

That assessment was conducted by scientists who evaluated the proposals on the merits, and the subsequent proposal is now before the NSF for further consideration and peer review.

I appreciate that the future of the proposal be determined by its scientific merit. And I do not believe the South Dakota delegation, the bipartisan delegation effort to make sure that the Home Stake Mine as an option is inappropriate political intervention.

We have had to work with the Home Stake Mining Company to see that they do not flood this unique resource, an 8,000-foot shaft, so that it remains an option. But the Congressional delegation from South Dakota has no intention of intervening and otherwise pressuring or causing the selection process that would involve anything other than scientific peer review on its merits.

We have worked on a parallel track to ensure that the research opportunities of mining are available, should the NSF and the National Science Board recommend proceeding with such an initiative. And I want to thank Madam Chairman for her work in that regard to allow us to preserve this as an option. But that is the extent of the Congressional involvement in this NSF project, and it is my hope it will go forward untainted by any political concerns, and that the base science in the end wins out.

So thank you, Madam Chairman, and I will submit a more complete statement for the record.

Senator MIKULSKI. Thank you, Senator Johnson.

Senator JOHNSON. Oh, I would observe that, unfortunately, I have a conflicting obligation involving a foreign trade delegation and I am going to have to leave much sooner than I would otherwise like. But I do want to welcome the panel. And I appreciate their working with this subcommittee. Thank you

Senator MIKULSKI. Let us now turn to our witnesses. And the way we would like to proceed is first to Dr. Colwell, then to Dr. Washington; and then Dr. Marburger, we are going to ask you to be the wrap up.

I am going to ask unanimous consent that your written statements be included in the record. I know you have—each have oral statements. And in the interest of time, just presume that you have all been introduced and proceed, kind of like you are defending your dissertation, okay?

Dr. COLWELL. Thank you, Chairwoman Mikulski, Senator Bond, and members of the committee. Thank you for providing the opportunity to discuss the President's budget request for the National Science Foundation.

Before I begin, I would just like to say that we are thrilled to have Dr. Warren Washington, the newly elected chair of the National Science Board here with us. And with your permission, I would ask that Dr. Washington be permitted to address the committee.

So, Dr. Washington.

STATEMENT OF DR. WARREN WASHINGTON

Dr. WASHINGTON. Thank you. First of all, I would like to say, Madam Chair and to Ranking Member Bond, and the members of the subcommittee, I appreciate having the opportunity to testify before you as chair——

Senator MIKULSKI. Dr. Washington, would you pull that microphone closer?

Dr. WASHINGTON. Okay.

Senator MIKULSKI. Thank you.

Dr. WASHINGTON [continuing]. As chair of the National Science Board. I am Warren Washington, senior scientist and section head of the climate change research section of the National Center for Atmospheric Research.

On behalf of the science board, I thank the subcommittee for its sustained commitment to a broad portfolio of investments in science, mathematics, engineering and technology research and education. These investments contribute to our Nation's long-term security and economic vitality, and to the well-being of all Americans.

The National Science Board has approved and supports the National Science Foundation's budget request for fiscal 2003. The 5 percent increase in funding will allow NSF to continue to nurture people, ideas, and tools needed to generate new knowledge and new technologies.

Among the important initiatives that this budget includes are priorities for science and engineering work force, mathematical and statistical science research that will advance interdisciplinary science and engineering, and research in the social, behavioral and economic sciences to explore the complex interactions between technology and society.

The NSF director, Dr. Rita Colwell, will discuss these and other specifics of the budget request in her testimony.

Among the Federal agencies, NSF has the unique mission of advancing the Nation's health, prosperity, and welfare by supporting basic research and education in all fields of science and engineering.

NSF programs support new discoveries and innovative educational programs at all levels. NSF funded research and education

are critical to sustaining United States strength in science and technology, which is a key element of national security.

Revolutionary advances such as those in information technology, nano-technology, materials and biotechnology, remind us that such breakthroughs with promising benefits to the economy, the work force, education, health, and national security require long-term, high-risk investments.

Despite wide-spread recognition of the benefits that flow from federally supported research, as a Nation, we are seriously underinvesting in basic research. In our $10 trillion gross domestic product, the Federal Government budgets $24 billion to basic research, which represents one-fourth of 1 percent of the gross domestic product.

Of the $24 billion, NSF receives $3 billion to support cutting edge science. It is estimated that the NSF proposals, representing another $5 billion, are worthy of investment if funds were available.

Achieving a balanced portfolio in the basic sciences is as important as the quality and quantity of the research funded. For example, as Congressional leaders and others have pointed out, the success of the National Institutes of Health's efforts to find cures for deadly diseases depends heavily on the underpinning of basic research supported by NSF.

In addition to providing oversight to NSF, the board provides advice to the President and Congress on matters of science and engineering policy. I would like to mention some of our current activities related to major issues affecting the health of the science and engineering enterprise.

The level of Federal investment is crucial to the health of the science and engineering enterprise. Equally crucial is how effectively that investment is made. The growing opportunities for discovery and the inevitable limits on Federal spending mean that hard choices must be made and priorities set.

In its recent report, "Federal Research Priorities, A Process for Setting Priorities," the board offers its recommendations for a more effective budget process, including an improved information base and a process for allocating Federal funding to research.

The conduct and the communication and the use of science are intrinsically global. The collaborations and international partnerships contribute to addressing a broad range of international problems and help build more stable relations among Nations.

In its recent report "Towards A More Effective Role for the U.S. Government in International Science and Engineering," the board recommends that the Federal Government increase the effectiveness of its coordination activities, increase international cooperation, especially with developing countries and by younger scientists, and improve the use of science and engineering information in dealing with global issues.

An area of constant concern for the NSF and the board is the quality and the adequacy of infrastructure to enable scientific discoveries in the future. The rapidly changing environment of new knowledge, new tools, and new information capabilities has created a demand for more complex and more costly facilities for scientific research. A board task force is assessing the changing needs and

strategies to ensure that the Nation will have the infrastructure to sustain cutting-edge science and engineering research.

We expect to receive the task force's preliminary findings this summer.

For the U.S. leadership in science and engineering, there is no more important an issue than the development of a skilled technical work force. As a Nation, we are not attracting the number of science and engineering students our Nation needs to sustain its leadership, nor are we successfully tapping all of our domestic resources, especially the under-represented minorities and women.

A board task force is considering policy options for ensuring an adequate science and engineering work force for the future. We anticipate receiving the task force's report by the end of the year.

Madam Chair, at this point I would like to close my formal remarks. I thank the subcommittee for its long-time support of science—for the science community, especially the National Science Foundation, and for allowing me to comment on significant national policy concerns, as well as on the foundation's budget. Thank you.

[The statement follows:]

PREPARED STATEMENT OF DR. WARREN WASHINGTON

Madame Chair, Ranking Member Bond, and members of the Subcommittee, I appreciate having the opportunity to testify before you as Chair of the National Science Board. I am Warren Washington, Senior Scientist and Section Head of the Climate Change Research Section at the National Center for Atmospheric Research.

On behalf of the National Science Board, I thank the Subcommittee for its sustained commitment to a broad portfolio of investments in science, mathematics, engineering, and technology research and education. These investments contribute to our Nation's long-term security and economic vitality and to the well being of all Americans.

The National Science Foundation's Budget Request

The National Science Board has approved and supports the National Science Foundation's budget request for fiscal year 2003. The 5 percent increase in funding will allow NSF to continue to nurture the people, ideas, and tools needed to generate new knowledge and new technologies. Among the important initiatives that this budget includes are priorities for the science and engineering workforce; mathematical and statistical science research that will advance interdisciplinary science and engineering; and research in the social, behavioral, and economic sciences to explore the complex interactions between technology and society. The budget continues support for the Math and Science Partnership program; increases funding for the Foundation's six priority areas, which have the potential of enormous payoff for the Nation; and provides a much-needed increase in annual stipends for graduate fellows in a critical investment, the future U.S. science and engineering workforce. The NSF Director, Dr. Rita Colwell, will discuss these and other specifics of the budget request in her testimony.

As this Committee recognizes, NSF is a major contributor both to scientific research and science education. Federal investments in the basic sciences through NSF have produced new discoveries and new technologies essential to our national security and economic prosperity. In addition, NSF supports innovative education programs from pre-kindergarten through graduate school, preparing the next generation of scientists and engineers and contributing to a more scientifically literate workforce and society.

Each year NSF evaluates, primarily through external peer review, 32,000 proposals from 2,000 colleges, universities, and institutions. The value of the proposals is approximately $16 billion. NSF annually makes 10,000 awards, totaling nearly $3 billion, in a highly competitive merit review process. It is estimated that NSF proposals representing an additional $5 billion are worthy of investment if the funds were available.

The Health of the Science and Engineering Enterprise

The new knowledge and technologies emerging today are a tribute to Federal research investments made years ago in a spirit of bipartisanship. When those investments began, no one could foresee their future impact. Revolutionary advances such as those in information technology, nanotechnology, materials, and biotechnology remind us that such breakthroughs with promising benefits to the economy, the workforce, our educational systems, and national security require long-term, high-risk investments. Among Federal agencies, NSF has the unique mission of advancing the Nation's health, prosperity, and welfare by supporting research and education in all fields of science and engineering. NSF plays a critical role in supporting new discoveries and knowledge as well as innovative educational programs at all levels. NSF-funded research and education are critical to sustaining U.S. strength in science and technology, a key element of national security.

Despite widespread recognition of the benefits that result from federally supported scientific research, as a Nation, we are seriously under-investing in basic research. In our $10 trillion Gross Domestic Product, the Federal Government budgets $24 billion to basic research, which represents one-fourth of 1 percent of the Nation's Gross Domestic Product. Of the $24 billion, NSF receives $3 billion to support cutting-edge science and the search for new knowledge.

Achieving a balanced portfolio in the basic sciences is as important as the quality and quantity of research funded. For example, as Congressional leaders and others have pointed out, the success of the National Institutes of Health's efforts to find cures for deadly diseases depends heavily on the underpinning of basic research supported by the National Science Foundation.

National Science Board Policy Studies

In addition to providing oversight to NSF, the Board provides advice to the President and the Congress on matters of science and engineering policy. I would like to mention some of our current activities related to major issues affecting the health of the science and engineering enterprise.

FEDERAL INVESTMENT IN SCIENCE AND ENGINEERING

The level of Federal investment is crucial to the health of the science and engineering enterprise. Equally crucial is how effectively that investment is made. The growing opportunities for discovery and the inevitable limits on Federal spending mean that hard choices must be made and priorities set.

In its recent report, Federal Research Resources: A Process for Setting Priorities, the Board offers its recommendations for a more effective budget process, including an improved information base and a decision-making process for allocating Federal funding to research. The Board's conclusions are based on reviews of the literature on budget coordination and priority setting for public research and invited presentations from and discussions with representatives of the Office of Management and Budget, the Office of Science and Technology Policy, the Federal research and development agencies, congressional staff, high-level science officials from foreign governments, experts on data and methodologies, and spokespersons from industry, the National Academies, research communities, science policy community, and academe.

U.S. GOVERNMENT ROLE IN INTERNATIONAL SCIENCE AND ENGINEERING

In the 21st century, advances in science and engineering will to a large measure determine economic growth, quality of life, and the health and security of our planet. The conduct, communication, and use of science are intrinsically global. New ideas and discoveries are emerging all over the world and the balance of expertise is shifting among countries. Collaborations and international partnerships contribute to addressing a broad range of international problems. They also contribute to building more stable relations among nations by creating a universal language and culture based on commonly accepted values of objectivity, sharing, integrity, and free inquiry. The Federal Government plays a significant role in promoting international science and engineering activities and supporting research with international dimensions.

In its recent report entitled Toward a More Effective Role for the U.S. Government in International Science and Engineering, the Board concludes that new approaches to the management and coordination of U.S. international science and engineering activities are needed if the United States is to maintain the long-term vitality of its science and engineering enterprise and the vitality of its economy. The Board recommends that the Federal Government (1) increase the effectiveness of its coordination of international science and engineering activities, (2) increase international cooperation in fundamental research and education, particularly with de-

veloping countries and by younger scientists and engineers; and (3) improve the use of science and engineering information in foreign policy deliberations and in dealing with global issues and problems.

U.S. SCIENCE AND ENGINEERING INFRASTRUCTURE

An area of constant concern for NSF and the Board is the quality and adequacy of infrastructure to enable scientific discoveries in the future. The rapidly changing environment of new knowledge, new tools, and new information capabilities has created a demand for more complex and more costly facilities for scientific research.

A Board task force is assessing the current status, changing needs, and strategies needed to ensure that the Nation will have the infrastructure to sustain cutting-edge science and engineering research. We expect to receive the task force's preliminary findings this summer.

NATIONAL WORKFORCE POLICIES FOR SCIENCE AND ENGINEERING

For U.S. leadership in science and engineering, there is no more important issue than the development of a skilled technical workforce. As a Nation, we are not attracting the numbers of science and engineering students our Nation needs to sustain its leadership. Nor are we successfully tapping all our domestic resources, especially under-represented minorities and women. The pool of potential science and engineering students will increasingly reflect the growing diversity in the American workforce and society.

A Board task force on workforce policies for science and engineering is reviewing U.S. workforce needs, the role of foreign students and workers, and policy options for ensuring an adequate science and engineering workforce for the future. We anticipate receiving the task force's report by the end of this year.

Madame Chair, at this point I would like to close my formal remarks. I thank the Subcommittee for its long-time support of the science community, especially the National Science Foundation, and for allowing me to comment on significant national policy concerns, as well as on the Foundation's budget request.

Senator MIKULSKI. Thank you very much, Dr. Washington.

Dr. Colwell.

STATEMENT OF DR. RITA COLWELL

Dr. COLWELL. I would—will continue, Madam Chair. Every year, the foundation's optimal use of limited public funds has relied on two conditions. One is ensuring that our research and education investments are aimed and continuously re-aimed at the frontiers of understanding, and then certifying every dollar goes to competitive merit reviewed and time limited awards with clear criteria for success.

NSF has been proactive in implementing the President's management agenda, and we welcome—and we will apply input from many sources to continuously improve the way we manage programs at NSF.

As an aside, I would say that NSF is, by far, the leading agency in the world and looked to by other countries in following the procedures that we have developed.

When these conditions are met, our Nation gets the most intellectual and economic leverage from its research and education investment. The National Science Foundation is requesting $5.036 billion for fiscal year 2003, $240 million or 5 percent more than the previous year.

For the United States to stay on the leading edge of discovery and innovation, we cannot do less. Before providing a few highlights of the budget, let me stress that the priority setting process at NSF results from continual consultation with the research community.

New programs are added or enhanced only after seeking the combined expertise and the experience of the science and engineering community, the Director, the Deputy Director and the National Science Board.

Programs are initiated or enlarged based on consideration of their intellectual merit, the broader impacts of the research that is done, the importance to science and engineering for the United States and balance across fields and disciplines, as well as synergy with research and other agencies and other Nations.

NSF coordinates its research with our sister research agencies informally by program officers being actively informed of other agencies' programs and formally through interagency agreements that spell out the various agency roles in research activities.

Moreover, through our committee of visitors process, there is continuous evaluation. There is feedback of information on how the NSF programs are performing. One of the highlights of the budget of this year is the second installment of $200 million for the national 5-year, $1 billion Math and Science Partnership Program, the President's program, which we heartily and thoroughly endorse.

The program links local schools with colleges and universities to improve pre-K to 12 math and science education, trains teachers, and to create innovative ways to raise the performance of all students and schools.

An investment of approximately $37 million will increase the annual stipends for graduate fellows to $25,000, to attract more of the Nation's most promising students in science and engineering. I would like to thank the Chair and Senator Bond for your support of graduate student fellowships.

The budget also includes funding for six priority areas, including $221 million for nano-technology research, fundamental and important for our country; $286 million for information technology research; and $60 million as part of the new priority area in mathematical and statistical sciences research that will ultimately advance interdisciplinary science and engineering.

We will direct $185 million to the NSF's Learning for the 21st Century Work Force priority area, including $20 million to fund three or four new multi-disciplinary, multi-institutional Science of Learning Centers to enhance our understanding of how we learn, how the brain stores information, and how we can best use the new information technology to promote learning in our classrooms.

We are also requesting $10 million to seed a new priority area in the social, behavioral, and economic sciences to explore the complex interactions between new technology and society, so that we can better anticipate and prepare for their consequences.

Finally, the budget requests $79 million for research on bio-complexity and the environment. Now, this builds on the past investments to study the remarkable, the dynamic web of interrelationships that arise when living things at all levels interact with their environment. Research in two new areas this year as part of biocomplexity are the microbial genome sequencing and the ecology of infectious diseases that will help us develop strategies to assess and manage the risks of infectious diseases, invasive species, and biological weapons.

I should add that as part of the Administration's new multi-agency Climate Change Research Initiative, we will implement a $15 million research program to advance understanding in highly focused areas of climate science to reduce uncertainty and facilitate policy decisions.

Our budget also includes $76 million for programs slated to be transferred to NSF from NOAA, EPA, and the USGS. I want to assure the committee that NSF has been working closely with these agencies to develop plans for implementing these transfers, should they be approved by Congress.

In large facilities, we will continue support for the next phase of construction for the Atacama Large Millimeter Array, ALMA. New construction projects in fiscal year 2003 include two prototype sites for the National Ecological Observatory Network, NEON, at a cost of $12 million to analyze data to detect abrupt changes or long-term trends in the environment.

The budget also requests $35 million for EarthScope to detect and investigate earthquakes, volcanic eruptions, and landslides on the North American continent.

The events following September 11 demonstrated our capacity—the National Science Foundation's capacity to engage the research community in ways that are immediately responsive to national needs. We owe this flexibility to a highly trained scientific and engineering work force that's capable of selecting the most interesting, the most challenging problems for their research.

It is this flexibility, enabled by the merit review system, that makes ours a model of scientific support that is clearly the envy of the world. Madam Chair, I thank you for allowing me to include a copy of the NSF budget summary as part of my testimony and I will be pleased to respond to any questions that the committee may have. Thank you.

[The statements follow:]

PREPARED STATEMENT OF DR. RITA R. COLWELL

Chairwoman Mikulski, Senator Bond, and Members of the Committee, thank you for providing this opportunity to discuss the President's budget request for the National Science Foundation.

Every year, the Foundation's optimal use of limited public funds has relied on two conditions: Ensuring that our research and education investments are aimed—and continuously re-aimed—at the frontiers of understanding; and certifying that every dollar goes to competitive, merit-reviewed, and time-limited awards with clear criteria for success.

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Before providing a few highlights of the budget, let me stress that the priority setting process at NSF results from continual consultation with the research community. New programs are added or enhanced only after seeking the combined expertise and experience of the science and engineering community, the Director and Deputy, and the National Science Board. Programs are initiated or enlarged based on considerations of their intellectual merit, broader impacts of the research, the importance to science and engineering, balance across fields and disciplines, and synergy with research in other agencies and Nations. NSF coordinates it its research with our sister research agencies both informally—through the active monitoring by program officers of other agencies' programs—and formally, through more than 150 MOUs and Interagency Agreements that spell out the various agency roles in research activities.

One of the highlights of the budget is a second installment of $200 million for the national 5-year, $1 billion Math and Science Partnership Program. The program links local schools with colleges and universities to improve pre-K–12 math and science education, train teachers, and create innovative ways to raise the performance of all students and schools.

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Madam Chair, if there are no objections, I would like to include a copy of the NSF budget summary as part of my testimony, and I would be pleased to respond to any questions that the committee may have.

PREPARED STATEMENT OF DR. CHRISTINE C. BOESZ

Madam Chair, Senator Bond, and distinguished members of the Subcommittee, I am Dr. Christine Boesz, Inspector General at the National Science Foundation (NSF). I appreciate the opportunity to appear before you today. As you know, NSF continues to be an innovative agency dedicated to maintaining American leadership in the discovery and development of new technologies across the frontiers of scientific and engineering research and education. NSF 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. Because the scientific enterprise and its underlying basic research are everchanging, NSF continuously faces new challenges. Consequently, my office is working closely with NSF management to identify and address issues that are important to the success of the Agency. Today I would like to provide an update on the status of NSF's progress in three areas critical to its success: post-award management, workforce planning, and large facilities management.

POST-AWARD MANAGEMENT

NSF's primary mission is to fund extramural research and education activities that will advance science and engineering. Over 95 percent of NSF's fiscal year 2002

budget is in support of these activities, which are funded primarily through grants and cooperative agreements. The Agency's scientific directorates and offices have a shared responsibility with the Office of Budget, Finance, and Award Management to oversee the financial and programmatic management of these awards. Because of its enormous impact on NSF's daily operations, for the past 2 years I have identified award administration as one of NSF's top ten management challenges.[1]

In addition, during the most recent annual audit of NSF's financial statements, our external auditors identified, as a reportable condition, weaknesses in NSF's internal controls over the financial aspects of post-award management.[2]

The auditors found that, while NSF has a robust system of award management over its pre-award and award phases, it needs to develop a more rigorous, risk-based monitoring program for the post-award phase. In addition, NSF needs to significantly improve its current policies and procedures for the valuation and tracking of its assets, including facilities and equipment held and maintained by other entities.

NSF management agrees that award administration is one of NSF's top management challenges, but disagrees that it should be classified as a reportable condition for the purposes of financial statement reporting. Nevertheless, NSF is working to continuously improve its business processes by refining its award management procedures to include a more structured, risk-based monitoring element. Further, NSF is taking steps to improve its oversight of assets for which it holds title.

In support of these efforts, my office is currently conducting a review of best practices in grant award administration to assist NSF in addressing this audit finding and meeting its management challenge. We are looking at organizations in both the public and private sectors that dispense and administer financial assistance awards, and we plan to issue our report by the end of the year. In addition, we will continue to assess NSF's overall progress in developing a more effective post-award management system.

WORKFORCE PLANNING

Despite an increasing workload and a budget that has grown from $1 billion to $5 billion over the past 20 years, the number of full-time equivalent positions (FTEs) at NSF has remained relatively static.[3] In addition, NSF, like much of government, is vulnerable to a wave of retirements in key areas. Because of these concerns, I identified workforce planning and training as another management challenge for NSF.[4]

The strategic management of human capital is a major component of the President's Management Agenda[5] and has been identified by the Government Accounting Office (GAO) as posing a significant risk government-wide.[6] Last year, this Subcommittee requested that my office analyze the adequacy of the agency's staffing and management plans in light of the efforts to expand NSF's budget over the next 5 years.[7] In response to that request, my office has performed a review of NSF's workforce planning activities.

NSF's workforce planning to date, like that of most Federal agencies, has largely been confined to stating broad goals and standards. It falls short of an actionable plan, which requires specific objectives, clearly assigned responsibilities, well-defined milestones for discrete actions, and practical measures of effectiveness for accountability. However, NSF is in the process of contracting for a multi-year business

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[1] 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 (January 30, 2002) (on file with the National Science Foundation Office of Inspector General) [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) (on file with the National Science Foundation Office of Inspector General) [hereinafter 2000 Management Challenges].

[2] Auditor's Report, fiscal year 2001 National Science Foundation Financial Statement Audit, (January 18, 2002).

[3] Compare NSF's fiscal year 1983 Budget Request to Congress with NSF's fiscal year 2001 Budget Request to Congress. Between 1983 and 2001, FTEs increased by less than 2 percent, from 1200 to 1220.

[4] 2001 Management Challenges and 2000 Management Challenges, supra note 1.

[5] Executive Office of the President of the United States, the President's Management Agenda: Fiscal Year 2002 (Aug. 2001).

[6] High-Risk Series: An Update, GAO–01–263 (2001); Human Capital: Meeting the Government-wide High-Risk Challenge, GAO–01–357T (2001).

[7] S. REP. NO. 107–43 (2001).

analysis of its operations that will include a human capital management plan component identifying its future workforce requirements.[8]

While it may be premature to attempt a meaningful assessment of future workforce planning at NSF, due to the imminent launch of the Agency's ambitious business analysis initiative, I can offer some preliminary conclusions. I believe that the Agency's proposed business analysis, if diligently conducted by the contractor and properly overseen by NSF, represents a comprehensive and rigorous approach to reviewing NSF's primary operations and the human resources needed to staff them. It has the potential to generate an actionable plan that will help NSF identify and meet its current and future workforce needs, as well as plan ways to head off future problems. The ultimate value of the initiative, of course, will be determined by the validity of the findings of the business analysis and the actions that NSF takes pursuant to them. Given NSF's investment in time and resources, I look forward to substantial, concrete results that will improve the agency's business processes, including workforce planning and management.

LARGE FACILITIES MANAGEMENT PLAN

NSF's management of large facility projects is another issue that I have identified as one of the Agency's top ten management challenges.[9] In response to the President's Budget Blueprint,[10] increased scrutiny from the Office of Management and Budget (OMB) and the Congress, and recommendations from my office, NSF developed a Facilities Management and Oversight Plan (Plan) last fall.[11]

As part of its implementation, the Plan calls for significantly upgrading the current procedures and guidelines for oversight and management of large facility projects. The implementation has been slower than originally anticipated, and recruitment of a new Deputy Director for Large Facility Projects is now expected to be completed this summer. However, despite the delay, I am encouraged by recent progress. Last month, members of the team charged with drafting the new guidelines and procedures briefed my office on their progress, and I am pleased to see NSF is on track for full implementation later this year.

To assist NSF in carrying out this plan, we have identified additional ways that NSF can enhance its policies and procedures to provide a more robust facilities management system.

During our audit of the Major Research Equipment (MRE) appropriation account, which was requested by this Subcommittee, we found several areas that NSF needs to address to continue improving its management and oversight for large projects and facilities. My office issued a report responding to your request earlier this month.[12] We found that questionable practices discovered during our audit of the Gemini project[13] have occurred in other MRE-funded projects as well. NSF's existing policies and procedures have led the Agency to apply funding sources inconsistently among these projects and fail to account for each project's total cost.

As a result of these findings, we have recommended that NSF revise its financial management policies and procedures to ensure that it identifies the full cost of major research equipment and facilities and improves its administration of MRE accounts.

NSF should be able to incorporate these improvements into its current efforts to implement the large facilities Plan.

Finally, the MRE account provides funding for two distinctly different types of projects: those that invest in state-of-the-art, scientific tools for research and the development of new knowledge and ideas; and those that support the investment in mission critical property, plant, and equipment (PP&E) owned by NSF. The latter provide the facilities and logistical means for a broad range of science endeavors, primarily in NSF's Polar Programs. Both types of projects require effective management, i.e., planning, budgeting, construction oversight, and risk management, to ensure that these multimillion-dollar projects proceed on schedule, stay within budget,

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[8] NSF has issued a Request for Quotations for a multi-year business analysis of its operations, including a comprehensive human capital management plan. NSF expects to award this contract, which is estimated at $15 million over a 3 to 4 year period, next month. RFQ Number CPO 020027.

[9] 2001 Management Challenges and 2000 Management Challenges, supra note 1.

[10] Executive Office of the President of the United States, A Blueprint for New Beginnings: A Responsible Budget for America's Priorities 161 (Feb. 2001).

[11] National Science Foundation, Large Facility Projects Management & Oversight Plan NSB–01–153 (Sept. 2001).

[12] Office of Inspector General, National Science Foundation, Audit of Funding for Major Research Equipment and Facilities, Report No. 02–2007 (May 1, 2002).

[13] Office of Inspector General, National Science Foundation, Audit of the Financial Management of the Gemini Project, Report No. 01–2001 (Dec. 15, 2000).

and perform as expected. Both also require full-cost accounting in accordance with Federal accounting standards.

But funding these types of projects from a single appropriation account creates a situation where the replacement, renovation, and upkeep of assets critical to the safety and health of researchers and their support personnel could potentially compete with new scientific tools for limited funding. In updating its large facilities policies and procedures, therefore, NSF should (1) plan and prioritize the mission critical PP&E projects separately from the development and construction of research tools and (2) distinguish their different funding sources, to avoid possible negative impact on the broad range of programs these assets support. More specific accounting will reduce confusion about how funds are being allocated, improve the accuracy of budget planning, and allow more effective monitoring of the use of funds.

I am pleased to see NSF addressing large facility management through the development of this Plan. As the guidelines and procedures are fully developed and implemented, my office will continue to assess this critical area and recommend further enhancements where necessary. We share the same goal—efficient and effective management of these large and complex projects—and I look forward to assisting NSF in realizing this goal.

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

CONTACT INFORMATION

For information about this statement, please contact Dr. Christine C. Boesz at 703–292–7100 or cboesz@nsf.gov.

Senator MIKULSKI. Thank you very much, Dr. Colwell.

Dr. Marburger, please.

STATEMENT OF JOHN H. MARBURGER III

Dr. MARBURGER. Madam Chairman and members of the subcommittee, I am pleased to appear before you today. And I ask that my written testimony, which described OSTP's budget and highlights of the Administration's fiscal year 2003 R&D budget request, be included for the record.

Senator MIKULSKI. So ordered.

Dr. MARBURGER. As you well know, the terrorist attacks on September 11th dramatically changed the context for this budget. The attacks laid bare vulnerabilities in our physical security and exacerbated weaknesses in our economy.

The priorities of the Nation drastically changed in a matter of a few hours. And this budget reflects the change in priorities and three primary goals, winning the war on terrorism, protecting the homeland, and reviving our economy.

Recognizing that science must play a role in these priorities, the President provides for an unprecedented level of investment in Federal R&D, marking the first time in history that a President has requested an R&D budget greater than $100 billion. It is $111.8 billion, up eight points—8 percent overall from the previous fiscal year. This is the largest requested increase for R&D in over a decade.

I cannot emphasize enough how dedicated the Administration is to working with you to see this R&D budget enacted.

Madam Chairman, I believe you and I share a commitment to keeping America the world's leader in science and technology, and I hope you agree that OSTP plays a vital role in leveraging the government's science and technology investments for broad national goals.

Our small staff advises the President on fast breaking science and technology developments. We coordinate the work of the R&D agencies to ensure that we get the biggest bang for our science and technology bucks, and we promote strategic partnerships among science and technology stake holders including State and local government, industry, the academic sector, and various international players as well.

We bring real value added to the national science and technology enterprise, and I have two examples in my oral testimony that I would like to give that provide a sense of breadth of our scope.

The two examples are the Administration's initiative on nanotechnology, an interagency committee, and our efforts to improve mail security in response to the anthrax contamination, a relatively new type of function for our office.

As you know, Madam Chairman, OSTP was deeply involved in the formation of the multi-agency, national nano-technology initiative. And your help was key to its implementation. OSTP, through the auspices of the National Science and Technology Counsel, convened an interagency working group to look into the feasibility of a nano-technology initiative for fiscal year 2001.

This subcommittee continues to provide the important interagency coordination and long-range planning for Federal research and nano-scales science and engineering and technology. These ongoing efforts have culminated this year in providing the nano-technology initiative with a 17 percent increase in funding, bringing the total effort to $679 million distributed among nine Federal agencies.

This $100 million increase over last year's budget will accelerate long-term research in the manipulation of matter down to the atomic and molecular levels, increasing our understanding of fundamental building blocks for both material and microscopic devices. Research at the nano-scale promises revolutionary advances in pharmaceuticals, more efficient manufacturing, higher performance materials, faster computers and networks, and a cleaner environment.

Priority research areas for this year will range from research to enable efficient nano-scale manufacturing to innovative nano-technology solutions for the detection of and protection from bio, chemical, and radiological explosive agents.

Roughly 70 percent of the funding proposed under the initiative continues to go to university-based research. These investments will help provide the education and training of a new generation of workers for future industries and partnerships to enhance industrial participation in the nano-technology revolution.

Another quite different example of the diverse work of OSTP is our response to the anthrax contamination last fall. As I previously testified to, the office of homeland security requested that our office help resolve this issue. We assembled an irradiation technical team on short notice, which performed experiments at the U.S. Postal Service irradiation facilities to optimize the proper configuration of mail and to ensure the proper dose of sterilizing radiation is delivered.

This team, which is still in existence, updates OSTP bimonthly and offers recommendations to the postal service to refine the irra-

diation process. We have added experts for the—from the Centers for Disease Control and Prevention on—to conduct ongoing experiments that have helped to eliminate some of the negative effects of irradiation.

The ability of OSTP to coordinate rapidly the many Federal agencies involved in these issues allowed the generation of scientific data from which recommendations were made to the postal service within 1 month of the original contamination.

While irradiation of the letters and flat mail solves one set of problems, irradiation may not be the answer for parcels and packages due to irregularities in thickness and density.

OSTP has formed an ethylene-oxide technical team, with support from the Department of Justice, experts from FDA, EPA, AFRE, CIA, OSHA, U.S. Postal Service, have designed and are conducting experiments to test the ability of this ethylene to oxide gas to sterilize packages.

The recommendations from this technical team will be presented to the postal service, and will include guidelines and parameters, by which to document the sterility of the packages and protect critical contacts from harm.

While our work on nano-technology and mail irradiation are just two examples of the outstanding work that OSTP does for the Nation, over the past year, we have also played a critical role in developing coordinated interagency budgets and policies in the areas of the homeland security, plant genome, food safety, networking and information technology, educational research, as well as others.

I ask today for your continued support of OSTP's role in coordinating science and technology policy for the executive branch for our Nation at large. Our budget request of $5.37 million and 40 FTE's for the fiscal year 2003 represents no increase in the FTE level and a slight increase in budget authority of less than 2 percent.

These additional resources are essential to continue to provide the highest quality of work across our broad spectrum of responsibilities.

Madam Chairman and members of the subcommittee, I hope that this brief overview, combined with my written statement, convey to you the extent of this Administration's commitment to advancing science and technology in the national interest and the importance of OSTP's role in that enterprise. I ask, of course, not only for your support for our budget for OSTP, but also want to express my appreciation for the longstanding, bipartisan support of this committee for the Office of Science and Technology Policy and for the Science and Technology Research Enterprise.

Madam Chairman, you mentioned a large number of issues and questions in your opening statement. I would be glad to respond to these now, as time permits, and would respond to others in writing, if that is necessary. Thank you.

[The statement follows:]

PREPARED STATEMENT OF JOHN H. MARBURGER III

Madam Chairman, Members of the Subcommittee, I am pleased to appear before you today to discuss the Office of Science and Technology Policy's (OSTP) budget request for fiscal year 2003.

When I testified before the House Committee on Science prior to my confirmation by the Senate last October, I expressed my desire to "form a close and productive relationship with Congress, which has long provided bipartisan and enduring support of our world-leading science and engineering enterprise. The counsel and support of Members of Congress is an essential element of continued U.S. leadership across the frontiers of scientific knowledge." I look forward to working with you, Madam Chairman, and your Subcommittee, to demonstrate this commitment to science and engineering excellence once again this year. President Bush has set forth an agenda for science funding in the forthcoming fiscal year that takes advantage of important opportunities for discovery and development and sustains the basic machinery of research and development that is necessary for continued national leadership in science and technology.

Last October I also referred to the fact that we must make important choices together because we have neither unlimited resources nor a monopoly of the world's scientific talent. I continue to believe that wise choices among the multitudes of possible research programs are necessary and that we must decide which programs to launch, encourage, and enhance and which ones to modify, reevaluate, or redirect in keeping with our national needs and capabilities. The President's fiscal year 2003 Budget includes principles that will improve the management of the Nation's science and technology enterprise, taking advantage of best practices, and emphasizing the importance of good planning, execution, reinforcement of good performance, and changing poor performance. I look forward to working with Congress to ensure that the Federal Government's significant investment, now over $100 billion, in science and technology is deployed to optimal effect.

President Bush's fiscal year 2003 R&D budget

Shortly after I was confirmed the Director of OSTP at the end of October, the Director of the Office of Management and Budget invited me to attend and participate in internal OMB decision-making sessions involving science programs. This series of meetings gave me a greater appreciation for the issues and an opportunity to represent the science perspective on important aspects of the forthcoming budget, such as increased accountability and performance measures for R&D agencies. Following these meetings, my office has continued to work closely with OMB to share information and develop mutual understanding of the complex issues involved in establishing the Nation's science and technology budgets.

As you well know, agency budget proposals are submitted to OMB in mid-September for their review. The terrorist attacks on September 11 dramatically changed the context for this budget. The attacks laid bare vulnerabilities in our physical security and exacerbated weaknesses in our economy. The priorities of the Nation drastically changed in a matter of hours.

The budget reflects the change in priorities by focusing on three primary goals:
—Winning the war on terrorism;
—Protecting the homeland;
—Reviving our economy.

Recognizing that science must play a role in these priorities, the President provides for an unprecedented level of investment in Federal R&D, marking the first time in history that a President has requested an R&D budget greater than $100 billion. The precise figure is $111.8 billion, up 8 percent overall from last year—the largest requested increase for R&D in over a decade.

In addition to the R&D budget, another compilation, the Federal Science and Technology Budget, was originally proposed by the National Academy of Sciences to highlight the Federal investment in research programs central to the creation of new knowledge. In this "FS&T" portfolio, the President's budget is up 9 percent. The FS&T activities account for nearly all of Federal basic research, over 80 percent of Federal applied research, and about half of civilian development.

Madam Chairman, this is a good budget for science, and I look forward to working with Congress to see it successfully enacted.

These science and technology investments will enable the Administration to:
—Enhance homeland defense, national security, and global stability;
—Promote long-term economic growth that creates high-wage jobs;
—Sustain a healthy, educated citizenry;
—Harness information technology;
—Improve environmental quality; and
—Maintain world leadership in science, engineering, and mathematics. Now let me direct your attention to some specifics within this budget.

Interagency Initiatives

The budget increases funding for a number of priority research areas that require multi-agency efforts. Information technology, nanotechnology, and health research continue to be high priorities for our Nation. The past year also has seen an increase in priority for climate change R&D. After the events of September 11, antiterrorism efforts naturally lead the list.

—Antiterrorism—our success in preventing, detecting, and responding to terrorist activities over the long term will depend on technology. The President's fiscal year 2003 Budget continues the Administration's strong support of research and development to counter emerging terrorist threats by increasing R&D funding for homeland security and combating terrorism (including protecting critical infrastructure) from nearly $1 billion in 2002 to an estimated $3 billion in 2003.

—The National Nanotechnology Initiative will increase by 17 percent over last year. This $679 million multi-agency initiative focuses on long-term research on the manipulation of matter at the atomic and molecular levels, giving us unprecedented opportunities for new classes of devices as small as molecules and machines as small as human cells.

—Networking and Information Technology R&D will increase by 3 percent. This brings the overall investment to $1.9 billion in this mature, but still critically important area. It provides the base technologies necessary for the U.S. to maintain its dominant position in the application of information technology to critical national defense and national security needs, as well as to scientific research, education, and economic innovation.

—Improving human health depends on health research that draws on the capabilities of many agencies. During the Presidential campaign, the President promised to double the budget of NIH by 2003 from its 1998 levels. That commitment is met in this budget, which includes the final installment, a $3.9 billion increase, paving the way toward better diagnostics, treatments, and cures that affect the lives of all Americans.

—Climate Change research has become an important driver for the Nation's research agenda. The President created two new initiatives in this budget. The Climate Change Research Initiative will share $40 million among five agencies, and the National Climate Change Technology Initiative will receive $40 million within the DOE budget. The ongoing U.S. Global Change Research Program will receive $1.7 billion, a $44 million (3 percent) increase.

Highlights of Agency FS&T Budgets

The following examples provide a snapshot of the Administration's S&T request within the agencies under the jurisdiction of the Subcommittee.

—National Aeronautics and Space Administration (NASA). The budget provides $8.7 billion (an 8 percent increase) for NASA's programs in the FS&T budget, including $3.4 billion for Space Science (a 13 percent increase) and $2.9 billion for Aerospace Technology. The latter includes planned funding increases for NASA's Space Launch Initiative ($759 million), which will lead to safer and lower cost commercial launch vehicles to replace the Space Shuttle.

—National Science Foundation (NSF). The budget provides a $241 million increase (5 percent) for NSF. This increase will provide $678 million for NSF's lead role in the Networking and Information Technology R&D program, and $221 million for NSF's lead role in the National Nanotechnology Initiative. The President's Math and Science Partnerships Initiative, aimed at increasing the quality of math and science education in Grades K–12, will increase by $40 million to $200 million. The budget also raises graduate level stipends from $21,500 to $25,000 annually, in order to further attract and retain the most promising U.S. students into graduate level science and engineering. NSF is very effective at managing competitive research programs, and the budget proposes transferring to NSF programs that will benefit from their effective management. These programs include Sea Grants from the National Oceanic and Atmospheric Administration, Water Quality Research from the U.S. Geological Survey, and Environmental Education from the Environmental Protection Agency.

—Environmental Protection Agency (EPA). The budget provides $797 million (a 6 percent increase) for EPA's programs in the FS&T budget. The EPA budget funds research that provides a sound scientific and technical foundation for environmental policy and regulatory decision-making. The budget includes $75 million for R&D in technologies and procedures to cope with future biological or chemical incidents.

In addition to the agencies that fall within your Subcommittee's jurisdiction Madam Chairman, the Department of Defense R&D efforts increase $5.4 billion (an

11 percent increase) to $54.5 billion and the National Institutes of Health budget increases by $3.9 billion (a 17 percent increase) to $27.3 billion.

The President's Management Agenda

In addition to funding these priority areas, the budget places emphasis on spending dollars effectively. The budget includes a scorecard to rate agency performance and progress in five important management areas. I am pleased to point out that the only agency to achieve a green light in any category is the National Science Foundation. The President's Management Agenda is as relevant to science missions as to other agency operations, and I look forward to working with OMB to make its provisions a more useful tool for all the agencies.

Among the other provisions of the President's Management Agenda are investment criteria for R&D programs, pilot-tested at DOE this past year. In consultation with agencies, industry, and academia, OMB and OSTP will broaden the design of the criteria to all R&D and apply them to other R&D agencies in the preparation of the 2004 budget.

The OSTP mission

In support of our Nation's science and technology priorities, OSTP has two primary responsibilities: advising the President on S&T and providing leadership and coordination for our government's role in the national S&T enterprise.

In the 1950's, in response to Soviet advances, highlighted by the launch of Sputnik, President Eisenhower saw the need for expert S&T counsel, and he invited James Killian, then president of MIT, to Washington to serve as the head of the first President's Science Advisory Committee, an OSTP predecessor. Since then our Nation's Presidents have drawn on the expertise of our office for S&T policy advice, and I see this as a contribution that will continue to grow in value as the challenges we face become increasingly complex.

Within our agency, a small staff of professionals analyzes developments at the frontiers of scientific knowledge and aids the President in shaping policy. OSTP also provides scientific and technical information and recommendations to the Vice President, the White House Offices, the Executive Branch Agencies, and Congress.

A second responsibility of OSTP is to provide leadership and coordination across the Administration. OSTP plays this role for a range of Administration priorities, including national security and global stability, environment, science, and technology. The National Science and Technology Council has been an invaluable partner with OSTP in developing interagency evaluations and forging consensus on many crucial S&T issues.

OSTP Budget Request

I ask today for your continued support of OSTP's role in coordinating S&T policy for the Executive Branch and for our Nation at large. OSTP's budget request of $5,368,000 and 40 full-time equivalent positions in fiscal year 2003 represents a net increase of $101,000, or 1.9 percent, over our fiscal year 2002 enacted budget. The number of full-time equivalent positions remains unchanged.

The requested amount would allow OSTP to fulfill its responsibilities in a White House committed to an increased role for science and technology in achieving national goals, including strengthening the economy, creating high quality jobs, winning the war against terrorism, defending the homeland, protecting the environment, and improving health care.

The requested fiscal year 2003 budget will support the Director and two Associate Directors plus a staff of seasoned professionals with diverse training and experience. Our requested increase is essential to continue to provide quality support to the President and information to the Congress. Since personnel costs constitute the largest portion of OSTP's budget, our fiscal year 2003 budget request reflects our commitment to operate more efficiently and cost-effectively without compromising the essential element of a top caliber science and technology agency—high quality personnel.

National Science and Technology Council

To meet the Administration's priority S&T goals, we must combine the efforts and the expertise of multiple agencies. OSTP personnel support the work of the NSTC, a Cabinet-level Council that sponsors interagency initiatives to advance key S&T objectives.

Our distributed system of research funding also places a premium on coordination among complementary agency programs. The NSTC improves such coordination.

NSTC membership includes Cabinet Secretaries, heads of science and technology agencies, and key White House officials with significant S&T responsibilities. In the process of generating specific budgetary and policy recommendations, NSTC rou-

tinely reaches beyond the Federal Government to seek input from a wide spectrum of stakeholders in the public and private sectors.

An important objective of the NSTC is to guide individual agency budget priorities for R&D and orient the S&T spending of each Federal mission agency toward achieving national goals. To this end, in late 2001 the NSTC established an interagency Task Force on Antiterrorism Research and Development with several working groups to address broad categories of issues. The four working groups focus on:

—Biological and Chemical Preparedness
—Radiological and Nuclear Detection and Response
—Protection of Vulnerable Systems
—Social, Behavioral, and Education Sciences A fifth working group—a rapid-response team—serves as an action-oriented team to grapple with emergencies that may arise.

Other standing NSTC committees, along with ad hoc working groups within the NSTC, provide an effective forum to resolve crosscutting issues such as nanoscale science, engineering, and technology, information technology R&D, and plant genome research.

The President's Council of Advisors on Science and Technology

As Director of the Office of Science and Technology Policy, I co-chair the President's Council of Advisors on Science and Technology with Floyd Kvamme. The PCAST, which consists of distinguished individuals from industry, education, research institutions, and other non-governmental organizations, serves as the highest level private sector advisory group for the President and the NSTC.

President George Bush originally established PCAST in 1990 as a means to gain advice from the private sector and academic community on technology, scientific research priorities, and math and science education. The organization follows a tradition of Presidential advisory panels on science and technology dating back to Presidents Eisenhower and Truman.

Madam Chairman and Members of the Subcommittee, I hope that this overview has conveyed to you the extent of this Administration's commitment to advancing science and technology in the national interest. I look forward to achieving bipartisan support for a national S&T strategy that will combine the resources of industry, academia, non-profit organizations, and all levels of government to protect our citizens, advance knowledge, promote education, strengthen institutions, and develop human potential.

I ask not only for your support of OSTP's fiscal year 2003 budget request, but I also want you to know how much I appreciate the long-standing bipartisan support of the Subcommittee for the Office of Science and Technology Policy and for the science and technology enterprise. I would be pleased to answer any questions.

TRANSFERRED PROGRAMS TO NSF

Senator MIKULSKI. Thank you all very much for your testimony. And each one of the aspects presented could be the subject of a hearing unto itself and so—but let me go right to the core of this hearing, which is an appropriations hearing.

As I said in my opening statement, there is an apparent 5 percent increase in the funding for the National Science Foundation, but one-third of it comes from the transfer of three programs. I would like to raise the issues around those three programs and these questions are really for you, Dr. Colwell.

Why is the Administration proposing to transfer the Sea Grant program from NOAA to the National Science Foundation and what is it that we are trying to fix by doing this? The authorizers strongly object to the transfer of these three programs.

Dr. COLWELL. Let me say that the Administration views the management of the NSF, of which we are very proud, to be very strong and the merit review process to be consistent with the President's management agenda. The Administration believes that increased use of competitive merit-based processes will improve the performance and the effectiveness of the investments.

But NSF, since the Sea Grant program originated at the National Science Foundation, will operate the program as a competitive merit-based research, education and outreach program.

Senator MIKULSKI. It is not being operated that way at NOAA?

Dr. COLWELL. I am sure it is being operated effectively. Should it be transferred, we would continue the processes.

Senator MIKULSKI. So what is the reason for moving it though, because you started it there?

Dr. COLWELL. It is a matter of merit-based review and the integration of the management with the National Science Foundation.

Senator MIKULSKI. Well, Dr. Colwell——

Dr. COLWELL. This is not——

Senator MIKULSKI. I am not going to debate this with you, because you did not make the decision, but the transfer so it could be merit based and peer reviewed and all that, we presumed that is going on at NOAA.

And if it is not going on at NOAA, that needs to be done through the authorizing and appropriations, not a transfer to you.

With all due respect. So I do not want to debate that point.

Why are they moving the Environment Education Program? One of my concerns is that EPA graduate fellowship programs would have no funding.

Dr. COLWELL. Let me just point out that the overhead costs at NOAA are higher. They are lower at the National Science Foundation. That is not the sole justification, but is a point I would like to make.

With the Environment Protection Agency transfer, we will work out the process with the EPA. And, again, it is the management process that fits with the President's agenda.

The research grants program fits with the current educational program we have underway at NSF. And, again, I would have to say, this is not my highest priority.

PROPOSED NSF FISCAL YEAR 2003 BUDGET INCREASE

Senator MIKULSKI. Well, as you know, there are very serious objections to these three transfers. It gives the illusion that the NSF has increased. You really are only getting a 3 percent increase here.

Dr. COLWELL. I have to agree that it is——

Senator MIKULSKI. That is pretty spartan.

Dr. COLWELL. Three fourths percent increase.

CORE SCIENCES

Senator MIKULSKI. Which takes me, though, to the core sciences. And I know you have been so passionate—you and Dr. Kelly and I know Dr. Washington have been, "We have got to do the core sciences."

Do you remember when you came over with your charts on how the funding has gone up for life science, but everything else was flat? Young people were being discouraged that there was no money either in stipends or the opportunity for research. And then zip, it is being cut here.

Why are the core science programs being cut? And what do you think are the consequences of this?

Dr. COLWELL. Well, let me point out that the core areas benefit from the priority areas. In other words, each of the directorates participates in the information technology priority, similarly in nano-technology, so that if one adds the components of those initiatives that involve mathematics, chemistry, and physics, you will find that it is more like level funding for these disciplines.

I agree that we need to invest in the future, very heavily in these areas. We are doing this in a planned step-wise process, working with OSTP and the Office of Management and Budget.

The budget that has been given us addresses our priorities and it is a budget that can advance science and engineering.

Senator MIKULSKI. Well, you know, we are looking at also a decade of decline. And we are hoping that through our doubling, which we are committed to, that these would be the areas of increase, which would be in the core sciences.

Do you remember when I proposed my strategic research initiative and scientists all over America jumped all over me, and you and Dr. Brody and Dr. Vest, helped sort all of that out.

Well, I am ready to fund the core, while we also look at those things that do maintain homeland security, competitive edge and all that. But this is the core.

Dr. COLWELL. Senator, I am married to a physicist. He reminds me daily of the necessity of funding physics, chemistry, and mathematics. I agree with you, Senator; I do.

Senator MIKULSKI. I am going to turn to Senator Bond, but there has been a 3 percent cut in chemistry and a 3 percent cut in physics. And——

Dr. COLWELL. When one takes into account the participation I am not arguing. I am simply saying that when one takes into account IT and nano-tech, it is about level.

Senator MIKULSKI. Senator Bond.

FEDERAL R&D SUPPORT

Senator BOND. Thank you, Madam Chair.

While we are on a roll, I thought I would turn to Dr. Marburger and continue this line of questioning.

According to the National Research Council report on trends and Federal support of research and graduate education, there is "cause for concern about the allocation of funding among fields, in the Federal research portfolio in particular, with respect to most of the physical sciences and engineering, whose funding in contrast with the biomedical sciences has, with few exceptions, stagnated or declined."

Dr. Marburger, would you agree with the Research Council's view on that?

Dr. MARBURGER. Well, far be it from me to disagree with the National Research Council. The fact is that the balance issue, the issues that are assembled under the phrase balance are important issues. And we believe that it is necessary to tune the mechanism of science, so that it can move forward effectively.

We do not believe that the right way to do that is to fix on arbitrary formulas of doubling or tripling, but rather to identify those areas that need funding and address them and fund them—give

them priority and over a period of years bring back the necessary balance if there is an imbalance.

In this budget for fiscal year 2003, the President has identified a priority for science spending and funded it quite substantially in the life sciences. And I believe that subsequent years will see an addressing of the balance issues that are being identified at this time.

Senator BOND. I think I heard what you said, but I am not sure that I got an answer to my question. You said that arbitrary doubling or something like that, yes, well the Chair and I are pushing for an arbitrary doubling, because we started out with the NIH budget and the NSF budget here. And everybody agreed on the arbitrary doubling of NIH. And it has now so far outstripped NSF that we are absolutely falling behind.

Do you agree that advances in biomedical science depend upon things like fundamental research and physics, chemistry, electrical engineering, chemical engineering, and the other things?

Dr. MARBURGER. I do, indeed. It is interesting to note that in the accounting of the budget for fiscal year 2002, the current year, the annual study that is made by the American Association for the Advancement of Science, takes a look at each of these areas of science, life sciences, physical sciences, engineering, and so forth.

And in that accounting, they show that NIH, for example, owns about 15 percent of the funding in the physical sciences; whereas NSF owns only 12 percent of the funding for physical sciences. The major player in the physical sciences game is the Department of Energy, then NASA, but actually NIH is quite substantially supporting the physical sciences, so that it is not the case that funding—increased funding for NIH necessarily means that there is not increased funding for the physical sciences as well, through their allocations.

Through an interagency effort that was sponsored by my predecessor in the Office of Science and Technology Policy, we arranged for NIH to provide very substantial support in basic energy sciences through the Department of Energy, supporting beam lines at—synchrotron light sources around the country, which are heavily used by biological science researchers.

So, the—my point is, and the point of the Administration is, that the balance issue is a complicated issue. Many agencies are involved; many fields of science are involved. And we would like to go at it in a sort of a rifle-shot approach, establishing priorities and funding them systematically. And I believe that—that is what is going to happen.

FUNDING PHYSICAL SCIENCES

Senator BOND. Well, Dr. Marburger, as I understand it, what little I know about the NIH physical science, that is more applied science. We are talking about the need for basic science that only comes through NSF.

And the White House has taken great pride in doubling the NIH budget.

Can you sit here and tell me, as a scientist who is looking over the whole area, that there is not an imbalance between what we

are putting in NIH and what we are putting in the basic physical sciences?

Dr. MARBURGER. I would like to see more money in all of them. It is hard for me to tell——

Senator BOND. No, no, no, no; that is not the question.

Dr. MARBURGER. There is no doubt that priorities have been identified and that some areas are funded more than others, and there is no question that life sciences has received more support.

Senator BOND. Thank you.

Dr. MARBURGER. That was done intentionally.

Senator BOND. I give up, Madam Chair, here.

I turn the questions back to you.

UNDERGRADUATE AND MINORITY PROGRAMS

Senator MIKULSKI. Well, I see I agree with that line of questioning, but let me also turn—first of all, in the areas of nano-technology, info technology and your bio-complexity. I think we are on the right track. We would like to pursue those, but, again, I am under very difficult time constraints this morning.

I am going to go to the attraction of undergraduate students into science. Dr. Colwell, I am going to ask—and Dr. Washington, I would like you both to be able to respond.

We are committed to K through 12, and the funding of informal science education. And, again, we could talk about those, but our undergraduates are now looking at business. They are looking at marketing. They are looking at areas other than science and technology.

And I am not—I mean, everybody has got to follow their dream and their passion. But today, the foreign students do comprise 40 percent of our PhD's. You cannot go for a PhD unless you have an undergraduate major.

Yet, this budget cuts undergraduate programs by over $10 million. The community college program declines, which is also a way particularly for first generation people to go to college to get into it and maybe pursue the night school programs at wonderful places like University of Maryland and Hopkins. The the new undergraduate "tech talent" program declines by 60 percent.

My question is: What are the resources that are needed to truly fund undergraduate science programs in—I mean, really to be able to, again, attract more undergraduate students into science, and also the whole issue of recruiting the entire American community, which is women and minorities, who are often discouraged now because of the issue around money, particularly the minority students? And I am thinking of the Latino community, first generation, moving in.

Dr. COLWELL. Senator, you touch on one of the most perplexing, and one of the most difficult, international problems.

I have just returned from a G–8 meeting of the heads of research councils. This problem is universal.

In fact, in Japan, where the meeting was held, we learned that even though the Japanese students performed better in math and science, after they get to a university, they deflect off into business and other areas.

Senator MIKULSKI. Just talk to me about our own country today——

Dr. COLWELL. Yes, I will.

Senator MIKULSKI [continuing]. With all due respect.

Dr. COLWELL. I just wanted to point out that it is an international problem.

Having said that, we are focusing on women and minorities, bringing them into science and engineering. Because, as you have pointed out, it is the human resources, that are going to make the difference if we have decreased participation in foreign students.

We have taken a different approach—or we are beginning to take a different approach, at the National Science Foundation in integrating horizontally all of our efforts that address students, from K–12 through continuing education, and are focusing on undergraduate education, as well. And that is to link our programs and to link our efforts with those of other agencies.

If you look only at the specific programs addressing women and minorities, it appears to be a decrease. In fact, we have programs within the directorates that are addressing bringing women and minorities, for example, into mathematics, physics and bio-sciences directorates, so that we have, in fact, a greater effort financially——

ADDITIONAL FISCAL YEAR 2003 FUNDS

Senator MIKULSKI. So, you are talking about leveraging and synergistic effects of the money you have?

Dr. COLWELL. Yes.

Senator MIKULSKI. Could you use more money in this area?

Dr. COLWELL. We can always use more money and, this is an area——

Senator MIKULSKI. And I am not always talking about "always use more money." Could you use more money in this area?

Dr. COLWELL. Let me answer by saying that this is the most important problem we address as a Nation. And I would quote the Hart-Rudman report, which says that second only to an invasion or an attack on one of our major cities, losing leadership in science and math and in science and math education.

Senator MIKULSKI. Well, Dr. Colwell, I—again, not to cut you short. I am going to turn to Dr. Washington, because here is where I am. First of all, I agree it is a national problem. I believe it is an international problem. But my responsibility is to the United States of America, and then to the world.

I have got to know what we really need here. Now, I know that you are a good soldier and you have to work under OMB and everything done as vetted and checked to see who has been naughty and who has been nice, but I really must know, and I know my colleague, here——

Dr. COLWELL. Yes.

Senator MIKULSKI [continuing]. We believe in the farm team. You know, if sports can have a farm team, certainly science should.

Dr. COLWELL. So do I.

Senator MIKULSKI. We spend more money on our academic institutions being a farm team for the NFL than for the Nobel prize. Now, I think we've got to get our priorities straight as a country,

and I am ready to use whatever money muscle I have here to do that.

Dr. Washington, how do you think we ought to do it?

Dr. WASHINGTON. Well, first of all, let me say that the——

Senator MIKULSKI. What would be required?

Dr. WASHINGTON. I think I would actually like to sort of list several things. One is that the National Science Board regards education as one of our key priorities for the Nation and for the National Science Foundation.

We are now in the process of preparing a report on the work force and that will be ready sometime in the summer or the fall.

At the board meeting last week—we issued a diversity statement that deals with women and minorities, and it reaffirms a very strong commitment of the National Science Board to this issue and with regard to additional funds. There is a—the board feels very strongly that we can make very wise use of increased funding in the area of education.

There are proposals out there that are very high merit and—however, with limited funding, we cannot fund them all. And I think that we could actually make——

NSB RECOMMENDATIONS

Senator MIKULSKI. Well, Dr. Washington, I am going to turn to the board as we ponder how we are going to do this year's appropriations. We would like to hear from the board what their specific recommendations would be, particularly on this, what we consider, crisis issue. I view this as a crisis issue.

And while we want to fund the research, we have got to fund the people who are going to do the research. And we believe that this excellent board of which you are a chair—I think you will continue the great tradition—we really would like to have like five ideas on what you think it would take to really keep the momentum going.

I think Dr. Colwell, I know has had a great commitment, but we would like to really turn to the board to be able to do that, as well as, of course, you, Doctor. But you are shackled in a lot of ways for what you can ask for. So——

Dr. WASHINGTON. I think that the board can——

Senator MIKULSKI [continuing]. I am going to turn to the unfettered——

Dr. WASHINGTON [continuing]. Easily—I should not say easily, but the board would—will be very happy to respond.

Senator MIKULSKI. Thank you very much, Dr. Washington. I look forward to getting better acquainted.

[The information follows:]

NATIONAL SCIENCE BOARD ACTIVITIES ON SCIENCE AND ENGINEERING EDUCATION AND WORKFORCE

It is the National Science Board's position that "there is no greater challenge and no more fundamental a need than the assurance of a skilled, highly educated, and diverse workforce (for science and engineering) and of a public that is not just well disposed toward science, but one that is also able to use its knowledge of science and mathematics for individual and collective improvement."[1] Education and the development of our human resource base and workforce for science and technology

[1] National Science Board. National Science Board Strategic Plan, p.11.

is the most important science policy issue confronting the Nation today. Consistent with this view, the Board has been examining education and workforce issues from a number of perspectives, from K–12 through the graduate and postdoctoral levels.

The Board has made numerous statements addressing all levels of education within the last several years alone, and has developed a range of recommendations on nurturing the S&E workforce. A few of the most important include:

(1) Preparing Our Children on K–16 education in science, mathematics, engineering, and technology, March 1999. The report focuses on the need for partnerships across sectors at the State and local levels to achieve a continuum of excellence in K–16 education, and recommends active participation of individual scientists and engineers and their institutions in creating a seamless K–16 system for science, mathematics, engineering and technology education (http://www.nsf.gov/pubsys/ods/getpub.cfm?nsb9931a);

(2) The Federal Role in Science and Engineering Graduate and Postdoctoral Education (NSB 97–235), 1997, offers recommendations for a more productive Federal/university partnership in graduate and postdoctoral education (http://www.nsfgov/pubsys/ods/getpub.cfm?nsb97235);

(3) Resolution NSB 01–167, October 2001, affirming the importance of Criterion Two for evaluating proposals for funding in the Merit Review process. Criterion Two addresses broader impacts of proposed research and education activities, including impacts on the workforce;[2] and

(4) "National Science Board Statement Concerning NSF's Continuing Role in Promoting Diversity in Science, Technology, Engineering and Mathematics" (NSB–02–75)[3] in May 2002, focusing on the importance of broad participation of U.S. citizens in the science and engineering workforce.

The National Science Board, primarily through its standing Committee on Education and Human Resources,[4] exercises oversight of the National Science Foundation programs and activities to support the development of human resources for science and engineering and scientific and mathematical literacy for the general public. The Board fully supports the objectives of the new Math and Science Partnership initiative funded through the National Science Foundation, which is in accord with the work the Board has undertaken on K–16 math and science education policy and with the long-term NSF investment in State, rural, and urban systemic initiatives to reform math and science education at the K–12 level.

The Board's ongoing national policy efforts that concern the science and engineering workforce include the establishment in October 2000 of a special Task Force on National Workforce Policies (NWP),[5] reporting to the Education and Human Resources Committee. The Task Force is charged with examining workforce development issues in a systemic framework that incorporates various levels of the educational process, industry roles and requirements, and national policies related to education and immigration. This is one of two current Task Forces charged by the Board to undertake special studies. The second is the Task Force on Science and

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[2] "The National Science Board affirms the significance of both the intellectual merit and the broader impacts of projects supported by NSF, and endorses actions to raise awareness of the importance of both merit review criteria. These actions should include wide dissemination of generic examples of activities that address the broader impacts criterion, and amendments to policies and procedures for proposers, reviewers and NSF Program Managers on the use of both criteria in the proposal and award process."

[3] "The National Science Foundation (NSF) invests public resources to realize "a diverse, internationally competitive and globally-engaged workforce of scientists, engineers and well prepared citizens"(NSF GPRA Strategic Plan for fiscal year 2001–2006, p.3). This goal, encompassing a variety of strategies, supports NSF's mission to strengthen scientific and engineering research and education and their integration. In this context, the National Science Board believes such a diverse science and engineering workforce is necessary to ensure the Nation's health, prosperity, and security.

As Congress declared in the Science and Engineering Equal Opportunities Act of 1980, 42 U.S.C. 1885, "the highest quality science and engineering over the long-term requires substantial support, from currently available research and educational funds, for increased participation in science and engineering by women and minorities." The National Science Board recognizes that an integral part of accomplishing NSF"s strategic goals requires engaging all those who are under represented in the Nation's science and engineering enterprise. Therefore, the Board strongly supports the Foundation's commitment to developing and strengthening all of its programs for this purpose, ensuring broader individual and institutional participation across all research and education programs."

[4] Charge to Education and Human Resources Committee: http://www.nsfaov/nsb/committees/ehrcharve.htm; "EHR Committee Workplan" (NSB 99–179): http://www.nsf.gov/pubsys/ods/getpub.cfin?nsb99179

[5] Charge to the Task Force on National Workforce Policies (NSB 00–192) http://www.nsf.gov/nsb/committees/nwpcharge.htm.

Engineering Infrastructure,[6] reporting to the Committee on Programs and Plans, which is charged to assess the quality and adequacy of the infrastructure for U.S. fundamental science and engineering.

In addition to the work of the NWP Task Force, the Education and Human Resources Committee is now focusing its attention on policies for undergraduate education in science, technology, engineering, and mathematics (STEM). I will be happy to keep you informed on our progress in ongoing policy activities related to the workforce, especially the recommendations of the Board pursuant to the completion of the work of the Task Force on National Workforce Policies, expected by the end of this year.

Senator Bond.

Senator BOND. Senator, if I could——

Senator MIKULSKI. Okay.

Senator BOND. All right.

Senator MIKULSKI. I am going to turn the gavel over to Senator Bond. I have to be somewhere really on the topic of the digital divide with my colleague, Senator Cleland, our civil rights organizations. I know that Senator Bond—well, first of all, we—you know, we are like the Amen chorus here.

Why do I not turn it to you, Senator Bond? I know you have management issues, and then would you please make sure that Senator Domenici has all rights for the committee?

Thank you very much. And we look forward to further conversation on this.

NSF IG REPORT

Senator BOND [presiding]. Thank you.

Might I invite the inspector general, Dr. Boesz, to come up please?

I want to follow up on some of these questions I raised in my opening statement, particularly the audit of the NSF's major research equipment and facilities. Can you summarize for us, please, because I want to hear your side, and also I want to hear the Foundation's response and comments on it? I would like to get it out here in the open.

Can you summarize your audit findings and illustrate those findings with some—perhaps some examples? And based on your observations, do you believe the NSF has the ability to provide a full cost accounting of each of its large facilities?

Dr. BOESZ. Good morning, Senator. I will be happy to respond to that. My name is Tina Boesz, I am the Inspector General.

And we did do an audit of the large facility projects at NSF and we do recognize that in the past year, NSF has made a concerted effort to improve the general management and oversight of these projects. However, it still needs to do a lot of work on improving the financial management of the projects.

NSF's current policies and practices do not yet provide adequate guidance to program managers to oversee and manage the financial aspects of the major research equipment and facilities projects.

The current policies have allowed NSF to use multiple appropriation accounts to fund the acquisition, construction, and development cost of major research equipment and facilities. This has led

[6] Charge to the Committee on Programs and Plans Task Force on Science and Engineering Infrastructure (NSB 00181): http://www.nsfgov/nsb/committees/infcharge.htm.

to inconsistencies in the types of costs funded through the MRE account.

And in addition, NSF's current practice is to track only those costs funded from the MRE account, and not the full costs of the projects. As a result, NSF today cannot ensure that it stays within the authorized funding limits that have been approved by Congress or by the National Science Board for any one particular project.

This makes it impossible without having the total costs of a project—it is impossible for decision makers to monitor how well the projects are going. For example, in the report, I mention the large Hadron Collider as one project which the National Science Board approved, the construction of two detectors at an amount approximately of $81 million.

We know that NSF has already spent $2 million from the R&RA research and related activities, account to develop software. We also have identified approximately $57 million that NSF intends to fund from the research and research affiliated account to fund additional software development—this is software that is necessary for the detectors to work. They also—this money would go for implementing or putting the detectors into the collider and also the commissioning costs.

So it does not really—the $81 million does not get at a full functioning detector operating in a collider. That is one example.

And I—so I think that the issue basically is how is NSF going to get at the issue of total project costs. At the present time, their systems are not able to do that.

We are told by the end of the summer, they intend to have these policies and procedures in effect. We have reviewed some of the drafts. They are making progress. They intend to have a large facilities manager, a deputy to the CFO in place. And we think that by the end of the summer, we are hopeful that many of these items will be addressed.

NSF RESPONSE TO IG REPORT

Senator BOND. Dr. Colwell, I raised this question previously and I had hoped to have it resolved. I would like to hear your comments on it.

Dr. COLWELL. Yes.

Senator BOND. And where you think—what can be done and when?

Dr. COLWELL. Well, first, Senator, I genuinely want to say to you and Senator Mikulski that I deeply appreciate your commitment to the foundation.

NSF believes in continued improvement of our financial management and policies. The recommendation of the inspector general is sound. The recommendations, in fact, endorse many of the changes we already are implementing as part of the new plan for management in oversight of the large facility projects.

I would like to emphasize that it is vital to retain the flexibility that allows these projects to realize their full potential to the Nation, like encouraging participation by EPSCoR States and institutions.

What we have done is complete our guidelines and procedures. We are instituting internal controls to prevent mixing of R&RA

with MRE funds. We are revising our criteria for prioritizing large projects. We are hiring staff and providing travel funds for increased oversight of large facilities, and we are providing management reviews of each of the MRE projects to the committee of programs and plants of the National Science Board.

I would say that the draft audit report of the I.G. does set forth several recommendations, but in part some are characterizations that do not fully and accurately describe our processes of the specific projects mentioned. And we will have a full report of our response no later than June 15, which we would be very pleased to provide you, Senator Bond, because I know you are keenly interested.

Finally, let me say that the agency is recognized as one of the best managed in the entire Federal Government, if not the best managed. We are very proud of that.

We can always do better. We are already taking these recommendations into account and changing processes accordingly.

NSB RESPONSE TO IG REPORT

Senator BOND. Dr. Washington, any comments on this before we turn to Senator Domenici?

Dr. WASHINGTON. No.

Senator BOND. Okay. Well, that solves that. Well, thank you. Senator Mikulski and I are going to be the best friends of NSF. We are going to continue to fight. It looks like we have to fight some on our own team to get the resources. We want to make sure that we have solved all the management problems; and the accounting problem is a troubling one that needs to be resolved.

With that, let me turn to Senator Domenici.

Senator DOMENICI. Thank you very much, Senator.

Dr. Colwell, how are you? It is nice to see you again.

Dr. COLWELL. Thank you, Senator. It is a pleasure to see you.

HOMESTAKE MINE AND NEUTRINO RESEARCH

Senator DOMENICI. Last year when we met in June for this hearing, I had just been in Carlsbad, New Mexico, with the National Science Foundation Committee that was reviewing the potential for a new underground science facilit7 in the United States.

In New Mexico, the waste isolation pilot project, commonly known as WIPP, was being looked at and evaluated. The NSF—the committee eventually came up with the Home Stake Mine in South Dakota as the best alternative, based on the advantages of a very deep facility for neutrino studies.

I still am doubtful about that choice, but things have to move along. Certainly evident in the discussions at WIPP was that many experiments that benefit from an underground facility do not need an ultra-deep site.

In fact, for many experiments, scientists have told me that the extremely low background radiation and very dry conditions of WIPP lend themselves to better experiments than relatively high radiation backgrounds and better experiments can take place.

What is the current plan for the Home Stake Mine and the neutrino research?

Dr. COLWELL. Senator, we are in the process of reviewing scientifically, the proposal that has come to the NSF. There has been no decision. We are also awaiting, in concert with the Office of Science and Technology Policy, Dr. Marburger, a report from the National Academy of Sciences, which will convene a work shop, with participation by the physics community, to determine priorities for neutrino research.

I do think since, to my right is an expert in physics, that I will ask Dr. Marburger also to comment.

Senator BOND. Dr. Marburger.

Dr. MARBURGER. There is no—thank you very much, Mr. Senator. There—the—there is no question that neutrino research is a very interesting area of fundamental science, and that there are a number of experiments ongoing in other countries, as well as in the United States.

It—I believe that the choices among the different options available to us have to be made by the science community in the context of a considered review of all the factors. I am not prepared or—nor am I technically capable, despite my colleagues' confidence in my expertise, to make a statement about that at this time.

I think it is going through the right process. We are asking the right people and I am certain that this decision will be made on the basis of good science.

Senator DOMENICI. Doctor, while I have you. Why do I not just go through a couple of questions with you?

First, it is nice to have you up here, too, and to visit with you.

Dr. MARBURGER. It is a pleasure.

FEDERAL COORDINATION OF NANO-TECHNOLOGY

Senator DOMENICI. One of the more recent scientific watch words is nano-technology. The DOE's Office of Science has a significant nano-technology program; and three centers are being constructed, including one center for integrated nano-technology, called CINT, which is a combination of Sandia National Laboratory at Los Alamos National Laboratory, and NSF.

The NSF's budget includes $221 million for nano-science and engineering, and other departments of the government seem to be finding that nano-science fits them also. Do you think that the many different approaches to nano-technology by various agencies are coordinated and integrated to avoid duplication and to present our country with the maximum productivity?

Dr. MARBURGER. Yes, I do, Mr. Senator. The National Nano-technology Initiative is coordinated through my office. There is an interagency working group that meets frequently and tries to understand the scope of the nano-technology field.

As you probably know, nano-technology encompasses much of chemistry and the whole promise of being able to make materials and make what I call functional materials from scratch, atom by atom.

Senator DOMENICI. Correct.

Dr. MARBURGER. And the capabilities are—for doing this are distributed throughout a number of different agencies. And we believe that request in the 2003 budget accurately reflects the capabilities as they are distributed throughout the agencies.

There is an 11 percent increase in this program in NSF. There is a 53 percent increase in the DOE program to address the centers that you described in your question.

VERY LARGE ARRAY (VLA)

Senator DOMENICI. Dr. Colwell, this is my last question. Last year, the NSF included funding in its budget for the expansion and modernization of the Very Large Array, commonly known as the VLA.

Dr. COLWELL. Yes, sir.

Senator DOMENICI. It is a world class center, in radio-astronomy, near Socorro, New Mexico. The project has been reviewed and approved by the National Science Board and also approved as a second priority for ground-based astronomy by the Decadal survey. It is my understanding that the budget request is $5.3 million short of providing the resources that are needed to operate the National Radio Astronomy Observatories and to continue with the plan and the VLA expansion. Is that number correct?

Dr. COLWELL. I am not sure about the exact number, but I must say that we do have a crunch in the major research equipment and that certainly is one of our priorities.

As part of the ongoing project management, there has been a management peer review completed on the upgrade. The report is to be released in about 2 months.

The upgrade presently is adhering to the projected time schedules and budgets, so we are on time and on budget for that particular project, Senator.

Senator DOMENICI. Well, the same thing is happening with the National Solar Observatory at Sacramento, Peak, New Mexico. The way the monies are being applied be NSF there is not going to be enough for what it needs. I will just give you that question in writing and you can answer it.

Dr. COLWELL. Yes. Yes, sir. Thank you, Senator.

Senator BOND. If you have—if you want to go ahead, you may.

PHYSICAL SCIENCES SUPPORT

Senator DOMENICI. That is fine. Mr. Chairman, let me just say that I know you and the chairperson have already spoken to the fact that we have our national funding a little bit out of balance, in terms of the physical sciences versus the more readily supportable NIH.

Some of us are trying to get the natural sciences back into a rhythm where they can be doubled within a given period of time, if that is what it takes around here to make progress.

To me, we are doing a very big disservice by not pushing funding for the physical sciences up, as we let NIH go very, very alive with new ventures. I think one is going to stop the other. I think you are going to need more of the physical science break throughs to keep the NIH programs going, as we hope they will.

We are going to continue in this subcommittee and elsewhere to do what we can to see that the National Science Foundation is funded.

It is the one Agency that we know. It is not exactly like the Department of Energy, which runs the programs themselves. It is a

different model. I believe it is very, very imperative. I would ask you, Doctor—many people are showing great respect for you when they ask you for your opinions.

On the same token, you work for the President, and he produced the budget. We are all his friends. I mean, at least the two of us are his good friends.

If it is not going to affect anybody out there, could—you tell me whether I am on the right track that we better put some more funding into the physical sciences.

Dr. MARBURGER. I think the track is good. The fact that is balance is important and that the machinery of science—the pieces of the machinery have to work together.

The issue that we have, this Administration has, with the concept of doubling is its lack of specificity, its lack of prioritization, and recognizing the differentiation among different areas of science.

And there are certain things that need to be funded, probably deserve more money, and we will get it. We are getting the attention, and there may be other things in that mix of activities that we call science or even physical sciences, that are perfectly healthy and do not require the additional funding.

So as I pointed out in response to Senator Bond's question, I believe, yes, that physical sciences are, in fact, supported by a number of different agencies. And they—it encompasses a very wide range of sciences.

I think it is important for us to be—to have an intelligent approach that makes distinctions, establishes priorities and funds—pulls out the things that need funding and fund them.

It includes nano-science, instrumentation. It includes basic computer sciences. We need all of these things to keep the machinery of science going.

And many of these have been identified as priorities in the President's 2003 budget request and signal the intention to continue to tune up the funding in future years.

Senator DOMENICI. Well, let me just close my comments and say to Senator Bond, and I am sure I am speaking to the chairperson just in the same manner, but I think it really behooves us to pursue funding of NSF to a larger extent than our President is able to do, and where we can to boost the physical sciences.

And I close today by inviting you, Doctor, at some point in time to come out and see Sandia's Nano-Research Facility. Right now, they are in some old barracks from whence some of the best nano-science has evolved. And micro-engineering is going full blast there too in some broken-down buildings. But they will soon be the beneficiary of a very major $400 million facility, which would put them apparently at the cutting edge for most Americans who are interested in nano-science and micro-engineering.

I thank you for your great work.

Dr. MARBURGER. Thank you.

Dr. COLWELL. Senator, I would like to express my appreciation to you for your commitment and support of the National Science Foundation. We really very much appreciate it. Thank you, Senator Domenici.

Senator DOMENICI. Thank you very much, Doctor.

ADDITIONAL NSF FUNDING IN FISCAL YEAR 2003

Dr. Washington, I did not have any questions for you, but I do not want you to feel that is neglecting you.

Dr. WASHINGTON. Well, I do want to just comment on one thing. In my oral presentation, I did mention that there are many unfunded proposals that are very high in their merit rating, but due to the lack of funds, we are not able to fund those. And I think that additional resources would help.

LARGE FACILITY PRIORITIZATION

Senator BOND. Thank you very much, Senator Domenici. I like Senator Domenici's question and Dr. Washington's answer, and I think we will put those two together.

I do not think there is any question and I do not have a science degree or a science background, but I do not think there is any problem finding very useful, fruitful investments that the NSF could make if we were able to get the dollars there, and I believe I speak for—on a bipartisan basis for this whole committee.

But having said that, let me—let me get back to the questioning and one of the things that I thought we would go into is the priority setting for the large research projects. We have heard complaints about the Foundation's process for ranking and prioritizing large facility proposals. Some have said to us that it appears to be subjective and ad hoc.

Now, I understand the House Science Committee's re-authorization bill requires NSF to submit a report to Congress, ranks the project, describes how each project was prioritized. It sounds like a good idea and, as I indicated, I wanted to ask the National Academy of Science to work with you to ascertain whether there is adequate criteria, what criteria should be used to rank and prioritize large research facilities.

Dr. Colwell, I would like to hear your views on that. And what do you think about the House Science Committee's action?

Dr. COLWELL. I think that it is very, very important to note that priority setting is an integral part of the NSF budget and planning process. It is based really on a very rigorous internal review by NSF senior management.

That is a project that comes out of the NSF to the Board to be considered can really usually take years.

Senator BOND. Yes.

Dr. COLWELL. In the case of ALMA, there was about 8 years of really very careful review and analysis.

The ultimate decision has to be made by the director with the OMB guidance. The dominant factors are readiness, timeliness, and appropriateness for funding in a given fiscal year.

We have to take into account balance, including disciplinary balance. It is really critical that there be flexibility in order for us to address all of these factors.

Having said that, we do have a priority that ongoing projects have the highest priority to ensure that they get completed, in order to be fiscally well managed and sound. Then to simply rank numerically, one, two, three, four, does not take into account the need to balance disciplines and the need to be flexible.

Now, again, it means that the priority setting process that includes the community, the NSF, the director, senior management, the science board, and OMB, is complicated. I do believe it has served the Nation well for the past 50 years.

NATIONAL ACADEMY OF SCIENCES

Senator BOND. Well, you have outlined things that may be legitimate criteria that go beyond the strict science ranking, but I think perhaps a problem may be that the—that it is not sufficiently transparent, because there is a sentiment that there is not an understanding of how it is done.

You say, "Okay. We have to have—we have to spread it out over disciplines to utilize for other reasons." I would like to see you work with the National Academy of Science. We would like to talk with you about that, to make sure that when you are applying the scientific criteria, it is readily understandable and the scientific community knows how you are going to rank them.

Dr. Washington, any question—any comment on that?

Dr. WASHINGTON. Well, I just want to point out that we have a standing committee of the board, a committee on programs and plans, and they do a very thorough review of each of these projects, and we have to explicitly approve them.

And we have a set of guidelines for how the projects are approved inside of the Science Board processes.

Dr. COLWELL. Let me add, Senator, that we do indeed call on the National Academy of Sciences. A case in point is the Home Stake Mine issue.

Neutrinos, I should say, to put it more appropriately, the neutrino research. There is, for example, a neutrino experiment in Japan. There is one in Italy. There is one in Sudbury, Canada. There is one in Antarctica, underway and to be extended, Ice Cube, for example.

The question is how do we prioritize and how many neutrino experiments does the world need?

Senator BOND. Yes.

Dr. COLWELL. We have called on the National Academy, so I agree with your suggestion.

NSB MEETINGS

Senator BOND. Yes. Well, I have a view on that one, too; but I will let the scientists reach that conclusion.

Dr. Washington, you have only been on board a few days, so I want to ask you this question. You are coming in fresh. And I have—again, we have received complaints that the board holds most of its meetings, including committee meetings, where much of the board's work is done behind closed doors with a single session open to the public at the meetings' end.

Do you think this is the right way to do its business? The House Science Committee apparently included something about opening up the meetings. What does your view on letting the public, but primarily the scientific community, which you serve, hear the debates and the discussions and the deliberations of the board?

Dr. WASHINGTON. I think philosophically I agree that we should do as much of the business as we can in the—in public open meetings.

I wonder if I could get back to you on this, because I think this will be one of the issues that I need to have a little bit more time to look into.

PLANT GENOME

Senator BOND. I think that would be a good idea, because this one may become a problem. If it can be dealt with, let us save the heartburn and not go down that path.

Dr. Colwell, I want to thank you for holding the work shop at the Plant Science Center in St. Louis on the new math and science partnership program. From all accounts, it was very well received.

How is the planning going for the program? What is your—what do you see the goals this year?

Dr. COLWELL. Senator, if I may, I would like to say that the Plant Science Genome Program is spectacular, and that we have had great success in completing the arabidopsis genome.

We are in the process now also of establishing a microbial genomes program, because we need to look at plant pathogens——

Senator BOND. Yes.

Dr. COLWELL.—As well as the plant genome itself. And that is a very rich area exploit what we know about the plant genome to determine how best to deal with resistance to disease and infection.

It is going splendidly and I would be very happy to provide any additional information you would like.

MAIZE SEQUENCING PROJECT

Senator BOND. The—of course, the sequencing grant—and we appropriated an initial $10 million for the plant genome program and for economically important crops such as maize, wheat, and barley. Is the sequencing project for maize still under consideration, and how are you using the additional funds and supporting the sequencing projects?

Dr. COLWELL. The maize project is continuing and it is my understanding that it is doing very well. I do not know of any difficulties and it is very exciting.

The rice genome project has gone extremely well; that has been international. It is extremely useful to have partnerships with other countries and to have this be an open process, with the data shared in order to benefit all of humankind.

Senator BOND. Well, thank you very much, Dr. Colwell, Dr. Marburger, Dr. Washington. We will have some additional questions for the record and I assume that maybe some other members of the committee will as well.

CONCLUSION OF HEARINGS

I believe the Chair had said she would do it. And we thank you very much for your participation. And with that, the hearing is recessed.

[Whereupon, at 11:25 a.m., Wednesday, May 15, 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 2003

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

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 2003 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 ALACHUA COUNTY, FLORIDA

Mr. Chairman: Thank you for allowing the Alachua County Board of County Commissioners to submit this written testimony before your Subcommittee regarding two innovative initiatives the County has undertaken: (1) Partners for a Productive Community Enhancement Initiative and (2) the Emerald Necklace Land Conservation Initiative.

PARTNERS FOR A PRODUCTIVE COMMUNITY ENHANCEMENT INITIATIVE

Alachua County seeks $2.3 million in federal funds to assist in the expansion of its award winning neighborhood revitalization program. This public/private program has been designed, developed and implemented to stabilize, revitalize and sustain specific at risk communities in Alachua County. Funding is being sought as an Economic Development Initiative (EDI) through the Department of Housing and Urban Development (HUD).

In response to a spiraling crime rate in southwest Alachua County, the Alachua County Sheriff's Office requested help from the Board of County Commissioners in 1993. Specifically, the Sheriff reported that 57 percent of its 911 calls came from an area that had only 3.2 percent of the County's population. The County Commission responded by providing $38,000 in funding for a Program Manager to staff the Partners for a Productive Community (PPC) Program in fiscal year 1994.

The PPC was launched as a strategic planning effort with three goals: the establishment of neighborhood-based services, the development of public/private partnerships and a focus on crime prevention. The success of this project depends upon the coordinated efforts of the Alachua County Sheriff's Office, the Courts and the Alachua County Department of Community Support Services. The goal of the Sheriff's Office was to reduce the number of calls from the area, and to develop a relationship of trust with the area's residents. The goal of the Courts was to help with the swift prosecution of cases, and to increase personnel in key areas. Finally, the goal of the County's Department of Community Support Services was to develop and implement a neighborhood needs assessment process that would determine the so-

cial service needs in the targeted area. The Community Support Services Department was also responsible for developing public/private community partnerships, and community based organizations comprised of tenants, property owners and managers. Thus, this project represents a multi-agency strategy to stabilize, revitalize and sustain five specific neighborhoods of Alachua County.

In addition to improving the area's basic infrastructure, federal funding is also being requested to provide community recreational programs for the area's youth. These activities will provide positive alternatives to crime, and allow youth to participate first hand in community improvement programs. In doing so, these programs will build and encourage positive self-esteem, leadership skills and academic achievement. To complement these programs, additional improvements will be made in the community Safe Havens.

Finally, the requested funding will also allow the PPC to expand this successful demonstration program into other at-risk Alachua County communities such as Archer, Florida. Specifically, the PPC will develop a partnership strategy to address the unmet needs of health care, education, training, employment, youth recreation and transportation for the residents of Archer. This request for federal funding is justified by the tremendous improvements and accomplishments that have been made in the five targeted southwest neighborhoods since 1995. These achievements include: free community day care for 75 children, 30 community day care slots, 24 in-home day care slots, the creation of 30 new jobs by the Early Progress Center, the reduction in 911 calls from 57 percent to 14 percent of total calls in the area, and substantial increases in the property values for four of the five neighborhoods.

Furthermore, the implementation of seasonal recreation programs in the targeted Communities by the Y.M.C.A. has been instrumental in providing positive, character-building activities for children, teenagers and adults. Day camps are provided during the summer months, and backyard sports are provided at the end of the school day during the school year. In addition, two 4–H Clubs serving 60 neighborhood children were established along with after school and community designed teen programs. Adult literacy and GED classes were made available at a nearby school campus. Finally, other programs have been established for the purpose of creating a sustainable neighborhood.

These programs include quarterly informational forums concerning small business development, educational opportunities, self-help seminars, budget management and landlord/tenant issues. With respect to community-wide improvement programs, a total of nine neighborhood cleanups were completed this year. With the active involvement of the residents of the neighborhoods, the Alachua County Office of Codes Enforcement has been able to reduce from twenty to two the number of abandoned and vandalized buildings. Furthermore, a new Waste Collection Ordinance, which was supported by the PPC, permits the efficient and timely citation of violators.

The sustaining factor within this program is the formally organized Partners for a Productive Community Council. The Council is the guiding force that deals with issues and determines unmet needs. For example, a block captain organization was started this year with the assistance of the PPC Council, and the Alachua County Sheriff's Office. This group monitors and manages crime prevention programs block by block. In recognition of the numerous accomplishments described above, the PPC received the National Association of Counties' Achievement Award in 1996 for distinguished and innovative contributions to improving county government.

The League of Women Voters presented the County with a similar award for outstanding community service. Additionally, in December 1999, Alachua County received Official Recognition from the Executive Office of Weed and Seed for two of the neighborhoods being served by the Partners for a Productive Community Program. Pursuant to this recognition, these communities have been awarded a $175,000 Weed and Seed Grant for prevention and intervention strategies focusing on Cedar Ridge and Linton Oaks neighborhoods. This grant will further strengthen the long-term efforts to improve the quality of life in these neighborhoods. As previously indicated, the federal funding requested will also be used to expand the successful Partners Initiative into the rural community of Archer. Incorporated in 1858, Archer is located in the southwestern portion of Alachua County. Archer and the rural areas surrounding it have a population of 16,348, of which 16 percent fall below the poverty level. The Town of Archer has one elementary school. Emergency rescue, fire and police services are contracted from Gainesville and Alachua County. There are also two public housing communities, and a small obsolete community center that is used as a congregate meal site for senior citizens. Consequently, many of Archer's residents travel to Gainesville for employment, social services, recreational activities, adult and continuing education and health care.

Recently, the University of Florida School of Nursing received $200,000 from the Florida Legislature to provide primary health care through a clinic based in Archer.

This minimal funding does not provide adequate funding for the primary health care needs for this area. Thus, a portion of the federal funding in this request could be channeled through the Alachua County Health Department in our continuing effort to develop partnerships, maximize resources and expand services to the citizens of Alachua County through our rural service initiative.

Employment opportunities, recreation for teens and outreach social services continue to be a challenge for the community of Archer. According to the Alachua County Sheriff's Office, Archer's crime rate is disproportionately high for a community its size. In 2000, the Alachua County Sheriff's Office received 2,657 calls for service. Of the dispatched calls, 30 were assaults and batteries, and 5 were for sexual battery. The largest number of dispatched calls (869) concerned burglary and theft.

In conclusion, Alachua County requests $2.3 million in federal funding to continue it's highly successful and award winning neighborhood revitalization programs; and to expand these successful model programs to other neighborhoods, including the Town of Archer, Florida.

EMERALD NECKLACE LAND CONSERVATION INITIATIVE

Alacua County is also seeking funding for its Emerald Necklace Land Conservation Initiative. This intergovernmental land conservation initiative will provide a publicly accessible, connected, and protected network of trails, greenways, open spaces and waterfronts surrounding the Gainesville urban area. The County is seeking $10 million to directly provide for multiple public uses and benefits, including passive recreation opportunities, protection of drinking water sources, watershed restoration, and preservation of diminishing fish and wildlife habitats.

On November 7, 2000, a large turnout of Alachua County voters overwhelmingly endorsed passage of a local land acquisition bond referendum that provides up to $29 million in local funds to acquire and preserve environmentally significant lands. This local initiative received broad public support, with endorsements from diverse community interests including business, environmental and community organizations.

Alachua County is seeking state and federal matching funds to leverage this substantial local commitment to land conservation. Property acquisitions are proposed to link existing conservation lands to provide for connected areas of protected water quality and wildlife habitat, as well as resource-based recreational opportunities. Federal matching funds will be critical to the success of this project. Alachua County is committed to responsible land use practices and conservation policies that encourage future growth to occur in areas of lesser environmental sensitivity with adequate infrastructure.

Alachua County has five large-scale land acquisition projects (5,000+ acres) on Florida's Conservation and Recreation Lands (CARL) acquisition list.

—Paynes Prairie Additions (a large freshwater wetland and watershed, managed as a state preserve)
—San Felasco Hammock Additions (a mature hammock and sandhill forest, with ravines and unique sinkhole drainage features)
—Watermelon Pond (an upland sandhill and scrub forest community with important ephemeral wetlands surrounding a relatively pristine lake)
—Newnan's Lake (a diverse flatwoods forest surrounding a major community fishing lake with declining water quality)
—Lochloosa Forest (a pine flatwoods forest, largely in commercial timber production surrounding two large fishing lakes)

These tracts are under substantial land development pressures that, if left unchecked, will further fragment and diminish their environmental, water resource, and recreational values.

A major portion of the larger tracts proposed for acquisition are currently timberlands. Timber production, where conducted in conformance with best management practices to avoid soil erosion and water quality degradation, is a land use considered to be generally compatible with Alachua County's land conservation goals. In these areas, the purchase of development rights and conservation easements, as opposed to fee simple acquisition, are proposed as key components of the Emerald Necklace acquisition strategy. These conservation alternatives, which stretch the available acquisition dollars, allow the properties to continue to be used for lower impact, more compatible land use activities while remaining under private ownership and management.

In addition to these five larger tracts, acquisitions are proposed for smaller, but environmentally significant properties that will preserve vital connections between the larger tracts, creating the "Emerald Necklace." These smaller, linking parcels, often overlooked by state and federal land acquisition programs, are easier to man-

age by a local land conservation program such as that established by Alachua County.

Although most of the properties proposed to be included in this project are relatively undisturbed, an important objective of the Emerald Necklace initiative is to accomplish several critical restoration projects. Alachua County in consultation with the City of Gainesville has identified four priority restoration areas:

Newnan's Lake; a large lake in a relatively natural setting with spectacular recreational, scenic, and wildlife resources that is being adversely affected by water quality degradation and sedimentation. Specific projects requiring federal assistance include: investigations to determine the source of water quality problems and appropriate remedies, mechanical removal of muck and sedimentation, land acquisition for surrounding properties, a multi-use trail system circling the lake and connecting two existing rail-trails, and the designation and enhancement of a canoe trail connecting Newnan's and Orange Lake via Prairie Creek and the River Styx. The St. Johns River Water Management District is another willing partner for this restoration project, having made substantial commitments in the past and demonstrating an interest to expand land conservation and water resources protection in the area while enhancing public access.

Sweetwater Branch watershed restoration to improve water quality, reduce sedimentation, and to prevent adverse impacts on Paynes Prairie State Preserve (a designated National Natural Landmark) and the underlying Floridan Aquifer, the region's primary source of drinking water. Prior to draining into the drinking water aquifer via Alachua Sink on Paynes Prairie, this urban creek in eastern Gainesville is severely impacted by untreated stormwater runoff and further eroded by a major discharge of treated municipal waste-water.

Tumblin Creek watershed restoration to improve water quality, reduce sedimentation and toxicity to fish, and to prevent adverse impacts to Paynes Prairie State Preserve and the Floridan Aquifer. This severely degraded urban creek flows through a minority neighbor-hood and a public school campus prior to transporting untreated stormwater and potentially toxic sediments into Bivens Arm Lake. This lake, a state-designated wildlife sanctuary, provides an increasingly rare opportunity for subsistence and recreational bank fishing for low income and unemployed residents.

The restoration of Hogtown Creek, which drains the largest watershed in Gainesville. The City of Gainesville has acquired $3.0 million in properties to establish the Hogtown Creek Greenway. Federal funding assistance is needed for the development of recreational trails and for water quality improvements.

The Emerald Necklace initiative, with federal assistance, can serve as a model land conservation program, demonstrating a successful local, state, and federal environmental partnership as well as effective conservation alternatives to fee simple acquisition.

We hope that the Subcommittee will look favorably upon these worthwhile and innovative projects as the appropriations process moves forward.

Thanks you for your consideration.

PREPARED STATEMENT OF THE ALLIANCE TO SAVE ENERGY

INTRODUCTION

My name is David Nemtzow. I am the President of the Alliance to Save Energy, a bi-partisan, non-profit coalition of business, government, environmental, and consumer leaders dedicated to improving the efficiency with which our economy uses energy. Senators Charles Percy and Hubert Humphrey founded the Alliance in 1977. The leadership of the Alliance is also a partnership between the private sector and government chaired by Senator Byron Dorgan (D-ND) and co-chaired by Dean Langford the former CEO of Osram Sylvania. Over seventy companies currently participate in the Alliance's Associates program and with your permission Mr. Chairman, I would like to include for the record a complete list of the Alliance's Board of Directors and Associates. This list includes the nation's leading energy efficiency firms, electric and gas utilities, and other companies committed to promoting sound energy use.

Thank you for the opportunity to testify regarding the energy-related components of the Environmental Protection Agency's fiscal year 2003 budget request. Specifically, I respectfully urge you to significantly increase your support for Energy Star, a program of the Environmental Protection Agency (EPA) which uses energy efficiency to deliver significant environmental benefits to the nation while yielding significant economic benefits for businesses, state and local government institutions

such as colleges and universities, public schools, and hospitals, and of course to millions of consumers who purchase Energy Star-labeled products.

The Alliance has a long history of advocating for as well as researching and evaluating the effectiveness of federal efforts to promote energy efficiency. While many of these include laws passed by this Congress and federal regulations and standards issued pursuant to those laws, we especially applaud those that rely not on government mandates, but on cooperative partnerships between government and business and between the federal and state governments. The EPA Energy Star program is a shining example of these voluntary partnerships. President Bush and Vice President Cheney have referred to Energy Star for furthering national goals of broad-based economic growth, environmental protection, energy security and economic competitiveness simultaneously. The Climate Protection Division at EPA works closely with private sector manufacturers, retailers, building owners, and energy service providers, as well as state and local governments, non-profits, and other organizations to promote energy efficient products and buildings. And they do it extremely well for every tax dollar spent by the Energy Star program, 75 dollars worth of energy savings is returned.

Energy Star Improves Energy Reliability

Mr. Chairman, last year our nation faced emergencies in energy reliability. This could happen again. The dire situation surrounding electricity supply in California and the West brought renewed concern about America's energy needs. President Bush took a large step in issuing conservation orders for federal agencies in the midst of the crisis, yet this could do little to address demand. It was the help of Americans who stood up to the crisis and reduced their demand that helped prevent a further strain on supply. While this winter was mild, last year Americans staggered under massive increases in natural gas for their heating needs.

Energy Star has an important role to play in reliability. By promoting energy-efficient buildings, appliances, and other products Energy Star is helping reduce peak demand for electricity in homes, businesses, hospitals, and government buildings. By giving consumers guidance on heating and cooling equipment, Energy Star is helping those homeowners take back control of their home finances.

Energy Efficiency as a Potent Energy Resource

Mr. Chairman, the debate over energy policy is in full swing on the Senate floor. Much of that debate can be boiled down to the simple elements of supply and demand. There are those who are focusing on the supply end, calling for increasing the supply of our energy resources through expanded drilling, power plant licensing, and through other avenues. Then, there are those Senators who have turned their backs to supply to focus on demand. While we at the Alliance to Save Energy applaud that endeavor we realize that we cannot save our way our out of our dependence on fossil and nuclear fuels. An effective energy policy must include a combination of measures that provides electricity, heating fuel, and motor fuel to Americans. But to do that we must first go after the resource that is cheapest, can be delivered most quickly, and can stand up to all environmental scrutiny that resource is energy efficiency.

Energy efficiency isn't just a marginal activity by which we can chip a little bit off of our consumption and save a few bucks around the edges. Energy efficiency measures are powerful and dynamic policy tools through which prices, supply, and emissions can be radically changed. It seems that every year technological developments bring more and better measures at our disposal to reduce electricity demand, make homes more energy-efficient, and go further on less gasoline. But Mr. Chairman, a strategy to maximize these resources must begin with reasoned analysis of our energy situation, not a predisposition to one course or another.

Energy Star Capitalize on this Resource

Mr. Chairman, EPA's Energy Star has proven to be an extremely effective way for this nation to capitalize on the untapped potential of energy efficiency as a resource. In fact, Energy Star proves that environmental protection can not only be achieved without harming the economy, but also that such protections can act to boost consumer savings and economic growth.

Energy Star is composed entirely of voluntary partnerships, and they have grown since the early 1990s to include thousands of partnerships with product manufacturers, private and public building owners and operators, homebuilders, small businesses, utilities, and retailers. The sheer number of these partnerships is a testament to the fact that energy efficiency delivers "pollution prevention at a profit."

Recently, the Alliance to Save Energy asked many of Energy Star's partners if they would support our request for a significant increase in funding for these important programs. The response was remarkable. Hundreds of businesses, from large

manufacturers like Canon USA in New York to smaller businesses like Mayer Electrical Supply Co. in Alabama, have pledged their company's support for these important programs. Each member of the Subcommittee with receive a copy of this letter with the list of businesses.

Energy Star serves broad constituencies across every state in the country. Energy Star includes over 1,600 manufacturing partners of over 30 different product types, who make and market over 11,000 different models of Energy Star compliant products. Energy Star assists over 2,800 small businesses with their efforts to maximize the energy efficiency of their facilities. Energy Star's work with partners further advances the education of energy efficiency and the reduction in energy consumption. For example, by working with builders, Energy Star helps the customers of those builders make smart decisions decisions that will save the consumer money and the country pollution for as long as the home is standing. Energy Star counts more than 1,600 builder partners and partners who supply products and services for energy-efficient home construction. To date, more than 25,000 Energy Star labeled homes have been built, locking in financial savings for homeowners of more than $7.5 million annually. Energy Star Buildings participants now include over 15 percent of the nation's total commercial, public, and industrial market, resulting in more than 25 billion kilowatt hours of energy saved.

Energy Efficiency Investments Pay Back for Years

Energy efficiency improvements achieved through Energy Star are like "the gift that keeps on giving." There are not only the immediate environmental and economic benefits, but also those that are achieved through the long term investments.

While consumers who purchase Energy Star labeled products save through the life of the product, product manufacturers get the economic boost and incentives from the purchases of these products. EPA predicts expenditures on energy-efficient technology of almost $13 billion through 2010. In addition, EPA predicts cumulative net energy bill savings for consumer and businesses of $70 billion through 2010 an average net savings of more than $5 billion per year.

Pollution savings are as dramatic as the financial savings. In 2001 alone, reductions in greenhouse gas emissions totaled 38 million metric tons of carbon equivalent (MMTCE) that's similar to taking more than 25 million cars off the road. Last year, emissions of 140,000 tons of nitrogen oxides (NO_X) were also prevented. Because many of the investments in energy-efficient technology promoted by Energy Star offer a life of ten years or more, these investments will continue to deliver economic and environmental benefits through 2010 and beyond. EPA estimates that emissions reductions averaging more than 35 MMTCE per year between now and 2010 were locked in last year based on actions already taken by Energy Star partners.

In considering the environmental value of the purchasing decisions that Energy Star helps consumers make more wisely, it is important to realize that over 50 percent of U.S. greenhouse gas emissions in 2010 will be coming from products and capital equipment not yet purchased. The Energy Star program seeks to influence those capital investment decisions in a way that helps individual purchasers save money while simultaneously helping the nation meet its clean air and greenhouse gas emissions-reduction goals.

All of this through voluntary participation in Energy Star, and the voluntary, market-based choices made by thousands of partners and millions of American consumers. No regulations, no government mandates.

Energy Efficiency Enhances Electric System Reliability

Mr. Chairman, Energy Star, and energy efficiency in general, also enhance the security of our energy supply in another very significant, but largely unappreciated, way. I am referring to the reliability of our electric system. As every member of Congress is aware, the nation is in the midst of a transition in the structure of our electric utility industry from a system of regulated monopolies to a competitive market for electricity generation and retail sales. While true competition should be a boon for efficiency on the generation side, this transition brings with it many uncertainties. Under regulation, utilities planned for and built power plants to meet a predetermined reserve generation capacity, and were assured of recovering costs plus a profit margin through the regulatory rate-setting process. Under competition, markets composed of electric generating businesses, investors, and consumers will decide which supplies will be needed and economical. The ability of markets to accurately forecast future demand and potential revenues and translate those into timely investments in supply capability remains to be seen.

Compounding this problem, impending restructuring has put a chill on utilities' interest in helping their customers to use energy more efficiently. Since 1993, utili-

ties have slashed spending on their "demand-side management" programs, the largest component of which is usually energy efficiency, by 45 percent. The reason for this is simple: in a competitive environment, electricity generators no longer have an interest in helping their customers reduce the consumption of their product. The foregone energy savings and peak demand reductions from energy efficiency programs have been substantial, and they have exacerbated the steady growth in demand for electricity created by our strong economy. Many summers have brought "capacity crunches" in various regions of the country; shortages of either electric supply or transmission and distribution capacity needed to deal with peak demand on hot summer days.

Energy efficiency, by reducing demand, unquestionably contributes to system reliability. Quite simply, energy efficiency reduces both the base load, the amount of energy required to be supplied to an area or region, as well as the peak power demand. Different technologies may contribute primarily to one or the other, for example: lighting and refrigeration efficiencies reduce base load, while air conditioner efficiency improvements reduce summertime peak load. (Of course, any reduction in base load also reduces the "height" of peak loads.) Thus, energy efficiency in the aggregate helps maintain adequate margins of generation supply, and by reducing the load and stress on various points in the power distribution network, also enhances the security of the system. Energy Star, with its broad reach, covers all the bases. In fact, EPA works with more than 100 utilities and state energy efficiency providers that serve approximately 50 percent of the households in the United States in promoting energy efficiency with Energy Star.

The Bush Administration's energy policy released last year also touted the benefits of the Energy Star program and called for an expansion of this important initiative. In their report to the President, the National Energy Policy Development Group recommended that: "the President direct the EPA Administrator to develop and implement a strategy to increase public awareness of the sizable savings that energy efficiency offers to homeowners across the country. Typical homeowners can save about 30 percent (about $400) a year on their home energy bill by using Energy Star labeled products." The report further complimented the program. Noting not only that "Conservation and energy efficiency are important elements of a sound energy policy" but also that "The federal government can also promote energy efficiency through programs like the Energy Star program, and search for more innovative technologies that improve efficiency and conservation through research and development."

The Need, and the Answer, Are Clear

The need for energy efficiency to contribute even more strongly to our nation's economic growth and energy security is clear. The potential for energy efficiency programs like Energy Star to meet that need is just as clear, and just as strong. At the end of its first decade, Energy Star is now achieving widespread recognition. EPA's latest market research shows that not only do most American's recognize the unique Energy Star label, but it also is highly influential in influencing their purchases. Each year, Energy Star recognizes companies and organizations that go above and beyond to advance energy efficiency, and these honors speak volumes about the program itself.

Corporations such as Maytag, located in Newton, Iowa, are being recognized this year for their products and public education efforts that demonstrate that, working with businesses, Energy Star can leverage private sector dollars to advance marketing efforts for efficient products. Maytag now offers 68 Energy Star qualified appliance models, which is almost 100 percent increase over last year. In 2001, Maytag concluded a concert tour with educational messages about energy and water savings and their "Mother Earth" float in the Macy's Day Parade displayed the Energy Star logo reaching millions of consumers around the country with messages of energy saving.

In addition to marketing efforts with Energy Star partners, the Energy Star program participates in research and is always on the lookout for new and innovative ways to reduce energy use. This year, a West Virginia company will receive one of the special recognition awards for technical innovation. Royal Venders, Inc. located in Kearneysville, West Virginia has developed a new vending machine technology; Royal Vendors' customers use approximately 50 percent less energy. The technology consists of a more energy efficient T8 lighting package, cooling unit, GE evaporator fan, and software to further reduce consumption during non-peak hours. All new 2002 Royal Vendors machines are available with the optional energy efficiency package, which saves energy, money, and maintenance/service calls. With approximately one million Royal Vendors machines in place in the United States, upgrading the existing stock of machines will bring energy savings for years to come. Recognition

of the technology is another way that Energy Star helps push energy efficiency advancements into more common use.

Much Has Been Accomplished, but Huge Potential Remains Untapped

The questions are often asked: "If energy efficiency is so great, why don't consumers and businesses just do it on their own? Why do we need a government program to promote it and incent people to do it?" Well, we know that for reasons sometimes hard to understand, people often don't do what is in their own interest. For example, people should save for their retirement, right? It's certainly in their long-term self-interest. Yet, the government goes to great lengths, and great expense, to goad people into saving for their retirement, through tax breaks for 401(k)s and other retirement plans, IRA's etc. How about home ownership? It's the American dream to own your own home for peace of mind, long-term security, etc. yet Congress long ago enacted the home mortgage-interest tax deduction, to convince people to buy their home and help them afford it. Compared to things like these, the federal funds spent on Energy Star are a pittance.

There are no tax breaks or subsidies in these programs. Appropriations go directly to fund the underlying research, program implementation, and technical assistance to partners. These funds are hugely leveraged through EPA's thousands of voluntary partnerships with product manufacturers, home builders, state and local government institutions, commercial building owners, and small businesses. For every federal dollar spent on these programs, EPA can show an average of $75 in utility bill savings to someone, $15 in private sector investment in energy efficient technology, reductions in greenhouse gas emissions of 1.0 MMTCE, and an addition of over $60 to the economy.

Conclusion

Over the past decade, the Energy Star programs have demonstrated their effectiveness by achieving great savings in the nation's collective energy bill and in energy-related pollution. But, as successful as these programs have been, much more could be accomplished with increased funding. It is estimated that if all consumers chose only Energy Star-labeled products over the next decade or so, the nation's energy bill would be reduced by about $100 billion, while avoiding 300 MMTCE in greenhouse gas emissions. If all commercial building owners took advantage of the cost-effective efficiency-improvement opportunities, they could achieve another $130 billion in energy savings and 350 MMTCE in emissions reductions over the next 10 years.

These programs are wildly successful by any measure. They are well-run, they are cost-effective, they have consistently exceeded their goals, and they have the support, even explicit endorsement of businesses across the country. Unfortunately, these important programs have received a virtual level funding request for the past 2 years, even as the number of products and manufacturers in the Labeling program has greatly expanded, the number of partners in the Buildings, Homes, and Small Business programs have soared, and both President Bush and Vice President Cheney have publicly touted the benefits of Energy Star and promoted voluntary pollution reduction.

Energy Star's effectiveness in terms of national energy bill savings and pollution reduction are truly impressive. While there are many demands on the countries financial resources, I respectfully urge greater support to what works. Energy Star has proven tremendously cost-effective and it can deliver even greater benefits to the nation with increased funding resources.

Thank you again for the opportunity to testify.

PREPARED STATEMENT OF THE AMERICAN ASTRONOMICAL SOCIETY

EXECUTIVE SUMMARY

ASTRONOMY AND ASTROPHYSICS IN THE NEW MILLENNIUM

In the first decade of the new millennium, we are poised to take a giant step forward in understanding the universe and our place within it. The decade of the 1990s saw an enormous number of exciting discoveries in astronomy and astrophysics. For example, humanity's centuries-long quest for evidence of the existence of planets around other stars resulted in the discovery of extrasolar planets, and the number of planets known continues to grow. Astronomers peered far back in time, to only a few hundred thousand years after the Big Bang, and found the seeds from which all galaxies, such as our own Milky Way, were formed. At the end of the decade came evidence for a new form of energy that may pervade the universe. Nearby

galaxies were found to harbor extremely massive black holes in their centers. Distant galaxies were discovered near the edge of the visible universe. In our own solar system, the discovery of Kuiper Belt objects—some of which lie beyond the orbit of Pluto—opens a new window onto the history of the solar system. This report presents a comprehensive and prioritized plan for the new decade that builds on these and other discoveries to pursue the goal of understanding the universe, a goal that unites astronomers and astrophysicists with scientists from many other disciplines.

The Astronomy and Astrophysics Survey Committee was charged with surveying both ground- and space-based astronomy and recommending priorities for new initiatives in the decade 2000 to 2010. In addition, the committee was asked to consider the effective implementation of both the proposed initiatives and the existing programs. The committee's charge excludes in situ studies of Earth and the planets, which are covered by other National Research Council committees: the Committee on Planetary and Lunar Exploration and the Committee on Solar and Space Physics. To carry out its mandate, the committee established nine panels with more than 100 distinguished members of the astronomical community. Broad input was sought through the panels, in forums held by the American Astronomical Society, and in meetings with representatives of the international astronomical community. The committee's recommendations build on those of four previous decadal surveys (NRC, 1964, 1972, 1982, 1991), in particular the report of the 1991 Astronomy and Astrophysics Survey Committee, The Decade of Discovery in Astronomy and Astrophysics (referred to in this report as the 1991 survey; also known as the Bahcall report).

The fundamental goal of astronomy and astrophysics is to understand how the universe and its constituent galaxies, stars, and planets formed, how they evolved, and what their destiny will be. To achieve this goal, researchers must pursue a strategy with several elements:

—Survey the universe and its constituents, including galaxies as they evolve through cosmic time, stars and planets as they form out of collapsing interstellar clouds in our galaxy, interstellar and intergalactic gas as it accumulates the elements created in stars and supernovae, and the mysterious dark matter and perhaps dark energy that so strongly influence the large-scale structure and dynamics of the universe.

—Use the universe as a unique laboratory for probing the laws of physics in regimes not accessible on Earth, such as the very early universe or near the event horizon of a black hole.

—Search for life beyond Earth, and if it is found, determine its nature and its distribution.

—Develop a conceptual framework that accounts for all that astronomers have observed.

Several key problems are particularly ripe for advances in this decade:

—Determine the large-scale properties of the universe: the amount, distribution, and nature of its matter and energy, its age, and the history of its expansion.

—Study the dawn of the modern universe, when the first stars and galaxies formed.

—Understand the formation and evolution of black holes of all sizes.

—Study the formation of stars and their planetary systems, and the birth and evolution of giant and terrestrial planets.

—Understand how the astronomical environment affects Earth.

These scientific themes, all of which now appear to offer particular promise for immediate progress, are only part of the much larger tapestry that is modern astronomy and astrophysics. For example, scientists cannot hope to understand the formation of black holes without understanding the late stages of stellar evolution, and the full significance of observations of the galaxies in the very early universe will not be clear until it is clear how these galaxies have evolved since that time. Although the new initiatives that the committee recommends will advance knowledge in many other areas as well, they were selected explicitly to address one or more of the important themes listed above.

In addition, the committee believes that astronomers can make important contributions to education. Building on widespread interest in astronomical discoveries, astronomers should:

—Use astronomy as a gateway to enhance the public's understanding of science and as a catalyst to improve teachers' education in science and to advance interdisciplinary training of the technical work force.

The United States has been generous in its support of astronomy and astrophysics and as a result enjoys a leading role in almost all areas of astronomy and astrophysics. So that the nation can continue to obtain maximum scientific return on its investment, the committee makes several recommendations to optimize the system of support for astronomical research.

Balancing New Initiatives with the Ongoing Program

An effective program of astronomy and astrophysics research must balance the need for initiatives to address new opportunities with completion of projects accorded high scientific priority in previous surveys.

—The committee reaffirms the recommendations of the 1991 Astronomy and Astrophysics Survey Committee (NRC, 1991) by endorsing the completion of the Space Infrared Telescope Facility (SIRTF), the Millimeter Array (MMA; now part of the Atacama Large Millimeter Array, or ALMA), the Stratospheric Observatory for Infrared Astronomy (SOFIA), and the Astrometric Interferometry Mission (now called the Space Interferometry Mission, or SIM). Consistent with the recommendations of the Task Group on Space Astronomy and Astrophysics (NRC, 1997), the committee stresses the importance of studying the cosmic microwave background with the Microwave Anisotropy Probe (MAP) mission, the European Planck Surveyor mission, and ground-based and balloon programs.

The committee endorses U.S. participation in the European Far Infrared Space Telescope (FIRST), and it endorses the planned continuation of the operation of the Hubble Space Telescope (HST) at a reduced cost until the end of the decade.

—To achieve the full scientific potential of a new facility, it is essential that, prior to construction, funds be identified for operation of the facility, for renewal of its instrumentation, and for grants for data analysis and the development of associated theory.

NASA already follows this recommendation in large part by including Mission Operations and Data Analysis (MO&DA) in its budgeting for new missions. The committee recommends that funds for associated theory be included in MO&DA as well. It recommends further that the National Science Foundation include funds for facility operation, renewal of instrumentation, and grants for data analysis and theory along with the construction costs in the budgets for all new federally funded, ground-based facilities. These recommendations are consistent with those of the 1991 survey. For the purpose of total project budget estimation, the committee adopted a model in which operation amounts to 7 percent of the capital cost per year and instrumentation amounts to 3 percent per year for the first 5 years of operation. The committee recommends that total project budgets provide for grants for data analysis and associated theory at the rate of 3 percent of the capital cost per year for major facilities and 5 percent per year for moderate ones. On the basis of this model, the committee has included funds for operations, instrumentation, and grants for a period of 5 years in the cost estimates provided in this report for most ground-based initiatives.

—Adequate funding for unrestricted grants that provide broad support for research, students, and postdoctoral associates is required to ensure the future vitality of the field; therefore new initiatives should not be undertaken at the expense of the unrestricted grants program.

Grants not tied to a facility or program—unrestricted grants—often drive the future directions of astronomy.

Strengthening Ground-Based Astronomy and Astrophysics

The committee addresses several structural issues in ground-based astronomy and astrophysics.

—U.S. ground-based optical and infrared facilities, radio facilities, and solar facilities should each be viewed by the National Science Foundation (NSF) and the astronomical community as a single integrated system drawing on both federal and nonfederal funding sources. Effective national organizations are essential to coordinate, and to ensure the success and efficiency of, these systems. Universities and independent observatories should work with the national organizations to ensure the success of these systems.

—Cross-disciplinary competitive reviews should be held about every 5 years for all NSF astronomy facilities. In these reviews, it should be standard policy to set priorities and consider possible closure or privatization.

The National Radio Astronomy Observatory (NRAO) and the National Astronomy and Ionosphere Center (NAIC) currently serve as effective national organizations for

radio astronomy, and the National Solar Observatory (NSO) does so for solar physics. The National Optical Astronomy Observatories (NOAO) as currently functioning and overseen does not fulfill this role for ground-based optical and infrared astronomy. A plan for the transition of NOAO to an effective national organization for ground-based optical and infrared astronomy should be developed, and a high-level external review, based on appropriate, explicit criteria, should be initiated.

The Department of Energy (DOE) supports a broad range of programs in particle and nuclear astrophysics and in cosmology. The scientific payoff of this effort would be even stronger with a clearly articulated strategic plan for DOE's programs that involve astrophysics.

—Given the increasing involvement of the Department of Energy in projects that involve astrophysics, the committee recommends that DOE develop a strategic plan for astrophysics that would lend programmatic coherence and facilitate coordination and cooperation with other agencies on science of mutual interest.

Ensuring the Diversity of NASA Missions

NASA's Great Observatories have revolutionized understanding of the cosmos, while the extremely successful Explorer program provides targeted small-mission opportunities for advances in many areas of astronomy and astrophysics. The committee endorses the continuation of a vigorous Explorer program. There are now fewer opportunities for missions of moderate size, however, despite the enormous role such missions have played in the past.

—NASA should continue to encourage the development of a diverse range of mission sizes, including small, moderate, and major, to ensure the most effective returns from the U.S. space program.

Integrating Theory Challenges into the New Initiatives

The new initiatives recommended below are motivated in large part by theory, which is also key to interpreting the results. Adequate support for theory, including numerical simulation, is a cost-effective means for maximizing the impact of the nation's capital investment in science facilities. The committee therefore recommends that

—To encourage theorists to contribute to the planning of missions and facilities and to the interpretation and understanding of the results, one or more explicitly funded theory challenges should be integrated with most moderate or major new initiatives.

Coordinating Programs among Federal Agencies

Because of the enormous scale of contemporary astronomical projects and the need for investigations that cross wavelength and discipline boundaries, cooperation among the federal agencies that support astronomical research often has benefits. To determine when interagency collaboration would be fruitful, each agency should have in place a strategic plan for astronomy and astrophysics and should also have cross-disciplinary committees (such as DOE and NSF's Scientific Assessment Group for Experiments in Non-Accelerator Physics [SAGENAP] and NASA's Space Science Advisory Committee [SSAC]) available to evaluate proposed collaborations. The Office of Science and Technology Policy could play a useful role in facilitating such interagency cooperation.

Collaborating with International Partners

International collaboration enables projects that are too costly for the United States alone and enhances the scientific return on projects by bringing in the scientific and technical expertise of international partners. In many cases, international collaboration provides opportunities for U.S. astronomers to participate in major international projects for a fraction of the total cost, as in the case of the European Solar and Heliospheric Observatory (SOHO), XMM-Newton, Planck Surveyor, and FIRST missions, and the Japanese Advanced Satellite for Cosmology and Astrophysics mission. Valuable opportunities for international collaboration exist for smaller missions as well. Collaborations on major projects require the full support of the participating scientific communities, which can be ensured if the projects are among the very highest priorities of the participants, as is the case with ALMA.

The committee affirms the value of international collaboration for ground- and space-based projects of all sizes. International collaboration plays a crucial role in a number of this committee's recommended initiatives, including the Next Generation Space Telescope, the Expanded Very Large Array, the Gamma-ray Large Area Space Telescope, the Laser Interferometer Space Antenna, the Advanced Solar Telescope, and the Square Kilometer Array technology development, and it could play a significant role in other recommended initiatives as well.

Many mysteries confront us in the quest to understand our place in the universe. How did the universe begin? What is the nature of the dark matter and the dark energy that pervade the universe? How did the first stars and galaxies form? Researchers infer the existence of stellar mass black holes in our galaxy and supermassive ones in the nuclei of galaxies. How did they form? The discovery of extrasolar planets has opened an entirely new chapter in astronomy, bringing a host of unresolved questions. How do planetary systems form and evolve? Are planetary systems like our solar system common in the universe? Do any extrasolar planetary systems harbor life? Even a familiar object like the Sun poses many mysteries. What causes the small variations in the Sun's luminosity that can affect Earth's climate? What is the origin of the eruptions on the solar surface that cause "space weather"?

To seek the answers to these questions and many others described in this report, the committee recommends a set of new initiatives for this decade that will substantially advance the frontiers of human knowledge. Table ES.1 presents these initiatives, combined for both ground- and space-based astronomy, in order of priority. The committee set the priorities primarily on the basis of scientific merit, but it also considered technical readiness, cost-effectiveness, impact on education and public outreach, and the relation to other projects. The initiatives were divided into three categories—major, moderate, and small—that were defined separately for ground- and space-based projects based on estimated cost (see Chapter 1). The estimated cost of the recommended program for the decade 2000 to 2010 is $4.7 billion in fiscal year 2000 dollars, about 20 percent greater than the $3.9 billion inflation-adjusted cost of the recommendations of the 1991 survey. Two of the recommended projects, the Terrestrial Planet Finder (TPF) and the Single Aperture Far Infrared (SAFIR) Observatory, could start near the end of this decade or at the beginning of the next. The committee has assumed that about 15 percent of the total estimated cost for these two projects will fall in this decade.

Major initiatives

The Next Generation Space Telescope (NGST), the committee's top-priority recommendation, is designed to detect light from the first stars and to trace the evolution of galaxies from their formation to the present. It will revolutionize understanding of how stars and planets form in our galaxy today. NGST is an 8-mclass infrared space telescope with 100 times the sensitivity and 10 times the image sharpness of the Hubble Space Telescope in the infrared. Having NGST's sensitivity extend to 27 μm would add significantly to its scientific return. Technology development for this program is well under way. The European Space Agency and the Canadian Space Agency plan to make substantial contributions to the instrumentation for NGST.

The Giant Segmented Mirror Telescope (GSMT), the committee's top ground-based recommendation and second priority overall, is a 30-m-class ground-based telescope that will be a powerful complement to NGST in tracing the evolution of galaxies and the formation of stars and planets. It will have unique capabilities in studying the evolution of the intergalactic medium and the history of star formation in our galaxy and its nearest neighbors. GSMT will use adaptive optics to achieve diffraction-limited imaging in the atmospheric windows between 1 and 25 μm and unprecedented light-gathering power between 0.3 and 1 μm. The committee recommends that the technology development for GSMT begin immediately and that construction start within the decade. Half the total cost should come from private and/or international partners. Open access to GSMT by the U.S. astronomical community should be directly proportional to the investment by the NSF.

The Constellation-X Observatory is a suite of four powerful x-ray telescopes in space that will become the premier instrument for studying the formation and evolution of black holes of all sizes. Each telescope will have high spectral resolution over a broad energy range, enabling it to study quasars near the edge of the visible universe and to trace the evolution of the chemical elements. The technology issues are well in hand for a start in the middle of this decade.

The Expanded Very Large Array (EVLA)—the revitalization of the VLA, the world's foremost centimeter-wave radio telescope—will take advantage of modern technology to attain unprecedented image quality with 10 times the sensitivity and 1,000 times the spectroscopic capability of the existing VLA. The addition of eight new antennas will provide an order-of-magnitude increase in angular resolution. With resolution comparable to that of ALMA and NGST, but operating at much longer wavelengths, the EVLA will be a powerful complement to these instruments

for studying the formation of protoplanetary disks and the earliest stages of galaxy formation.

The Large-aperture Synoptic Survey Telescope (LSST) is a 6.5-m-class optical telescope designed to survey the visible sky every week down to a much fainter level than that reached by existing surveys. It will catalog 90 percent of the near-Earth objects larger than 300 m and assess the threat they pose to life on Earth. It will find some 10,000 primitive objects in the Kuiper Belt, which contains a fossil record of the formation of the solar system. It will also contribute to the study of the structure of the universe by observing thousands of supernovae, both nearby and at large redshift, and by measuring the distribution of dark matter through gravitational lensing. All the data will be available through the National Virtual Observatory (see below under "Small Initiatives"), providing access for astronomers and the public to very deep images of the changing night sky.

The Terrestrial Planet Finder (TPF) is the most ambitious science mission ever attempted by NASA. It is currently envisaged as a free-flying infrared interferometer designed to study terrestrial planets around nearby stars—to find them, characterize their atmospheres, and search for evidence of life—and to obtain images of star-forming regions and distant galaxies with unprecedented resolution. The committee's recommendation of this mission is predicated on the assumptions that TPF will revolutionize major areas of both planetary and nonplanetary science and that, prior to the start of TPF, ground- and space-based searches will confirm the expectation that terrestrial planets are common around solar-type stars. Both NGST and SIM lie on the technology path necessary to achieve TPF.

The Single Aperture Far Infrared (SAFIR) Observatory is an 8-m-class space-based telescope that will study the important and relatively unexplored spectral region between 30 and 300 μm. It will enable the study of galaxy formation and the earliest stage of star formation by revealing regions too enshrouded by dust to be studied by NGST, and too warm to be studied effectively with ALMA. As a follow-on to NGST, SAFIR could start toward the end of the decade, and it could form the basis for developing a far-infrared interferometer in the succeeding decade.

Moderate Initiatives

Ground-Based Programs.—The committee's recommended highest-priority moderate initiative overall is the Telescope System Instrumentation Program (TSIP), which would substantially increase NSF funding for instrumentation at large telescopes owned by independent observatories and provide new observing opportunities for the entire U.S. astronomical community. Its second priority among ground-based initiatives is the Advanced Solar Telescope (AST), which offers the prospect of revolutionizing understanding of magnetic phenomena in the Sun and in the rest of the universe. The committee's next recommendation is that a program be established to plan and develop technology for the Square Kilometer Array, an international centimeter-wave radio telescope for the second decade of the century. In order of priority, the other recommended moderate initiatives are the following: The Combined Array for Research in Millimeter-wave Astronomy (CARMA) will be a powerful millimeter-wave array in the Northern Hemisphere. The study of very-high-energy gamma rays will take a major step forward with the construction of the Very Energetic Radiation Imaging Telescope Array System (VERITAS). The Frequency Agile Solar Radio telescope (FASR) will apply modern technology to provide unique data on the Sun at radio wavelengths. The South Pole Submillimeter-wave Telescope (SPST) will take advantage of the extremely low opacity of the Antarctic atmosphere to carry out surveys at submillimeter wavelengths that are possible nowhere else on Earth.

Space-Based Programs.—The committee's top recommendation for a moderate space-based mission is the Gamma-ray Large Area Space Telescope (GLAST). This joint NASA-DOE mission will provide observations of gamma rays from 10 MeV to 300 GeV with six times the effective area, six times the field of view, and substantially better angular resolution than the Energetic Gamma Ray Experiment aboard the Compton Gamma Ray Observatory. The committee's second-priority space-based project is the Laser Interferometer Space Antenna (LISA), which will be able to detect gravity waves from merging supermassive black holes throughout the visible universe and from close binary stars throughout our galaxy. The committee has assumed that LISA's cost will be shared with the European Space Agency. Four additional space-based missions have priority. The Solar Dynamics Observer (SDO), a successor to the path-breaking SOHO mission, will study the outer convective zone of the Sun and the structure of the solar corona. The highly variable hard-x-ray sky will be mapped by the Energetic X-ray Imaging Survey Telescope (EXIST), which will be attached to the International Space Station. The Advanced Radio Interferometry between Space and Earth (ARISE) mission is an orbiting antenna that will combine with the ground-based VLBA to provide an order-of-magnitude in-

crease in resolution for studying the regions near supermassive black holes in active galactic nuclei.

Small Initiatives

Several small initiatives recommended by the committee span both ground and space. The first among them—the National Virtual Observatory (NVO)—is the committee's top priority among the small initiatives. The NVO will provide a "virtual sky" based on the enormous data sets being created now and the even larger ones proposed for the future. It will enable a new mode of research for professional astronomers and will provide to the public an unparalleled opportunity for education and discovery.

The remaining recommendations for small initiatives are not prioritized. The committee recommends establishing a laboratory astrophysics program and a national astrophysical theory postdoctoral program for both ground- and space-based endeavors. Augmentation of NASA's Astrophysics Theory Program will help restore a balance between the acquisition of data and the theory needed to interpret it. Ultralong-duration balloon flights offer the prospect of carrying out small space-based experiments at a small fraction of the cost of satellites. The Low Frequency Array (LOFAR), a joint Dutch-U.S. initiative, will dramatically increase knowledge of the universe at radio wavelengths longer than 2 m. The Advanced Cosmic-ray Composition Experiment for the Space Station (ACCESS) will address fundamental questions about the origin of cosmic rays. Expansion of the Synoptic Optical Long-term Investigation of the Sun (SOLIS) will permit investigation of the solar magnetic field over an entire solar cycle.

Technology

Technological innovation has often enabled astronomical discovery. Advances in technology in this decade are a prerequisite for many of the initiatives recommended in this report as well as for initiatives in the next decade. For the recommended space-based initiatives, technology investment as specified in the existing NASA technology road map is an assumed prerequisite for the cost estimates given in Table ES.1. It is essential to maintain funding for these initiatives if NASA is to keep these missions on schedule and within budget. The committee endorses NASA's policy of completing a mission's technological development before starting the mission. The committee similarly endorses such a policy as the NSF is applying it to the design and development of ALMA.

For possible ground-based initiatives in the decade 2010 to 2020, investment is required in very large, high-speed digital correlators; in infrared interferometry; and in specialized dark-matter detectors. Future space-based initiatives require investment in spacecraft communication and x-ray interferometry, as well as technology for the next-generation observatories. Such technology will include energy-resolving array detectors for optical, ultraviolet, and x-ray wavelengths; far-infrared array detectors; refrigerators; large, lightweight optics; and gamma-ray detectors.

ASTRONOMY'S ROLE IN EDUCATION

Because of its broad public appeal, astronomy has a unique role to play in education and public outreach. The committee recommends that the following steps be taken to exploit the potential of astronomy for enhancing education and public understanding of science:

—Expand and improve the opportunities for astronomers to engage in outreach to the K–12 community.

—Establish more pilot partnerships between departments of astronomy and education at a few universities to develop exemplary science courses for preservice teachers.

—Improve communication, planning, and coordination among federal programs that fund educational initiatives in astronomy.

—Increase investment toward improving public understanding of the achievements of all NSF-funded science and facilities, especially in the area of astronomy.

TABLE ES. 1.—*Prioritized Equipment Initiatives (Combined Ground and Space) and Estimated Federal Costs for the Decade 2000 to 2010*[1,2]

Initiative	*Cost*[3]
Major Initiatives:	
Next Generation Space Telescope (NGST)[4]	1,000
Giant Segmented Mirror Telescope (GSMT)[4]	350
Constellation-X Observatory	800
Expanded Very Large Array (EVLA)[4]	140

TABLE ES. 1.—*Prioritized Equipment Initiatives (Combined Ground and Space) and Estimated Federal Costs for the Decade 2000 to 2010* [1] [2]—*Continued*

Initiative	*Cost* [3]
Large-aperture Synoptic Survey Telescope (LSST)	170
Terrestrial Planet Finder (TPF) [5]	200
Single Aperture Far Infrared (SAFIR) Observatory [5]	100
Subtotal for major programs	2,760
Moderate Initiatives:	
Telescope System Instrumentation Program (TSIP)	50
Gamma-ray Large Area Space Telescope (GLAST) [4]	300
Laser Interferometer Space Antenna (LISA) [4]	250
Advanced Solar Telescope (AST) [4]	60
Square Kilometer Array (SKA) Technology Development	22
Solar Dynamics Observer (SDO)	300
Combined Array for Research in Millimeter-wave Astronomy (CARMA) [4]	11
Energetic X-ray Imaging Survey Telescope (EXIST)	150
Very Energetic Radiation Imaging Telescope Array System (VERITAS)	35
Advanced Radio Interferometry between Space and Earth (ARISE)	350
Frequency Agile Solar Radio telescope (FASR)	26
South Pole Submillimeter-wave Telescope (SPST)	50
Subtotal for moderate initiatives	1,604
Small Initiatives:	
National Virtual Observatory (NVO)	60
Other small initiatives [6]	246
Subtotal for small initiatives	306
Total	4,670

[1] Cost estimates for ground-based capital projects include technology development plus funds for operations, new instrumentation, and facility grants for 5 years.
[2] Cost estimates for space-based projects exclude technology development.
[3] Best available estimated costs to U.S. government agencies in millions of fiscal year 2000 dollars and rounded. Full costs are given for all initiatives except TPF and the SAFIR Observatory.
[4] Cost estimate for this initiative assumes significant additional funding to be provided by international or private partner; see Panel Reports (NRC, 2001) for details.
[5] These missions could start at the turn of the decade. The committee attributes $200 million of the $1,700 million total estimated cost of TPF to the current decade and $100 million of the $600 million total estimated cost of the SAFIR Observatory to the current decade.
[6] See Chapter 1 for details.

PREPARED STATEMENT OF THE AMERICAN GEOLOGICAL INSTITUTE

To the 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 2003 appropriations for the National Science Foundation (NSF). The fundamental research supported by NSF has fueled our present economic growth and contributed to improvements in our health, safety, and quality of life. This subcommittee has shown leadership in expanding the federal investment in fundamental research, and that leadership will be even more critical in the coming year. AGI urges the subcommittee to carefully examine the president's request. In particular, we encourage the Subcommittee to reconsider the requested program transfers, enhance support for core programs in the Geosciences Directorate, and expand the Major Research Equipment account to accommodate both existing projects and the requested new starts. Such increases represent an important investment in the future of our nation and our planet at a time when we can ill afford not to make that investment.

AGI is a nonprofit federation of 40 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 geoscience education, and strives to increase public awareness of the vital role the geosciences play in mankind's use of resources and interaction with the environment.

The rationale for supporting geoscience research and education has never been stronger. Global climate change, natural disasters, energy resources, and water

quality issues are reported daily by the news media. 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. 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.

NSF Geosciences Directorate

The NSF Geosciences Directorate (GEO) is the principal source of federal support for academic earth scientists who are seeking insight into the fundamental earth processes that ultimately sustain and transform life on our planet. The president's request appears to provide a significant increase to this directorate, but the bulk of the increase is due to several proposed transfers. In fact, all of the proposed transfers into NSF go into this one directorate. As a result, an apparent 13.4 percent requested increase for GEO includes only a 1.2 percent increase for existing programs. Whether or not the transfers are approved, we encourage the Subcommittee to provide real increases to existing programs in the Earth Sciences, Ocean Sciences and Atmospheric Sciences Divisions within GEO.

AGI asks the Subcommittee to take a hard look at these proposed transfers to determine whether they fit the NSF mission or whether they are better left in their current agencies. We recognize that these transfers reflect the president's desire to reward agencies like NSF that have demonstrated good management practices. But there may be a mission mismatch, particularly in the case of the proposed transfer of the U.S. Geological Survey's Toxic Substances Hydrology program, which funds highly targeted, long-term, mission-oriented research that is very different from the fundamental, university-based research NSF supports.

NSF Major Research Equipment Account: EarthScope

AGI urges the subcommittee to support the NSF Major Research Equipment (MRE) budget request of $35 million for a new earth science initiative called Earthscope. Taking advantage of new technology in sensors and data distribution, this four-pronged initiative will systematically survey the structure of the Earth's crust beneath North America. The fiscal year 2003 request includes support for 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; 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. The fourth component will move forward in conjunction with NASA: a satellite-based Synthetic Aperture Radar mission that can measure changes in the Earth's crust after earthquakes and volcanic eruptions. 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.

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 and Seismological Society of America. The National Science Board has not only endorsed EarthScope but has listed it as a priority for fiscal year 2003, a first for the Board. EarthScope has received a very favorable review from the National Academy of Sciences, which released a report last year entitled Review of EarthScope Integrated Science. Some key assertions from the report:

"The committee concludes that EarthScope is an extremely well articulated project that has resulted from consideration by many scientists over several years, in some cases up to a decade. During that time, the proponents have become experts, not just in the observing technology but in the data handling and retrieval systems that are necessary to manage information on this vast scale."

"The committee concludes that EarthScope will have a substantial impact on earth science in America and worldwide. It will provide scientists with vast amounts of data that will be used for decades."

"The time is right to undertake a full exploration of the nature of the continental crust of the United States and its underlying mantle. Such exploration is a critical requirement for understanding the nature of the earth on which we live and how society needs to manage and adapt to its rhythms and processes."

"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."

"The NSF should ensure that EarthScope's scientific potential is effectively realized and capitalized upon by continuing its support for the disciplinary and interdisciplinary programs within NSF's Division of Earth Sciences (EAR) that form the scientific foundation of the project."

"The committee concludes that InSAR is an integral part of the EarthScope vision that will greatly enhance the effectiveness of the project, and it should not be viewed merely as a desirable add-on to the project. The committee urges NSF and NASA to collaborate to realize this goal at the earliest opportunity, so as to make [Interferometric Synthetic Aperture Radar] capability a reality during the lifetime of the other EarthScope components."

AGI applauds the Subcommittee's commitment to fund existing MRE projects, but at the same time we strongly encourage the Subcommittee to provide enough funding to accommodate the president's requested projects as well.

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 the Earth 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 urges the subcommittee to support the 25 percent increase that the president has requested for the NSF Math and Science Partnerships program with the Directorate for Education and Human Resources (EHR). These partnerships will be awarded through competitive, merit-reviewed process, and will work to develop and implement plans to raise math and science standards at both the classroom level and above. Unlike the similar partnerships that would be provided to each state by the Department of Education, the NSF partnerships will provide an opportunity for university scientists to play an active role.

We encourage the EHR directorate to expand its interaction with the Directorate for Geosciences 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 and women. 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 written testimony to the Subcommittee and would be pleased to answer any questions or to provide additional information for the record. I can be reached at 703–379–2480 ext. 228, 703–379–2480 fax, applegate@agiweb.org, or 4220 King Street, Alexandria VA 22302–1502.

PREPARED STATEMENT OF THE AMERICAN INDIAN HIGHER EDUCATION CONSORTIUM

Mr. Chairman and Members of the Subcommittee, on behalf of this nation's 32 American Indian Tribal Colleges and Universities (TCUs), which comprise the American Indian Higher Education Consortium (AIHEC), thank you for the opportunity to express our views and requests for fiscal year 2003, to the Subcommittee.

SUMMARY OF REQUESTS

Department of Housing and Urban Development (HUD).—In fiscal year 2001 a TCU initiative was established and funded within the Community Development Block Grant program. This competitive program is designed to help address the dire facilities and infrastructure needs at tribal colleges. We strongly urge the Subcommittee to support this program at a minimum $3 million, included in the President's fiscal year 2003 budget request.

National Science Foundation (NSF) Programs:

—*Tribal Colleges and Universities Program (TCUP).*—This $10 million program is designed to encourage American Indians to pursue Information Technology and other science and technology fields by building capacity at eligible institutions and assisting them in strengthening teaching and learning in ways that improve student access, retention, and completion of science, technology, engineering and mathematics (STEM) programs. We request Congress expand the $10 million included in the President's budget request and fund this vital program at $15 million, to help support the addition of the Alaska Native and Native Hawaiian serving institutions as eligible participants in the program.

—Tribal College-Rural Systemic Initiative (TC–RSI) was created within NSF's Educational System Reform (ESR) division, to promote systemic change in the areas of science, technology, engineering and mathematics (STEM) at K–12 reservation schools through partnerships with tribal colleges. There are currently 14 tribal college partners in this program. We strongly urge the Subcommittee to support the ESR division budget. Additionally, we seek report language reaffirming the expansion of the tribal college program to include the remaining 18 tribal colleges.

—*Louis Stokes Alliances for Minority Participation (LSAMP) Program.*—In fiscal year 2001, funding was secured for phase II of the All Nations Alliance for Minority Participation program, which provides services to tribal colleges and is based at Salish Kootenai College in Pablo, Montana. The goal of the program is to establish a comprehensive interactive network to substantially increase the number of American Indians receiving baccalaureate and graduate degrees in science, mathematics, engineering, and technology. We urge Congress to continue to support and build upon this program to help prepare all Americans for the 21st Century workforce.

National Aeronautics and Space Administration (NASA).—In fiscal year 2001, the tribal colleges established a formal cooperative agreement with NASA for a $1.197 million project designed to increase access, participation, and success of American Indians in high quality pre-K to 16 mathematics, science, engineering, and technology programs. The agreement includes a tribal college liaison between AIHEC and NASA to oversee implementation of the project and provides modest program enrichment grants to the colleges. We urge Congress to include report language that encourages NASA faculty exchange programs and IPA contracts with TCUs to provide on-site expertise and partnerships. We respectfully request additional report language to encourage expansion of existing NASA programs, as well as new initiatives to address the critical technology infrastructure needs at TCUs.

BACKGROUND

The Tribal College Movement began in 1968 with the establishment of Navajo Community College, now Diné College, in Tsaile, Arizona. A succession of tribal colleges soon followed, primarily in the Northern Plains region. In 1972, the first six

tribally-controlled colleges established AIHEC to provide a support network for member institutions. Today, AIHEC represents 32 Tribal Colleges and Universities located in 12 states, begun specifically to serve the higher education needs of American Indian students. Collectively, they serve approximately 30,000 full-and part-time students from over 250 Federally recognized tribes.

All tribal colleges offer 2 year degrees, and several institutions offer baccalaureate and graduate-level degrees. The majority of the tribal colleges are fully accredited by independent, regional accreditation agencies.[1] In addition to college level programming, TCUs provide much needed high school completion (GED), basic remediation, job training, college preparatory courses, and adult education. Tribal colleges fulfill additional roles within their respective communities functioning as community centers, libraries, tribal archives, career and business centers, economic development centers, public-meeting places, and child care centers. Each TCU is committed to improving the lives of students through higher education and to moving American Indians toward self-sufficiency.

Tribal colleges provide needed access to higher education for American Indians and others living in some of this nation's most rural and economically depressed areas. These institutions, chartered by their respective tribal governments, were established in response to the recognition by tribal leaders that local, culturally-based education institutions are best suited to help American Indians succeed in higher education. TCUs 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. Since the first tribal college was established on the Navajo reservation, these vital institutions have come to represent the most significant development in the history of American Indian higher education, providing access to under-represented students and promoting achievement among students who may otherwise never have known postsecondary education success.

Despite their remarkable accomplishments, tribal colleges are the most poorly funded institutions of higher education in the country. Grossly inadequate funding levels remain the most significant barrier to their success. Funding for basic institutional operations for 25 reservation-based colleges is provided through the Tribally Controlled College or University Assistance Act (TCCUAA), Public Law 95–471. Funding was first appropriated through the Act in 1981, and is still less than two-thirds of its authorized level of $6,000 per full-time Indian student. In fiscal year 2002, these colleges receive $3,916 per full-time Indian student. While mainstream institutions have a foundation of stable state tax support, TCUs must rely on annual appropriations from the Federal government for their institutional operating funds. Because tribal colleges are located on federal trust territories, states have no obligation to fund them. In fact, most states do not even pay our colleges for the non-Indian state-resident students who account for approximately 20 percent of TCU enrollments.

Inadequate funding has left many of our colleges with no choice but to operate in severely distressed conditions. Many colleges operate in surplus trailers; cast-off buildings; and facilities with crumbling foundations, faulty wiring, and leaking roofs. Sustaining quality academic programs is a challenge without a reliable source of facilities maintenance and construction funding.

Today, one in five American Indians live on reservations. As a result of more than 200 years of Federal Indian policy—including policies of termination, assimilation and relocation—many reservation residents live in abject poverty comparable to that found in Third World nations. Through the efforts of tribal colleges, 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 budget request for fiscal year 2003 includes $3 million for HUD–TCUP, the TCU initiative funded under the Community Development Block Grant program. This competitive grants program enables our institutions to expand our roles and effectiveness in addressing development and revitalization needs in our communities. Some areas that currently receive support include housing rehabilitation,

[1] The Tribal Colleges and Universities are accredited by regional accreditation agencies and must undergo stringent performance review on a periodic basis. The higher education division of the respective regional accreditation agency accredits twenty-seven of the TCUs. Two TCUs are at the Pre-candidate stage as they complete work to attain Candidate status; one TCU is at Candidate status. Two TCUs are accredited as "Vocational/Adult Schools" by the "schools" division of the respective regional accreditation agency.

business development, job training, pre-employment counseling, and job creation. We strongly urge Congress to continue to fund this program at a minimum $3 million, included in the President's budget request, to help ensure that much needed community services and programs are continued.

National Science Foundation Programs:

—*Tribal Colleges and Universities Technology Initiative.*—In fiscal year 2001, NSF launched a new tribal college 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 tribal colleges. Through the program, colleges are able to implement comprehensive institutional approaches to strengthen teaching and learning in ways that improve access, retention, and completion of STEM programs, particularly those that have a strong technological foundation. Through this program, colleges gain support their efforts to bridge the "digital divide" and prepare students for careers in information technology, science, mathematics, and engineering fields. Because this program was broadened to include Alaska Native and Native Hawaiian serving institutions in its first year, after the original TCU-based funding level had been determined, we request that Congress build upon the funds requested in the President's budget to better reflect the true needs of the greatly expanded eligible pool, and fund this program at $15 million.

—*Tribal College Rural Systemic Initiative.*—NSF expanded its commitment to the High Plains Rural Systemic Initiative (HP–RSI) and created a tribal college component of the project. Currently there are 14 tribal colleges participating in this program. Each college is responsible for providing leadership to the K–12 school systems located on their respective reservations. All aspects of the school system are addressed in systemic reform, including community and parental participation, professional development activities, broad-based business community support, convergence of multiple resources to support the initiative, and coordinated student assessment systems. All of these activities are organized and implemented with careful consideration of the cultural academic needs of the respective tribe and students being served. We strongly urge Congress to support the ESR division budget. We request report language to reaffirm the expansion of the tribal college program to include the 18 remaining tribal colleges and to afford them greater access to other NSF programs.

—*Louis Stokes Alliances for Minority Participation (LSAMP) Program.*—The All Nations Alliance for Minority Participation, which provides services to tribal colleges, is based at Salish Kootenai College in Pablo, Montana. The program brings together 25 TCUs and 32 state colleges and universities in nine states and is designed to substantially increase the quantity and quality of American Indian students receiving baccalaureate degrees in science, technology, engineering and mathematics (STEM). Subsequently, AMP aims to increase the number of these students entering graduate school to attain doctorates in STEM fields. AMP supports undergraduate systemic reform within this Alliance with partners from both 2 and 4 year colleges; businesses and industries; national research laboratories; and local, state and federal agencies We strongly urge Congress to continue to support the Louis Stokes Alliance for Minority Participation program, at the highest possible level.

National Aeronautics and Space Administration (NASA).—Through AIHEC, the tribal colleges have established a cooperative agreement with NASA to increase access, participation, and success of American Indians in high quality pre-K to16 science, mathematics, engineering, and technology programs. This cooperative agreement includes the appointment of a TCU liaison between AIHEC and NASA to serve as the focal point for implementation of the agreement. Additionally, the agreement provides modest funding to help improve the capacity of each TCU to help fulfill its technology objectives, as they relate to the mission and goals of NASA. We urge Congress to include report language that would encourage NASA faculty exchange programs and IPA contracts with TCUs to provide needed on-site expertise and partnerships. Additionally, we ask for report language to encourage expansion of existing programs, as well as new initiatives to address the technology infrastructure needs at the Tribal Colleges and Universities.

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 the Subcommittee to increase funding for Tribal Colleges and Universities to help bring economic self-sufficiency to Indian Country. Fulfillment of AIHEC's fiscal

year 2003 request will strengthen the missions of TCUs and the enormous, positive impact they have on their communities. Your support will help ensure that they are able to properly educate and prepare thousands of American Indians for the workforce of the 21st Century. Tribal colleges have been proven to be very responsible with the Federal support they have received in the last 21 years. It is important that the Federal Government now capitalize on its investment.

Thank you again for this opportunity to present our views and requests to this Subcommittee. We respectfully request your continued support and full consideration of our fiscal year 2003 appropriations requests.

PREPARED STATEMENT OF THE NATIONAL CONGRESS OF AMERICAN INDIANS

On behalf of the National Congress of American Indians (NCAI) and its more than 200 member tribal Nations, we are pleased to have the opportunity to present written testimony on the fiscal year 2003 VA–HUD Independent Agencies appropriations bill.

The tragic events of September 11 brought forth the strength and the determination of our Nation to survive in the face of adversity. It is this same spirit that has carried Indian Country through years of annihilation and termination. It is this same spirit that has propelled Indian Nations forward into an era of self-determination. And it is in this same spirit of resolve that Indian Nations come before Congress to talk about honoring the Federal Government's treaty obligations and trust responsibilities throughout the fiscal year 2003 budget process.

The Federal trust responsibility represents the legal obligation made by the U.S. Government to Indian tribes when their lands were ceded to the United States. This obligation is codified in numerous treaties, statutes, Presidential directives, judicial opinions, and international doctrines. It can be divided into three general areas protection of Indian trust lands; protection of tribal self-governance; and provision of basic social, medical, and educational services for tribal members.

NCAI realizes that Congress must make difficult budget choices this year. Aselected officials, tribal leaders certainly understand the competing priorities that members of Congress must weigh over the coming months. However, the fact that the Federal Government has a solemn responsibility to address the serious needs facing Indian Country remains unchanged, whatever the economic or political climate may be. We at NCAI urge you to make a strong commitment to meeting the Federal trust obligation by fully funding those programs that are vital to the creation of vibrant Indian Nations. Such a commitment, coupled with continued efforts to strengthen tribal governments and to uphold the government-to-government relationship, will truly make a difference in helping us to create stable, diversified, and healthy economies in Indian Country. NCAI's statement focuses on our key areas of concern surrounding the President's budget request. Of course, there are numerous other programs and initiatives within the VA–HUD-Independent Agencies appropriations bill that are important to American Indians and Alaska Natives. Attached to this testimony is a breakdown of key programs for which we urge your support at the highest possible funding level as the appropriations process moves forward.

DEPARTMENT OF VETERANS AFFAIRS

Native American veterans have served the United States with honor and distinction since this Nation was founded, and Indian people have the highest percentage of veterans of any population within the United States. Native people also carry the proud distinction of being the most decorated group in this country's history. Today, Native veterans have many pressing needs such as housing, health care, benefits, and other concerns that include issues unique to Indian Country.

We urge continued support for the Native American Veterans Housing Loan Program. While small, it serves an important function, providing direct loans to veterans living on trust land. Many times, these veterans are unable to secure such loans through local banks or credit unions. In these instances, the Native American Veterans Housing Loan Program provides the resources to help purchase, construct, or improve their homes. A VA direct loan can be used to purchase, construct, or improve a home on Native American trust land. These loans may also be used to simultaneously purchase and improve a home or to refinance another VA direct loan made under this program in order to lower the interest rate. The principal amount of loans under this authority is generally limited to $80,000 or the cost of the home, whichever is less.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

According to statistics provided by the National American Indian Housing Council, 40 percent of the homes in tribal communities are overcrowded and have serious physical deficiencies. The comparable national average is 5.9 percent, almost six times lower. These types of conditions have a very real and detrimental impact. Respiratory illness, skin conditions, head lice, sleep deprivation that affects schooling, and a lack of privacy that sometimes leads to child physical and sexual abuse can all be traced back to the housing crisis that plagues some of our reservations.

The fiscal year 2003 request for programs under the Native American Housing Assistance and Self-Determination Act (NAHASDA) block grant actually cuts funding for training and technical assistance and for loans and loan guarantees, and it fails to provide adequate base funding for the NAHASDA block grant program. Per NCAI Resolution #SPO–01–094, NCAI supports the NAIHC proposed request and urges Congress to address the real housing need in Indian Country by appropriating $1.1 billion in fiscal year 2003 for the NAHASDA block grant.

ENVIRONMENTAL PROTECTION AGENCY

Tribes are sovereign entities with the ability to set environmental quality standards, make environmental policy decisions, and manage programs consistent with EPA standards and regulations. In order to preserve and enhance the environmental quality of Indian Country for present and future generations and sustain tribal cultures, tribes deserve equitable funding for their environmental regulatory programs. Therefore we urge support for the following funding levels:

General Assistance Program.—Tribal environmental program managers view GAP activities, funded under the multimedia section of State and Tribal Assistance Grants, as their highest priority. We request that the program receive $75 million, a $25 million increase, which would provide the minimum coverage needed for all federally recognized tribes to build capacity for EPA-delegated environmental programs.

Clean Water Act State Revolving Fund.—We request that Congress raise the program cap from 1.5 percent to 2 percent for tribal governments to help address the estimated $650 million in wastewater treatment unmet needs in Indian Country. Within the State Revolving Fund program, we urge continued funding for wastewater treatment facilities for Alaska Natives.

Safe Drinking Water Act State Revolving Fund.—Section 1452(i) provides a tribal government allocation for public water system expenditures to facilitate compliance with the national primary drinking water regulations. NCAI urges Congress to provide an additional $5 million for tribal drinking water programs under this program and raise the program cap from 1.5 percent to 2 percent.

Cooperative Agreements.—Congress in fiscal year 2001 and fiscal year 2002 authorized EPA to enter into cooperative agreements with tribal governments and tribal consortia to assist the agency in implementing Federal environmental programs. NCAI strongly recommends the permanent continuation of this authority and that $2 million be appropriated for tribal-EPA cooperative agreements.

CONCLUSION

Thank you for this opportunity to present written testimony regarding VA–HUD-Independent Agencies programs that benefit Indian Country. The National Congress of American Indians calls upon Congress to fulfill the Federal Government's fiduciary duty to American Indians and Alaska Native people. This responsibility should never be compromised or diminished because of any political agenda or budget cut scenario. Tribes throughout the Nation relinquished their lands and in return received a trust obligation, and we ask that Congress maintain this solemn obligation to Indian Country and continue to assist tribal governments as we build strong, diverse, and healthy Nations for our people.

ATTACHMENT A: VA–HUD-INDEPENDENT AGENCIES APPROPRIATIONS BENEFITING TRIBES

Department of Veterans Affairs

The President's budget increases the VA's discretionary budget authority from $24.7 billion to $26.4 billion, with much of the increase going toward health care for veterans.

(Dollars in millions)

VA	Fiscal year 2001 enacted	Fiscal year 2002 enacted	Fiscal year 2003 request
Native American Veterans Housing Loan Program	$.54	$.54	$.56

Department of Housing and Urban Development

The President has requested $31.4 billion for HUD, a $2 billion increase in budget authority, including $204 million for 34,000 new housing vouchers to subsidize rental housing for the poor and a $238 million increase to the HOME investment partnerships program for housing rehabilitation and to encourage home ownership among low- and moderate-income households. The budget cuts several NAHASDA programs, but provides a $3 million increase for the Indian Community Development Block Grant.

(Dollars in millions)

HUD	Fiscal year 2001 enacted	Fiscal year 2002 enacted	Fiscal year 2003 request
Indian Housing Block Grant	$650.0	$648.6	$647.0
Title VI Loans	6.0	6.0	2.0
Section 194 Indian Housing Loan Guarantee Program [1]	6.0	6.0	5.0
Indian Community Development Block Grant [2]	71.0	70.0	73.0
Rural Housing and Economic Development (small amt to tribes)	25.0	25.0	0
Empowerment Zones Round II	200.0	45.0	0

[1] Fiscal year 2002 funding for the Section 184 Loan Guarantee Program will subsidize a loan principal of not more than $234.3 million. The fiscal year 2003 request will support a loan principal of not more than $197 million.

[2] The $4.3 billion appropriated for the Community Block Grant Development program in fiscal year 2002 includes the following additional set-asides for Indian programs: $4 million for Alaska Native and Native Hawaiian-Serving Institutions; $2.6 million for the National American Indian Housing Council; and $3 million for competitive facilities grants for tribal colleges and universities. The fiscal year 2003 request of $4.4 billion for CDBG includes level funding for tribal colleges, $2 million for Alaska Native and Native Hawaiian-Serving Institutions, and $2 million for the NAIHC.

NCAI Resolution #SPO–01–094 Supports $1.075 billion for the Indian Housing Block Grant.

Environmental Protection Agency

The President's budget would cut EPA spending from $7.9 billion in fiscal year 2002 to $7.6 billion in fiscal year 2003, primarily by eliminating $300 million in Congressional earmarks and projects that were not requested in the Administration's fiscal year 2002 budget. The budget includes $4.1 billion for general operations, the highest funding level ever for regulatory, enforcement and State grants, but would freeze hiring to fill vacancies in the enforcement division while shifting $15 million to the States for increased enforcement activities.

(Dollars in millions)

EPA	Fiscal year 2001 enacted	Fiscal year 2002 enacted	Fiscal year 2003 request
Environmental Programs and Management	$2,083	$2,055	$2,048
Water and Wastewater Grants for Alaska Natives and Rural Areas	35	40	40
Clean Water State Revolving Fund Tribal	20.2	20.2	18.2
Safe Drinking Water State Revolving Fund	823	850	850
Superfund	1,267	1,270	1,000
Leaking Underground Storage Tank Facilities	71	73	72
State and Tribal Assistance Grants	3,621	3,733	3,464
Tribal General Assistance Grants	52.5	52.5	52.5
American Indian Tribal Environmental Office	n/a	9.9	10.2

NCAI recommends that the 2003 appropriation for EPA include permanent authorization for tribal cooperative agreements; a $25 million increase for the tribal General Assistance Program (GAP) to provide minimum coverage to all federally recognized tribes; $10 million for Section 106 Clean Water Act grants; a $20 million earmark for tribes under the new watershed management grants to States; increased funding for tribal air quality programs; and, a permanent increase in the tribal set-aside from 1.5 percent to 2 percent for both the Clean Water Act State Revolving Fund and the Safe Drinking Water Act program.

PREPARED STATEMENT OF THE AMERICAN PSYCHOLOGICAL ASSOCIATION

The American Psychological Association (APA) is a scientific and professional organization of more than 155,000 psychologists and affiliates. Because our behavioral scientists play vital roles within the National Science Foundation (NSF), the National Aeronautics and Space Administration (NASA) and the Department of Veterans Affairs (VA), APA will address the proposed fiscal year 2003 research budgets for each of these three agencies.

NATIONAL SCIENCE FOUNDATION

As a member of the larger science community and an active leader in the Coalition for National Science Funding (CNSF), APA strongly recommends increasing NSF's overall budget by $718 million (or 15 percent) above the fiscal year 2002 level of $4.79 billion, bringing the agency's budget to $5.508 billion in Fiscal Year 2003. We also would like to highlight the importance of fully funding two new NSF priorities in 2003, the special research initiative in the Social, Behavioral and Economic Sciences, slated to receive $10 million in its first year of support, and the Science of Learning Centers (SLCs), proposed at $20 million.

Core Psychological Research at NSF

NSF is the only federal agency whose primary mission is to support basic research and education in math, engineering and science including behavioral and social science. NSF's investment in basic research across these disciplines has allowed for extraordinary scientific and technological progress, ensuring continued economic growth, improved prevention of disease, and strengthened national security. NSF's concern for education from kindergarten through graduate school allows for what we know about developmental processes, cognition, learning, and the environment to best construct the schools in which our children learn and to well inform the teachers who educate them, enabling our citizens to meet the intellectual and social challenges of the Twenty-First Century.

The necessity to support basic research continues to be paramount. With the increasing globalization of science, the U.S. faces greater-than-ever competition for scientific innovation and discovery. At the same time that we must work in international communities of researchers and scholars, we must find new ways to make our country safe from threats not only to our physical structures but to the American tradition of free and shared science and to the many challenges we face at home. Our best defense is an offensive strategy in which we continue to be the best producer of science, ideas, and technology. We can do this only on the basis of a solid foundation of basic research.

APA and CNSF recommend that additional funds for NSF above the fiscal year 2002 baseline be devoted to achieving the following objectives: (1) increase by $220 million the funding for core programs of research and education; (2) increase funding by $220 million to continue supporting key initiatives, including nanotechnology, biocomplexity, information technology research, workforce development (including mathematics and science partnerships), mathematics research, and a new priority area in social, behavioral and economic sciences; (3) provide an additional $130 million to increase grant size and duration; (4) provide an additional $100 million for Major Research Equipment and Facilities Construction and Major Research Instrumentation; (5) provide an increase of $25 million to assist with homeland security and anti-terrorism efforts; and (6) provide $23 million to increase graduate student stipends.

Although psychologists receive funding from diverse programs within NSF, most core psychological research is supported by the Social, Behavioral and Economic Sciences Directorate (SBE), with its focus on the variables that determine human behavior across all ages, affect interactions among individuals and groups, and decide how social and economic systems develop and change. A number of psychological scientists funded through SBE also lead ongoing basic research efforts with direct relevance to the events of September 11 and their aftermath, and APA applauds SBE for moving quickly to provide psychological researchers with emergency grants (through the agency's Small Grants for Exploratory Research program) to address time-critical issues such as trauma prevention and intervention and large-scale risk management.

The Biological Sciences Directorate provides support for psychologists who ask questions about the very principles and mechanisms that govern life at the level of the genome and cell, or at the level of a whole individual, family or species. Our increasing sophistication about the genetic mechanisms of life allows us to ask increasingly complex questions about brain functioning. It also can lead us to ask how the genome is translated into a functioning, thriving organism that is, what is the

exchange of gene and environment that decides whether the individual is more likely to learn than to forget, to love than to hate? These kinds of question cannot be answered by biology alone. An understanding of behavior requires analysis at all levels of functioning, from the cell to the whole organism, and an appreciation of the complex ways in which the environment impacts on the individual. It also requires description of the manner in which such interactions are written into the individual's history, and then serve to shape its behavior in the future.

Special Research Priority in the Social, Behavioral and Economic Sciences

Given the pace and demands of our increasingly technological society, APA strongly supports NSF's proposed $10 million initial investment in fiscal year 2003 for a new priority area in Social, Behavioral and Economic Sciences to further explore the complex interactions among society, its institutions, and technology. This priority area will examine human issues in the design and development of technological advances along with human adaptation to these dramatic changes, enabling us to develop technologies which enhance human capabilities while giving us tools to take greater advantage of technology and better anticipate and prepare for its consequences. The rapidly changing societal capabilities associated with technological development provide us with new opportunities to interact with the natural environment as well as with social and economic systems, and the new SBE priority area also will seek to address questions about these human-ecosystem interactions in support of the Administration's climate change research program. APA expects that the initial level of support for the special SBE research priority area will be a "down payment" on more significant investments in future years.

New Science of Learning Centers

Investment in research on the learning process, the context of learning and learning technologies is crucial to both successful educational reform and effective workforce development, and the new NSF Science of Learning Centers (SLCs) will serve as the foundation-wide centerpiece of the Learning for the 21st Century Workforce priority area in fiscal year 2003. These multidisciplinary, multi-institutional centers will build collaborative research communities of scientists, educators, community groups and industries capable of addressing fundamental questions in learning and applying that knowledge to schools and workforce contexts.

APA strongly recommends that Congress support the new SLCs, with the longer-term goal of making strides in math and science education analogous to the tremendous leaps forward we currently are making by applying research on reading. These improvements in our understanding of how children learn to read and how teachers can better help them are due in large part to research sponsored by the National Institute of Child Health and Human Development at the National Institutes of Health. NSF is uniquely poised to support similar breakthroughs in the critical areas of math and science learning, skills which are particularly critical in our technologically-sophisticated world. NSF scientists can engage investigators from the range of disciplines it supports, from cognitive psychology and neuroscience to geography, engineering and robotics, and examine learning in adult and child populations to support both workforce and formal education needs.

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

Humans perform critical functions throughout all aspects of every NASA mission from concept development, system design and acquisition through operations. People are critical elements of complex aerospace systems. The ability to measure and predict human performance through all mission phases enhances mission safety and mission success. NASA Human Factors research and technology enhance the national capability to explore the stars and understand our own planet while contributing to the safety, affordability and efficiency of aerospace operations.

Office of Biological and Physical Research

In order to continue advancing our understanding of human adaptation to space, APA joins the Federation of American Societies for Experimental Biology (FASEB) in recommending an annual increase of $100 million for investigator initiated, peer reviewed research in fiscal year 2003 for the Office of Biological and Physical Research (OBPR).

NASA is demonstrating an unprecedented interest in psychological and behavioral research. That interest stems from historical observations of astronauts and cosmonauts living aboard Mir and the recognition that a multicultural workforce is building and occupying the International Space Station. Psychologists are involved at many levels within NASA, studying everything from basic neuroscience in rats to

optimization of the habitability of next-generation space suits. Much of this research has been funded OBPR.

The Biomedical Research and Countermeasures and Advanced Human Support Technologies Programs are both involved in reducing threats to humans exposed to physiological and psychological health risks during space flight. NASA has focused considerable energy on sleep and circadian rhythms, performance related to neurovestibular function, psychophysiological monitoring, and cognitive performance on short-duration missions. There is increasing recognition, however, that NASA needs to devote greater attention to behavioral health and psychosocial adaptation as these factors could significantly impact the success of long- duration missions.

Human factors considerations for long-duration spaceflight extend far beyond physical crew interfaces into considerations of behavioral, psychological, physiological, and operational factors' influence on human performance and safety. The use of isolation chambers such as the Bioplex facility at Johnson Space Center offer the potential, and have been used successfully, to study behavior and performance under conditions of extended isolation and confinement. As such, it represents a high fidelity simulation facility for the development of advanced technologies and methodologies for monitoring individual and interpersonal behavior, as well as for studies of countermeasure testing and evaluation.

Office of Aero-Space Technology

This arm of NASA makes good use of psychological science closer to Earth. APA applauds NASA for its attention to human factors research and recommends at least the $220.1 million requested for the Office of Aeronautics and Space Technology (OAST) to allow for critical Aviation Systems Safety and Airspace Systems programs to continue as planned.

Two of NASA's long-term interests have been to reduce the aircraft accident rate and increase the aviation throughput. The vast majority of accidents are attributed to human error. Recent increases in air traffic volume and airport delays make these challenges especially daunting. NASA will need to make an extraordinary investment in human factors research to achieve these ambitious milestones. Fortunately, several NASA programs support these important goals most notably the Aviation Safety Program but also Aerospace Operations Systems, Engineering for Complex Systems, Advanced Air Transportation Technologies and Virtual Airspace Modeling Systems. Critical research focuses on data mining, modeling and visualization for the proactive management of aerospace system risk, allowing for the monitoring of incidents and normal operations to identify precursors of error and mitigate risk before accidents happen.

However, in order to do this, enormous volumes of qualitative and quantitative data must be transformed into useful information for expert analysts through the application of new information technology tools. For example, the Aviation Safety Reporting System (ASRS) is a national aviation safety resource consisting of first-hand verbal reports of accidents and mishaps from a broad spectrum of aviation professionals (e.g., pilots, controllers, mechanics, dispatchers, flight attendants). These reports provide critical data for expert trend analyses and queries that are then made available to the public and private sector. Further, the Aviation Performance Measuring System (APMS) provides a set of information technology tools to support content analysis of the hundreds of flight data recorder parameters (even thousands in the case of the Boeing 777) that are collected on every commercial airline flight. These tools allow the reconstruction of problems and entire flights from the collected data set and can identify common problems across flights. Finally, from the control tower, the Performance Data Analysis and Reporting System (PDARS) routinely collects, processes and disseminates Air Traffic Control radar track data for use in identifying normal operations and anomalous flightpaths.

Collectively, such data tracking systems will become part of a model to assess the impact of perturbations in the National Airspace System.

Perturbations could include proposed technical innovations (such as advanced automation-assisted decision support) and changes in organizational structure or procedures, as well as accidents or terrorist attacks. Such a model will require a distributed simulation capability that can represent the full range of system behaviors at multiple levels of analysis, including people the current backbone of the aviation system.

DEPARTMENT OF VETERANS AFFAIRS

Investment in investigator-initiated research projects at the VA have led to an explosion of knowledge that promises to advance our understanding of disease and unlock new strategies for prevention, treatment and cures. Psychological researchers play crucial roles in addressing the many health challenges still confronting the vet-

eran community. APA joins the Friends of VA Medical Care and Health Research (FOVA), a coalition of over 50 organizations concerned about veterans' health, in recommending $460 million for the VA Medical and Prosthetic Research Account in fiscal year 2003. We also strongly support the Subcommittee's recommendation to expand the VA's Mental Illness Research, Education and Clinical Center (MIRECC) program.

Psychological Research in the VA

Through its Medical and Prosthetic Research Account, the VA funds intramural research that supports its clinical mission to care for our nation's veterans. VA psychologists play a dual role in providing care for veterans and conducting research in all areas of health, including high-priority areas such as mental health, aging-related disorders and substance abuse. Psychological researchers continue to make great strides in: improving the diagnosis and treatment of Post Traumatic Stress Disorder; developing more sensitive diagnostic tools to detect the early stages of Alzheimer's disease and other dementias (problems increasingly seen both in our veterans and our aging population in society at large); and developing and implementing important substance abuse prevention programs. Because research has such a positive impact on the quality of care, APA strongly encourages the VA to ensure that neither research nor care suffers by developing mechanisms to designate time for clinicians to conduct research.

Mental Illness Research, Education and Clinical Centers

APA supports the important work being conducted by the eight VA Mental Illness Research, Education and Clinical Centers (MIRECCs) currently in existence throughout the country, but is disappointed that the VA did not increase the number of MIRECCs in fiscal year 2002 as directed by the Senate in last year's report. These MIRECCs sponsor important basic and applied research as well as educational outreach to the VA community, and have been particularly effective in translating the findings of basic research into improved treatment protocols. The MIRECCs substantially support and upgrade the provision of mental illness services in their areas, but they exist in only eight of 22 networks and are clustered on the East and West coasts. We recommend that the Subcommittee provide funds for the establishment of three additional MIRECCs in fiscal year 2003.

Summary

APA appreciates this opportunity to provide written testimony in support of psychological research sponsored by NSF, NASA and the VA, and strongly encourages the Subcommittee to reaffirm its commitment to basic behavioral science at all three agencies. We recognize that this year there is a special need to strengthen research programs and operations related to national security, and we hope that Congress also will reinvest in the longer-term basic research which enables us to meet the full range of social, economic, health, and security challenges ahead.

American Psychological Association

GRANT/CONTRACT STATUS REPORT
AS OF February 28, 2002

	PROJECT TITLE	PROG	GRANTOR/ SPONSOR	MANAGER	PERIOD OF PERFORMANCE		AWARD AMOUNT	PRIOR YRS EXPENDTRS	2002 ACTUALS Y-T-D	CUMULATIVE EXPENDTRS TO DATE
	Federation Seminars	90003	NAAR/ Marks Family	Wanchisen	3/98-6/02		20,000	14,489		14,489
C	HIV/AIDS Education and Training of Psychologists	90004	SAMHSA	J. Anderson	8/98-1/02		479,849	479,159	58	479,217
	Network for Minority Aging Research in Psychology	90006	NIA	Jones/Nickerson	9/98-7/03		195,000 1)	208,324	11,166	219,490
	Healthy LGB Students Project	90011	CDC	C. Anderson	3/99 - 3/04		1,328,369	575,523	29,036	604,559
	Templeton Positive Psychology Prize	90013	Templeton Foundation	McCarty / Holt	3/99-2/02		660,000	434,070	333	434,403
C	Behavioral and Social Science Volunteers Program	90014	AED / CDC	J. Anderson	3/99-3/02		535,551	742,995	34,185	777,180
	Women's Health Conference #3 Registration 2001	90015	APA	Keita	5)		12,500 2)	-	74,046	74,046
	ACT/ Reason to Hope Demonstration Project	90018	Packard Foundation	Gentry	7/99-9/02		246,600	200,726	3,860	204,586
	Women's Health Conference, #3 - NIDA	90020	NIDA	Keita	9/01-12/02		50,000	-	50,000	50,000
	Summit on Women & Depression 2000 - NIDA	90021	NIDA	Keita	N/A		5,000	-	-	-
	Violence Prevention Tool Kits	90022	NIH	Holliday	7/99-7/01	*	99,360	99,360	2,119	101,479
	Valuing Diversity	90023	Kellogg Foundation	Archer	7/99-10/02		195,100	106,428	1,939	108,367
	Society/ Research on Child Development Project	90024	SRCD	Salzinger/Bullock	9/99-6/03		502,295	272,285	14,640	286,925
	Bridging the Gap between Research and Practice	90025	SAMHSA/CMHS	Gentry	8/99-2/02		97,143	47,119		47,119
	Child, Youth, Families & Communities Manuscript	90026	CMHS	Gentry	9/99-7/01		49,815	38,959	267	39,226
	Violence Prevention Materials	90030	CMHS	Gentry	9/99-7/01		99,360	65,055	7,345	72,400
	Emergency Medical Services for Children #2	90032	HRSA	Gentry	9/99-8/01		89,851	77,818		77,818
	Tech Assistance/ School Violence Prevention	90035	SAMHSA	Holliday	9/99-8/00	*	99,539	99,539		99,539
	Campus Compact	90036	Campus Contact	Nelson	12/99-12/01		15,000	13,405	874	14,279
	ACT Against Violence - CDC Foundation	90039	CDC	Gentry/Silva	1/00-12/00	*	159,134	159,134		159,134
	Joint Committee on Testing Practices	90053	JCTP	Bullock	N/A		N/A	4,492	250	4,742
	Summit on Women & Depression	90054	SAMHSA	Keita	3/00-12/00		9,997	4,776	-	4,776
	Summit on Women & Depression: OWH	90055	DHHS	Keita	6/00-9/00		25,000	24,800	10	24,810
	Women's Health Conference #3: MCHB	90056	MCHB	Keita	10/96-9/02		50,000	36,348	5,553	41,901
	Summit on Women & Depression	90057	NIMH	Keita	8/00-2/02		30,000	27,753		27,753
	Summit on Women & Depression: AHRQ	90058	NIH	Keita	9/00-2/02		20,000	-	20,000	20,000
	Women's Health Conference #3: OBSSR	90059	NIH	Keita	8/00-12/02		25,000		12,900	12,900
	Preparing Future Faculty	90066	Council/ Grad Studies	Nelson	11/99-5/02		130,000	112,785	975	113,760
	Decade of Behavior (DOB) Website	90067	NSF	Bullock	4/00-1/05		19,246	7,228		7,228
	fMRI Training.	90068	NIH	Holt	1/00-9/00	*	39,940	36,723		36,723
	National Multicultural Conference II	90069	NIH	Gebe	2/00-1/01		50,000	50,000		50,000
	International Travel	90070	NIH	Buchanan	5/00-7/00		9,000	7,858		7,858
	Toward New Research / Policy Synthesis	90071	NSF	Bullock	5/00-5/01		23,997	23,997		23,997
	The Lewin Group, Part 1 PRN Sampling Plan	90072	The Lewin Group/CSAT	Reed	3/00-8/01		91,000	85,294	5,705	90,999
	The Lewin Group, Part 2 RTBS Survey Report	90073	The Lewin Group/CSAT	Reed	3/00-8/01		135,000	110,384	9,683	120,067
	Working Group: Issues in Internet Research	90074	The College Board	Bullock	6/00-6/01		7,000	-		-
	Decade of Behavior: Distinguished Lectures	90075	McDonnell Foundation	Bullock	6/00-6/05		167,500	19,332		19,332
	NIGMS 2	90077	NIGMS	Holliday	9/96-6/03		476,175	587,569	25,681	613,250
	DP 2000 NIDA 2000	90078	NIDA	Holliday	9/96-6/03		10,000	9,274		9,274
	Decade of Behavior Launch - NIMH	90081	NIH	Salzinger/Bullock	9/00-9/00		3,000	535		535
	Women's Health Conference #3 - ORHP	90082	HRSA	Keita	9/00-12/02		5,000	385		385
	Summit on Women & Depression: - DNBBS / NIMH	90083	NIH	Keita	9/00-9/00		3,000	1,207	-	1,207
	Women's Health Conference #3 - CMHS	90085	SAMHSA	Keita	9/00-8/02		50,000	-	50,000	50,000
	Violence Prevention II	90086	SAMHSA	Holliday	9/00-9/02		99,875	(4,105)		(4,105)
	Geropsychology / RRF	90089	RRF	Vandenbos	12/00-12-01		25,380	8,255		8,255
	APF Gifted Children Project	90090	APF - Rosen	Belar	11/00-11/03		291,100	107,826	5,195	113,021
	Coalition for National Security Research	90091	CNSR	Kelly	N/A		N/A	5,072		5,072
	Summit on Women & Depression: BPHC	90092	HRSA	Keita	1/01-2/02		70,000	-	33,482	33,482
	Summit on Women & Depression: ORWH	90093	NIH	Keita	1/01 - 12/01		5,000	-	-	-
	Women's Health Conf. #3 - AHRQ	90094	SAMHSA	Keita	2/01-12/02		20,000	-	-	-
	Decade of Behavior Special Promotions	90095	Kellogg Foundation	Bullock	12/00 - 10/02		35,000	372	119	491
	Women's Health Conf. #3 - Kellogg	90096	Kellogg Foundation	Keita	3/01 - 2/02		25,000	-	-	-
	ACT Against Violence Community Training	90097	CFR	Gentry/Silva	2/01-1/02		63,244	24,974	3,183	28,157
	Summit on Women & Depression (Summit - OWH2)	90098	DHHS	Keita	4/01-9/01		24,990	-	-	-

	PROJECT TITLE	PROG	GRANTOR/ SPONSOR	MANAGER	PERIOD OF PERFORMANCE		AWARD AMOUNT		PRIOR YRS. EXPENDTRS	2002 ACTUALS Y-T-D	CUMULATIVE EXPENDTRS TO DATE
	Women's Health Conf. #3 - NIMH (WHC3 - NIMH)	**90099**	NIH	Keita	4/01-12/02		25,000		-	25,000	25,000
	Work, Stress, and Health 2003	**90101**	NIOSH	Keita / Baker	5/01 - 3/03		24,500		168		168
	Women's Health Conf. #3 - CDC	**90102**	CDC	Keita / Baker	7/01 - 6/02		45,000		1,394	161	1,555
	Women's Health Conf. #3 - NIH	**90103**	NIH	Keita / Baker	8/01 - 7/02		40,000		2,040	37,960	40,000
	Advanced Training Inst: fMRI Training	**90104**	NIH	Holt	6/01 - 5/06		111,544		35,174		35,174
	SPINES Evaluation	**90105**	MBL	Kohout	6/01 - 5/02		38,581		6,355	5,528	11,883
	MH Prof. Issues	**90106**	CMHS	Nickelson	9/01 -9/02		69,000		21,667	10,833	32,500
	Women's Health Conf. #3 - RWJ (WHC3-RWJ)	**90107**	RWJ	Keita / Baker	9/01 - 2/03		50,000		32,870	18,215	51,085
C	HOPE 3	**90108**	CMHS	J. Anderson	9/01 -9/04		450,000		15,873	14,316	30,189
	Mental Health/ Primary Care	**90109**	BPHC	Holliday	9/01 - 7/02		29,970		-	-	-
	ACT Evaluation	**90110**	Battelle/CDC	Gentry	10/01 - 9/03		75,591		-	3,483	3,483
	Federation Forum	**90111**	ONR	Wanchisen	10/01 - 4/03		14,000		-	-	-
	Santiago International Travel - NIMH	**90112**	NIH	Buchanan	5/01 - 8/01		7,000		6,300		6,300
	DC Primary Care	**90113**	DCPCA	Holliday	12/01- 5/02		53,438		-	3,841	3,841
	ACT Metlife	**90114**	Metlife Foundation	Silva/ Gentry	1/02 -12/03		200,000		-	3,858	3,858
	Women's Health Conf. #3 - NHLBI	**90115**	NHLBI	Baker	2/02 -2/02		3,000		-	-	-
	Summit: CDC / NIOSH	**90116**	NIOSH	Keita			10,000		-	-	-
	ACT-KC / HOMEFRONT	**90117**	HOMEFRONT	Silva/ Gentry	2/02 - 8/02		30,000		-	-	-
	Revision of Test Standards	**90914**	DEV. FUND	Maranto	9/93-12/01	**	422,763		431,816		431,816
	Development of Grad Training Progs in Occup Hlth Psych	**90918**	CDC	Roberts	9/97-9/02		579,257		418,848	3,818	422,666
	MFP - Mental Health Services	**90924**	SAMHSA	Jones/Nickerson	9/94-8/02		3,290,772	1)	2,320,858	103,318	2,424,176
	MFP - Neuroscience	**90934**	NIMH	Jones/Nickerson	9/92-6/02		4,874,282	1)	4,384,568	111,587	4,496,155
	Healthy Adolescents Project	**90962**	MCHB	Gentry	10/96-9/02		505,015		422,187	1,796	423,983
	Coalition for National Science Funding (CNSF)	**90984**	CNSF	Mumford	N/A		95,047		120,691		120,691
	MFP - Research.	**90992**	NIMH	Jones/Nickerson	9/91-6/02		1,306,276	1)	2,029,985	117,456	2,147,441
	SUBTOTAL						19,328,946		15,178,316	863,777	16,042,093
	Public Health Conference - Registration	**90044**	4)	Gentry/Silva	2/98-12/00		31,810		4,577		4,577
	Women's Health Conf #1, #2 Registration Support	**90929**	3)	Keita	10/93-12/01		258,361		258,812	44	258,856
	TOTAL						$19,619,117		15,441,705	863,821	16,305,526
	PRIOR YEARS EXPENDITURES										15,441,705
	2001 EXPENDITURES TO DATE										863,821

*Effort completed. **Effort completed; awaiting final invoices or final posting of costs incurred. ***Extension or add-on pending

1) The Award Amounts, Periods of Performance, and Prior Years Expenditures for the MFP grants reflect the full grant cycle (3 years for 90924; 5 years each for 90006, 90934, 90990, 90992).
2) Award amount consists of donation of $12,500 from NCI; registration fees will augment the award.
3) Award amount consists of registration fees received in excess of 1994 and 1996 Women's Health Conferences expenses.
4) Award amount consists of registration fees received for 1998 Public Health Conference. All expenses associated with the Conference (excluding those specifically covered by sponsors) are recorded here.
5) There is no period of performance for this program. Program set up to capture conference expenses and revenue.
6) Award amount consists of registration fees only.

GRANTORS/SPONSORS:

AED - Academy for Educational Development
CDC - Centers for Disease Control and Prevention
CMHS - Center for Mental Health Services
CNSF - Coalition for National Science Funding
CNSR - Coalition for National Security Research
DEV. FUND - APA Development Fund
JCTP - Joint Committee on Testing Practices
MCHB - Maternal and Child Health Bureau
NIA - National Institute on Aging
NIGMS - Nat'l Institute of General Medical Sciences
NIH - National Institutes of Health
NIMH - National Institute of Mental Health
NIOSH - Nat'l. Inst. of Occupational Safety & Health
OBSSR - Office of Behavioral & Social Science Research
ONR - Office of Naval Research
ORWH - Office of Research on Women's Health
RWJ - Robert Wood Johnson Foundation
SAMHSA - Substance Abuse & Mental Health Svces Admin

PREPARED STATEMENT OF AMERICAN RIVERS

This year, American Rivers was joined by over 600 local, regional and national conservation organizations [1] from all 50 states in calling for significantly increased funding for the following Environmental Protection Agency (EPA) programs and other programs funded through the Veteran's Affairs, Housing and Urban Development, and Independent Agencies (VA–HUD) Appropriations bill. I urge that these requests be incorporated in the VA–HUD Appropriations bill for fiscal year 2003.

ENFORCEMENT OF DISCHARGE PERMITS UNDER THE CLEAN WATER ACT

The Environmental Protection Agency's (EPA) ability to enforce environmental laws is critical to our nation's efforts to fulfill the Clean Water Act's clearly stated objective of restoring waters to fishable and swimmable conditions. While our nation has made great progress toward cleaning up our water, 40 percent of waters remain unsafe for fishing or swimming, illustrating a continuing need for enforcement.

The Clean Water Act prohibits discharges of pollutants through point sources into U.S. waters without a National Pollution Discharge Elimination System permit. These permits contain limits on what can be discharged, monitoring and reporting requirements, and other provisions to ensure that discharge does not harm water quality or human health. To ensure that the permits are current and properly complied with, EPA engages in enforcement activities, including inspections, sampling, and testing, as well as civil and criminal enforcement actions. Civil and criminal enforcement activities result in real improvements in environmental quality. For instance, in fiscal year 1999, EPA's civil enforcement actions achieved over 6.8 billion pounds of pollutant reductions.

For the last 2 years, the Administration has proposed significant reductions in funding for EPA's Office of Enforcement and Compliance. Last year the Congress rejected this initiative, yet the Administration has again recommended cuts for fiscal year 2003 that would reduce EPA staff in the enforcement office by over 200 employees. It is essential that Congress fund the EPA Office of Enforcement and Compliance at a level sufficient to retain fiscal year 2001 staffing levels with adequate increases to allow for cost of living increases. Congress should fund EPA's enforcement programs at $485 million.

CLEAN WATER STATE REVOLVING FUND

The Clean Water State Revolving Fund (SRF) provides capitalization grants to states, who in turn provide low-cost loans to communities for a variety of programs to clean up impaired water bodies and protect pristine waters. This program has been extremely effective in helping communities to improve water quality and provide safe drinking water. However, the needs to improve, repair and replace the nation's aging water infrastructure are tremendous. EPA and the WIN (Water Infrastructure NOW) coalition estimate that between $450 billion and $600 billion will need to be spent over the next 20 years just to ensure that water quality standards are met and that drinking water supplies are safe. Although the Federal Government should not be expected to bridge that funding gap, higher SRF funding is a clear and urgent priority. Postponing necessary water infrastructure investments will only defer and increase costs that must eventually be met. Congress has recognized this fact, giving strong bipartisan support to legislation authorizing substantially higher SRF funding in bills currently pending in the House and Senate.

Despite the pressing need for more water infrastructure funding and strong support for the SRF program across the nation, the Administration's budget calls for a 10 percent cut in SRF funding for fiscal year 2003. We urge Congress to fund the Clean Water and Drinking Water SRF programs at the full authorization levels called for in any bill eventually passed this year by Congress. At a minimum, Congress should sustain past funding levels: $1.35 billion for Clean Water SRFS, and $859 million for Drinking SRFs.

TOTAL MAXIMUM DAILY LOADS, CLEAN WATER ACT SECTION 303(D)

One of the most powerful tools to reduce nonpoint source pollution—the leading cause of impairment of the nation's waters—is the Clean Water Act's Total Maximum Daily Load (TMDL) provision. The TMDL provision is unique because it addresses the total level of pollution regardless of its source and requires the EPA to step in if a state fails to combat chronic water pollution problems. EPA conserv-

[1] These groups have endorsed "The River Budget 2003", a report of national funding priorities for local river conservation. A list of groups endorsing the River Budget can be viewed at http://www.americanrivers.org/riverbudget/default.htm

atively estimates that there are an average of 300 impaired water bodies in every state in need of a TMDL plan. The polluted waters include approximately 300,000 miles of river and shoreline and approximately 5 million acres of lakes.

Given the scope of water body impairment across the nation, and the need to help states develop and implement TMDL plans, we urge Congress to ensure that the TMDL program, receives an increase in funding. Congress should appropriate $250 million for EPA's State Program Management Grants (Section 106 of the Clean Water Act) for grants to states for funding for pollution control activities, surveillance, monitoring, enforcement, and advice and assistance to local agencies to meet TMDL development and implementation deadlines.

NONPOINT SOURCE MANAGEMENT PROGRAM

Another tool for reducing nonpoint source pollution is the Clean Water Act Section 319 Nonpoint Source Management Program. This program provides grant money to states, territories, and Indian tribes that can be used for a variety of nonpoint source pollution reduction activities including technical and financial assistance, education, training, technology transfer, demonstration projects, and monitoring.

Congress should fund the Section 319 Nonpoint Source Management Program at $250 million.

WATERSHED ASSISTANCE GRANTS

Solving today's water quality challenges, especially habitat loss and nonpoint source pollution, requires the active involvement of citizens who care about the water quality where they live and are willing to take action to improve it. In most cases, solutions will be most effective when they address problems on watershed-wide bases and all affected parties are included in the development of the solutions.

To facilitate such solutions, EPA teamed up with citizen activists to institute the Watershed Assistance Grants program. To date, 1,162 proposals (requesting approximately $15 million) have been submitted; 68 awards have been made to locally initiated watershed partnerships in 36 states.

In order to build the capacity of this program in fiscal year 2003, Congress should fund the Watershed Assistance Grants program at $2 million.

PROJECT IMPACT

The 20th century approach to flood control—trying to contain rivers with dams and levees and allowing excessive development in flood-prone areas—has devastated many river ecosystems while failing to adequately protect communities. Dams and levees that break during floods release even more devastating torrents, while those that hold often merely shift the brunt of a flood to other areas. Poorly planned floodplain development has put countless people in harm's way and eroded natural flood protections. According to the Federal Emergency Management Agency (FEMA), flood damages average more than $4 billion a year.

Project Impact, run by FEMA, is changing how the nation deals with floods by turning nature into an ally instead of an enemy. Project Impact helps communities dramatically reduce disruption and loss caused by floods and other natural disasters by restoring and protecting healthy, more natural ecosystems.

FEMA estimates that every dollar spent on damage prevention in its 250 Project Impact communities saves two dollars in repairs. In fiscal year 2003, Congress should appropriate $50 million to expand FEMA's Project Impact to safeguard people and the environment.

CHESAPEAKE BAY PROGRAM

The Chesapeake Bay is the nation's largest estuary and one of the most productive in the world, home to 3,600 species of plants and animals. The 64,000 square mile watershed drains more than 100,000 rivers and streams; provides important opportunities for recreation and refuge for fish and wildlife; and is a key resource for the prosperity of the region.

Unfortunately, the ecological integrity and productivity of the Chesapeake's watershed have been severely compromised by development, agriculture, over-harvesting of resources, and more than 2,500 small dams that block migratory fish from their historic spawning habitats.

Concern over these threats culminated in the creation of the Chesapeake Bay Program in 1983, establishing what is now a national and international model for estuarine research and restoration. In fiscal year 2003, Congress should provide the Chesapeake Bay Program with $30 million to better protect and restore this valuable ecosystem.

BEACH ACT

The Administration's budget proposes $10 million for the Beaches Environmental Assessment and Coastal Health Act (BEACH Act) of 2000, equal to the amount approved by Congress for fiscal year 2002. While $10 million was a helpful start for the BEACH Act program's first year, it represents only one-third of what Congress originally authorized for the Act. Under the BEACH Act, grants are provided to states to help them improve water quality monitoring and public notification programs. When it created the program in 2000, Congress unanimously authorized $30 million for these grants. Congress should fund the BEACH Act grant program at $30 million.

PREPARED STATEMENT OF THE AMERICAN WATER WORKS ASSOCIATION

Introduction

The American Water Works Association (AWWA) appreciates the opportunity to present AWWA views on the Environmental Protection Agency (EPA) budget for fiscal year 2003 (fiscal year 2003). 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 plus 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 and healthful adequate 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 2003.

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 homeland security needs of our Nation's public water system infrastructure. We respectfully request the Congress to appropriate significantly increased funds for public water system security efforts that are essential to help provide a secure water supply for our citizens and first responders in either an emergency supplemental appropriation for fiscal year 2002 for security needs that require immediate funding or in the EPA fiscal year 2003 appropriation. Our testimony today will highlight some of the major public water system security needs.

Request Overview

AWWA recommends that the following funding be specifically appropriated for the indicated purpose:

—*For public water system water vulnerability assessments.*—$450,000,000 to complete vulnerability assessments for systems serving over 3,300 peopleas required in H.R. 3448.

—*For immediate public water system security upgrades.*—$1,600,000,000 for capital improvements to ensure security of access to critical public water system assets through barriers, detection devices and cyber security systems.

—*For public water system security training.*—$2,500,000 designated for AWWA to develop and initiate peer-review or third party certification programs to assure

ongoing vigilance against terrorist acts and educate water systems in distribution system security and vulnerability assessments.

—*For public water system security research.*—$15,000,000 to develop technologies and methodologies to help prevent and respond to the contamination or disruption of public water systems. (Funding expected to be authorized in H.R. 3448.)

—*For the drinking water State revolving fund.*—A minimum of $1,000,000,000 as authorized in the SDWA.

—*For the AWWA Research Foundation (AWWARF) drinking water research.*—$7,000,000.

—*For public water system supervision (PWSS) grants to States.*—$100,000,000 as authorized in the SDWA.

—*For drinking water research.*—As requested in The President's fiscal year 2003 Budget.

—*For the EPA drinking water program.*—As requested in The President's fiscal year 2003 Budget.

Public Water System Vulnerability Assessments

Congress should appropriate $450 million to complete vulnerability assessments for public water systems. The cost of completing vulnerability assessments and revise emergency plans in all drinking water systems serving more than 3,300 people as mandated in the House version of H.R. 3448 is approximately $450 million, in addition to funds already appropriated. The Defense appropriations bill for fiscal year 2002 provided $83 million for assessment for the largest public water systems.

—*Recommended Action in the Fiscal Year 2002 Emergency Supplemental or Fiscal Year 2003 Budget.*—Appropriate $450,000,000 to complete vulnerability assessments for public water systems.

Immediate Public Water System Security Upgrades

Congress should appropriate $1.6 billion specifically for capital improvements to ensure security of access to critical public water system assets through barriers, detection devices and cyber security systems. AWWA research has determined the cost of immediate security upgrades for public water systems to ensure secure control of access to critical utility assets is approximately $1.6 billion. This will provide initial security improvements for about 53,800 water systems serving more than 264 million people. This does not include future capital costs of upgrades to address vulnerabilities identified in vulnerability assessments such as hardening pumping stations, chemical storage buildings, transmission mains, add redundant infrastructure or relocate facilities and pipelines.

—*Recommended Action in the Fiscal Year 2002 Emergency Supplemental or Fiscal Year 2003 Budget.*—Appropriate $1,600,000,000 for capital improvements to ensure security of access to critical public water system assets.

Public Water System Security Training

Congress should appropriate $2.5 million for AWWA to develop and initiate peer-review or third party certification programs to assure ongoing vigilance against terrorist acts; educate water systems in distribution system security and vulnerability assessments; and teach emergency communications and legal issues. The details of this proposal are in a letter previously sent to the subcommittee. As the world's largest educational and scientific organization dedicated to safe drinking water, AWWA is uniquely qualified and has the proven expertise to accomplish these important tasks more effectively and in a more timely manner than any other entity in the United States. Before September 11 and since then, AWWA has been providing information and training to prepare water utilities for terrorist attacks and measures to prevent such attacks. With Federal assistance, AWWA can continue to deliver this training at little or no cost to participants. With our broad membership of over 57,000 members, AWWA can reach a large audience of water suppliers and utilities of all sizes—small, medium, and large. AWWA believes that these programs will significantly improve the security of the Nation's public water supply.

—*Recommended Action in the Fiscal Year 2002 Emergency Supplemental or fiscal year 2003 Budget.*—Appropriate $2,500,000 specifically designated for the American Water Works Association for drinking water security training.

Public Water System Security Research

Congress should appropriate $15 million for a new program to improve the technologies and processes that provide security for public water systems. Funding for this program is expected to be authorized in H.R. 3448 that is currently in a joint conference committee. One of the most pressing needs facing public water systems is to develop technologies and methodologies to help prevent and respond to terrorist actions to contaminate or disrupt the water supply. Now is the time to strate-

gically invest in water security research and development in order to deploy real-time detection, identification and response tools to the field as soon as possible. Critical research needs are for the identification and characterization of biological and chemical agents, biological and chemical agent detectors, and security of cyber command and control systems. This new program will promote the transfer of results of research on critical infrastructure protection to the private sector, public water systems and other parts of the Nation's infrastructure. AWWA believes that public water system security research is an essential part of homeland defense and strongly urges Congress to fund this new program.

—*Recommended Action in the Fiscal Year 2003 Budget.*—Appropriate $15,000,000 to develop technologies and methodologies to help prevent and respond to the contamination or disruption of public water systems.

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 2002, Congress has appropriated approximately $5.2 billion—which is approximately $3.4 billion less than authorized for the DWSRF up to this fiscal year. According to the 1999 EPA Drinking Water Infrastructure Needs Survey released in February, 2001, $150.9 billion is needed over the next 20 years just to comply with the requirements of the SDWA. We believe that the EPA Needs Survey is conservative. More recent comprehensive estimates developed by EPA in the Gap Analysis, AWWA and the Water Infrastructure Network (WIN) indicate that the need is much higher. WIN estimates that the Federal share to meet the needs of replacing aging drinking water pipes should be approximately $28.5 billion over the next 5 years. We urge Congress to appropriate at least the $1 billion authorized for the DWSRF in fiscal year 2003 to assist States and public water systems in meeting current public health related infrastructure needs. Although it represents only a fraction of the need, the amount recommended by AWWA for the DWSRF will be a start and provide a source of much needed loans for financial 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 2003 Budget.*—Appropriate a minimum of $1,000,000,000 as authorized in the SDWA.

AWWA Research Foundation

In a separate statement, the American Water Works Association Research Foundation (AwwaRF), (an organization independent of AWWA), requested that $7,000,000 in drinking water research funds be designated specifically for AwwaRF for drinking water research. AwwaRF proposes to allocate $5,000,000 of this amount for its ongoing research programs that address issues such as the link between disinfection by-products and miscarriages, compliance with the new arsenic regulation, emerging contaminants such as perchlorate, infrastructure needs, and a host of other drinking water public health related issues. The other $2,000,000 will be allocated to high-risk security issues identified by a comprehensive workshop. AwwaRF will produce the May workshop that will include stakeholders from State and Federal Government, water utilities, and leading academic institutions. A research plan will emerge from this expert workshop on how to best protect public water systems from terrorism. Since fiscal year 1984, when Congress appropriated the first grant for AwwaRF, the Foundation has leveraged an additional $228,000,000 from its subscribers to support research projects across the country. Each dollar appropriated by Congress for AwwaRF produced over $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 2003 Budget.*—Appropriate $7,000,000 specifically designated for the American Water Works Association Research Foundation for drinking water research.

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. EPA's budget requests for the last several years for PWSS funding for States has remained essentially static in the face of increasing requirements. We strongly urge Congress to appropriate the $100,000,000 authorized for PWSS grants to States as the minimum necessary .

—*Recommended Action in the Fiscal Year 2003 Budget.*—Appropriate $100,000,000 for Public Water System Supervision (PWSS) grants to States.

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 amount requested in the President's fiscal year 2003 Budget for drinking water research and specifically designate it in the appropriation.

—*Recommended Action in the Fiscal Year 2003 Budget.*—Appropriate funding for the EPA drinking water research program as requested in the President's fiscal year 2003 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 new approach which 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 and urges Congress to appropriate the funds requested in the President's fiscal year 2003 Budget for the drinking water program to continue to implement the new provisions of the SDWA.

—*Recommended Action in the Fiscal Year 2003 Budget.*—Appropriate funding for the EPA drinking water program as requested in the President's fiscal year 2003 Budget.

This concludes the AWWA statement on the fiscal year 2003 EPA budget.

PREPARED STATEMENT OF THE AMERICAN SOCIETY OF MECHANICAL ENGINEERS

ASME International is a worldwide engineering society focused on technical, educational and research issues. It conducts one of the world's largest technical publishing operations, holds some 30 technical conferences and 200 professional development courses each year, and sets many industrial and manufacturing standards.

NATIONAL SCIENCE FOUNDATION (NSF)

The National Science Foundation Task Force of the American Society of Mechanical Engineers (ASME International) is pleased to provide the following comments on the NSF fiscal year 2003 budget request.

NSF Fiscal Year 2003 Budget Request Overview

The National Science Foundation plays a critical leadership role in directing the nation's non-defense related scientific and engineering research. Through thoughtful

and visionary planning, NSF has greatly contributed to advancements in science, engineering and technology. The Task Force shares NSF's broad-based, cross-cutting vision for basic engineering and scientific research. As such, we strongly endorse the Foundation's efforts to continually improve and expand the "innovative ideas, outstanding people, and cutting-edge tools" that comprise the nation's technological and scientific infrastructure.

The Budget Request for fiscal year 2003 reflects a 5.0 percent increase over the fiscal year 2002 Current Plan to $5.04B. Within this request, funding for the Engineering Directorate would increase 3.3 percent to $488M.

NSF has identified six initiative areas to headline the fiscal year 2003 budget request. These are:

—Information Technology Research (ITR),
—Nanoscale Science and Engineering (NSE),
—Biocomplexity in the Environment (BE),
—Learning for the 21st Century Workforce (STEM),
—Mathematical Sciences,
—Social, Behavioral and Economic Sciences (SBE).

Though not specifically identified as such, the Math and Science Partnerships (MSP) is essentially a seventh initiative area. This program began in fiscal year 2002 as part of President Bush's initiative to enhance K–12 math and science education contained in his "No Child Left Behind" proposal.

Funding has been requested to create two new initiative areas, Mathematical Sciences ($60.1M) and SBE ($10M) while expanding the four ongoing areas: ITR by 3.0 percent (to $286M), NSE by 11.3 percent (to $221M), BE by 36.3 percent (to $79M) and STEM by 27.5 percent (to $185M). Each of these priorities, NSE and STEM in particular, continue to be strongly supported by the Task Force.

TABLE 1.—NSF BUDGET OVERVIEW WITH AND WITHOUT THE INITATIVE AREAS

[In million of dollars]

	NSF Agency Wide			Engineering (ENG)		
	Fiscal year 2002 current plan	Fiscal year 2003 request	Percent change	Fiscal year current plan	Fiscal year 2003 reqest	Percent change
Total Budget	$4,795.88	$5,035.79	5.0	$472.32	$487.98	3.3
Salaries and Expenses	176.40	210.16	19.1	n/a	n/a	n/a
Inspector General	7.04	8.06	14.5	n/a	n/a	n/a
Total Program Budget	4,612.44	4,817.57	4.5	472.32	487.98	3.3
ITR	277.52	285.83	3.0	10.23	11.17	9.2
NSE	198.71	221.25	1.3	86.30	94.35	9.3
BE	58.10	79.20	36.3	3.69	6.00	62.6
STEM	144.82	184.69	27.5	3.40	4.87	43.2
Mathematical Sciences	30.00	60.09	100.3	0	0.91	n/a
SBE	0.00	10.00	n/a	0	0	n/a
Remaining Funds	3,903.29	3,976.51	1.9	368.70	370.68	0.5

Comparisons include both agency-wide and engineering directorate.

In spite of the requested 5.0 percent overall increase in the total NSF budget, expansions in the initiative areas significantly inhibit growth in other programs. Table 1 clearly shows the impact on funding for core programs. Agency-wide, there will only be a 1.9 percent increase in funding available for core programs relative to current year plans. If one accounts for the $76M in programs being transferred from the Environmental Protection Agency (EPA), National Oceanic and Atmospheric Administration (NOAA) and the United States Geological Service (USGS), there will actually be a slight net loss in overall funds for core programs. Flat funding for core programs is reflected within the Engineering Directorate (ENG). After initiative areas are removed, there will be a mere 0.5 percent increase in funding for core research programs.

Position

The Task Force endorses the leadership role that NSF has played in guiding the nation's basic research activities. Combining exciting new developments with core programs to incubate such breakthroughs, NSF has built an outstanding record of supporting a broad spectrum of research of the highest quality. This record has been made possible only through strict adherence to the independent peer review process. We recognize the importance and timeliness of NSF's initiative areas that address

major national needs for the 21st century. However, as will be discussed in the next section, it is not clear that an optimum balance has been achieved.

There are a number of particularly positive items in the fiscal year 2003 budget request, beginning with the planned increase in graduate fellowship stipend levels. Ensuring a continuous stream of well-trained, highly qualified research scientists into leadership positions is critical to our economic growth and national security. In this respect, we strongly endorse NSF's planned increase in stipends for graduate fellows from $21,500 to $25,000. Making fellowship stipends attractive to the nation's best and brightest students is certainly a positive step. This serves to enhance the nation's pool of science, engineering and technology educators and leaders.

The increase in numbers of graduate fellowships is also especially positive. NSF is the only Federal agency directly chartered to train graduate students for research and development careers. It is therefore imperative that this be a major priority area in perpetuity. It is interesting to note however that $80.6M is requested for the Graduate Research Fellowship (GRF) program to support ~2,350 students in fiscal year 2003 while $41.4M for the GK–12 Fellowship program will support only 800 students. It is not clear that the GK–12 program has sufficient value added to justify its higher cost. Nor is it clear that the correct balance between types of graduate fellowships has been struck. It is critically important that education-based programs do not jeopardize funding for research programs at NSF.

In general, the Task Force also supports and applauds activities within ENG. NSF's vision of a committed balance between people, ideas and tools is exemplified within ENG. It is important to recognize that fundamental sciences and engineering funded by NSF quite frequently spawns next generation technologies. Examples of successes emerging from ENG include development of an artificial retina and, a biocapsule for insulin delivery. ENG is also funding work on microscopic chains for magnetized particles that may be precursors of materials that will protect buildings from earthquakes.

ASME has strongly supported the nanotechnology initiative since its inception as an NSF emphasis area in fiscal year 2000. In the past two years, funding for this initiative has grown substantially. With a growing record of research and development successes, the transitioning of nano-science and engineering into commercially viable technologies is becoming a pressing challenge for NSE. For this reason, it is important that multi-institutional tools be developed in the near term in which access, maintenance and staffing issues have been resolved.

Finally, the Task Force continues to endorse NSF's participation in K–12 math, science and engineering education initiatives consistent with the agency's broader mandate to lead the nation's research and development enterprise. Most notably, NSF has included $200M in its fiscal year 2003 budget request for the Math and Sciences Partnership (MSP) program. The goal of MSP is coupling K–12 and higher education STEM education into a single integrated effort by encouraging universities to adopt STEM into their core missions.

In this technological age, providing the highest quality math, science and technology education to all children should be a national imperative. We applaud the "No Child Left Behind" Act and NSF's role. However, the Task Force cautions that a proper balance' must be struck to preserve the integrity of NSF's fundamental research and development mission.

Concerns

Maintaining a fundamental knowledge base is essential for intelligent and effective response to rapidly evolving technological challenges facing the nation. Events since September 11th highlight the impossibility of predicting what scientific and engineering disciplines will be needed in response to future technology challenges. Because of its commitment to core programs, ENG was able to rapidly respond to the World Trade Center collapse by funding work on the failure of one of the steel beams hit by a hijacked plane. However, the track record on funding core programs over the past few years has not been strong. As noted earlier, funds available for core programs are essentially flat across NSF in fiscal year 2003. Thus, as in previous years, Our key questions and concerns arising from the fiscal year 2003 budget request center on matters of balance. In particular, the Task Force is concerned with:

—the gross funding imbalance in the Federal R&D portfolio,

—inadequate funding levels for existing grants.

—insufficient support for core engineering programs at NSF, and

The overall imbalance in the Federal R&D portfolio remains a major concern. The requested increase for NIH this year is equal to the entire requested appropriation for Research and Related Activities at NSF. Focusing purely on health issues while the nation faces threats from dwindling energy supplies, aging infrastructure and

geopolitical instability, to name but a few, is entirely inconsistent with a balanced leadership plan. Failure to adequately support broad, cross-cutting fundamental research inherent to most NSF programs continues to undermine the long-term health and vitality of the nation.

To date, NSF has had considerable success in stretching its funds to bridge (i.e. mask) this imbalance. Indeed, NSF richly deserves the governmental acclaim it has received for its efficiency and impact in managing basic research and development. However, this efficiency is coming at the expense of partial payment for the research. The projected median research award size for fiscal year 2003 is estimated to be $87,400 per year. This is in general sufficient to support one graduate student and a senior investigator with only a limited amount remaining to actually conduct the research. An extended period of constant grant sizes has eroded buying power and the ability to adequately support professional development. Further, forming small teams (2–3 senior investigators) to pursue and define the major initiative areas of the future is virtually impossible. Thus, to truly advance the frontiers of science, engineering and technology, significant increases must be made not only to the number of grants, but to the size of each grant as well. By way of reference, NIH's projection for the average size of new research project grants (RPGs) in fiscal year 2003 will be ~$370,000; this is coupled with an estimated 4 percent increase in the total number of RPGs funded.

As indicated in Table I, growth in NSF for fiscal year 2003 is targeted at initiative areas and the transfer of programs from other agencies. After inflation, there will be a net decrease in funding for core programs. As an illustration of the imbalance this creates, consider the World Trade Center disaster of September 11. In its budget request documents, NSF points to the analytic and diagnostic tools available to examine failure of structural steel beams at the point of impact by the hijacked airliners. Funding for this work would come from the Civil and Mechanical Systems (CMS) subactivity within ENG, an area of strong interest to mechanical engineers. Yet CMS has seen, at best, minimal growth over the past five years. It appears that this is principally because steel (for example) is not tied to one of the initiative areas and has not been included in the growth plan of the Federal R&D portfolio.

Summary

The Task Force continues its enthusiastic support for the National Science Foundation and its leadership in articulating the nation's basic research and development vision. In fiscal year 2003, NSF has requested funding to expand major, cross cutting initiatives addressing pivotal technological issues facing the nation. This includes the nanotechnology initiative strongly endorsed by ASME. Expansion of the graduate fellows programs coupled with increases in stipend levels reinforces NSF's commitment to graduate education. The focus on developing people and ideas in general is certainly reflected throughout the ENG directorate's budget request as well. The challenge for this year appears to be maintaining a healthy balance between core research programs and new initiatives such as the new K–12 Math and Science Partnerships.

There is also great concern over continued growth in the imbalance between Federal funding of life sciences and the physical sciences and engineering. Crises, such as those occurring in the gasoline and power production industries, reflect long term failure to value and support core research focused at advancing the nation's technological infrastructure. In addition, recent events strongly underscore the fact that it is impossible to know what part of the science, engineering and technology base will be needed on short notice to respond to rapidly developing opportunities or crises. The current budget plan does not appear to permit NSF to meet key fiscal year 2003 Performance Goals (i.e. Goals III–1a and III–2). Increasing the number and size of its awards will enable NSF to better position itself to fulfill its leadership responsibility in directing the nation's research and development activities.

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION (NASA)

The American Society of Mechanical Engineers (ASME International) Aerospace Division and the Aviation Research and Technology Task Force are pleased to provide their views on the NASA fiscal year 2003 budget request as it affects the aeronautics research and technology programs.

In recent years, the Task Force has written at length about our concerns that reducing Federal funding for aviation research and technology will jeopardize the nation's leadership in providing the technologies needed to develop the next generation aircraft, improve aviation safety and security, and attract the next generation of scientists and engineers. Over the last decade, funding for NASA's aeronautics research and technology program has fallen by approximately 50 percent, and unfortunately, this trend is continuing. The Administration's fiscal year 2003 request of

$541.4M for aeronautics is a reduction of $58M from fiscal year 2002 appropriated funding.

Although we continue to view with concern the level of government investment related to aeronautics in NASA, we would like to commend the NASA Leadership for their strategic plan called the "Aeronautics Blueprint." NASA's Aeronautics Blueprint not only describes the issues and challenges facing U.S. aviation, but describes a vision for reshaping the future architecture of the U.S. aerospace industry.

The Aeronautics Blueprint acknowledges many of the same concerns our Task Force has addressed in earlier testimony, particularly our concerns about the declining investment in aeronautics research and development, the aeronautics infrastructure, and the aerospace workforce. It is important to note that the Aeronautics Blueprint states ". . .the steady erosion of U.S. leadership in aeronautics, which is being directly challenged by international competitors, must be reversed" and ". . .the cost of inaction is gridlock, constrained mobility, unrealized economic growth, and loss of U.S. aviation leadership."

NASA has taken the first step toward articulating a vision for aviation research and technology. But that vision cannot be realized unless the continued decline in aeronautics funding is reversed and sufficient funding provided to develop near-term and revolutionary technologies. We are disappointed with the reductions to the aeronautics programs. We are also disappointed with the elimination of the rotorcraft program from NASA's budget. NASA has eliminated from its vision all rotary wing related activity, despite the fact that rotary wing vehicle technology is substantially less mature (by approximately four decades) than its fixed wing counterpart. Rotary wing vehicles have a potential for revolutionizing our air transportation system and make an important contribution to our national security.

The "Commission on the Future of the U.S. Aerospace Industry," a congressionally mandated Commission, recently issued their interim report calling for the creation of "a multi-agency task force with the leadership to develop and implement an integrated plan to transform our air transportation system." The Commission recommends "significant increases (in NASA R&D) to start developing a new air transportation system for the nation. R&D investments should focus on: security, noise and emission reductions, high bandwidth communications, precision navigation and surveillance, small aircraft transportation technologies, ground and airborne control automation, and advanced weather sensing. New mechanisms and incentives need to be developed to accelerate the application of existing and new technologies and concepts into the marketplace."

We heartily endorse the Commission's recommendations, and we urge Congress to provide sufficient funds to enable the development of new technologies that would reduce aviation gridlock, increase the margin of safety for the flying public, and reduce the impact of aviation on the environment.

Last year, in testimony to this Subcommittee, our Task Force noted with concern the release of a report called the "European Aeronautics: A Vision for 2020." This strategy document charts the path for the European Union to become a global leader in aeronautics, estimating that total funding required to achieve their vision—from all public and private sources over the next 20 years—could go beyond $95 billion over the next 20 years.

Is there evidence to support the European Union's objective to become a world leader in aerospace technology? In February 2000, the National Research Council reported that the U.S. has been losing ground in world aerospace market share, falling from over 70 percent in the 1980's to 55 percent in 1997. Today this situation continues, as U.S. aerospace industries are being severely challenged by the European aerospace industry, which is garnering a significant portion of the U.S. market as well as of the world market.

In the past, large investments in evolutionary significant-risk technologies, such as the transition to commercial jet aviation, have been accomplished through a partnering among industry, NASA (and its predecessor NACA), DOD and the FAA. These partnerships have proven to be an efficient means for maintaining the past U.S. lead in aeronautical technology with concomitant economic benefits. We are not suggesting that the government share the cost of specific commercial aviation developments, as has been the case in other countries. Rather, we recommend that NASA undertake high-risk, potentially high-payoff R&D, which then can become the basis for commercial enterprises. In our view, NASA must resume its intellectual and financial support for partnerships that sustain mid- and long-term innovative basic research in core technologies (fluids, structures, materials) applicable not only to spacecraft, but also to future fixed and rotary wing vehicles. Partnerships between government and the private sector are essential to meeting these growing challenges.

Turning the Aeronautics Blueprint into reality will require sustained partnerships between NASA, the Department of Defense, Department of Transportation, and the Federal Aviation Administration to develop a national aviation research and technology policy to plan and provide adequate resources that will ensure sustained U.S. world leadership in civil and military aviation.

For the past 75 years American universities have provided creative, skilled engineers for national defense and aeronautical commerce. The development of an efficient global air transportation system has been driven by American engineering. Students who have come from American university campuses to industrial and governmental facilities have been the source of an undisputed American commercial success; sales of aircraft and aircraft equipment accounts for one of the largest single positive balance of trade with other nations.

The nation is experiencing a diminishing pipeline of qualified aeronautical engineering students at both the undergraduate and graduate levels; young engineers and scientists do not consider aerospace a growth industry. Therefore, they are pursuing careers in life sciences, bioengineering, and other growth fields. We are very concerned about this issue and look to NASA leadership to make a course correction for the future.

In recent testimony before the Commission, Dr. John Marburger, the Director of the Office of Science and Technology Policy stated "the President wants to make sure that U.S. aerospace leadership continues in the 21st century," and "Improvements in homeland defense, national defense and civil aviation require the same core suite of technologies. We can enhance the security while creating greater mobility for America. This is what the Administration wants and what our country needs."

Aviation and aerospace are vital to the U.S.' future. If Americans fail to support aeronautics and aviation-related research, there will be no next generation of professionals to solve the obvious looming problems and create products the world will demand. And without that, the U.S. puts at risk a linchpin of its economy, national security and quality of life.

Conclusions

Air transportation is a key ingredient to economic growth and prosperity. Therefore, the decline of U.S. global market share in air transportation products and services over the past two decades, combined with European determination to become the dominant supplier of such products and services within the next two decades, should be of major concern to U.S. policy makers.

The need for adequate funding for NASA and DOD aviation R&T must be addressed, not only with respect to the fiscal year 2003 budget, but also—and even more significantly—with respect to the preservation of U.S. capability and leadership in long term aeronautics research and technology.

It is essential that the aeronautics research and technology programs at key agencies (NASA, DOD and FAA) continue to be clearly identified and defined as a separate line item, as required by Congress in the fiscal year 2002 budget.

A fully coordinated National Aviation R&T policy—combining the efforts of NASA, DOD, DOT, and FAA—is essential to plan and provide adequate resources that will ensure sustained U.S. world leadership in civil and military aviation.

ENVIRONMENTAL PROTECTION AGENCY (EPA)

The Environmental Protection Agency (EPA) Task Force of the ASME Environmental Engineering Division (EED) of the Council on Engineering, is pleased to have this opportunity to provide comments on the fiscal year 2003 budget request for the Environmental Protection Agency (EPA).

Sound science is one of the key underpinnings of credible and defensible policy formulation and decision making in environmental management. The Task Force believes 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. We support EPA's continuing effort to implement a research program aimed at expanding the role, and improving the state-of-the-art, of environmental science as it pertains to decision-making and policy formulation. Overall, the requested increase in fiscal year 2003 budget over fiscal year 2002 levels in most key R&D areas contributing to environmental decision-making is fully supported by the Task Force.

One area that the Task Force believes deserve more attention is the development and implementation of a decision-making framework that integrates scientific information with socio-economic values and issues. The continuous focus on strong, fundamental scientific research is essential; however, increased understanding is needed in the non-scientific (e.g. social/societal) aspects of risk-based decision-making. We recommend that efforts in the latter should commence.

The Task Force is encouraged by the fact that the Science Advisory Board's (SAB) budget will remain fundamentally steady from fiscal year 2002 to 2003. The SAB plays a key role in the prioritization of EPA's research activities and addressing key emerging issues. We believe that, given the SAB's pivotal role, the funding for SAB could be increased.

Specific, focused research areas representing significant challenges to the environment and human health have been identified in the fiscal year 2003 budget request. We strongly support efforts in these research thrust areas due to the potential impact that may be generated by the substantial resources involved.

Climate Change Research.—The Task Force believes that the EPA should commit more resources to the problem of greenhouse gas emissions and climate change. The fiscal year 2003 appropriations request for climate change research is $21.7M, a slight increase of $0.4M (1.9 percent) over the fiscal year 2002 appropriation. Climate change is an issue of global significance. With the U.S. not participating in the Kyoto framework regarding climate change, we must ensure that we maintain and advance our scientific credibility and technological leadership in climate change research and in the development of technologies that reduce or eliminate the emissions associated with climate change. It is imperative that the complex interplay of increased energy demand and the environmental impacts that this produces be addressed on a scientific and technological basis. We strongly recommend increased funding in this area, which we project to be one of the most significant environmental issues for the next decade or more.

Particulate Matter Research.—The Task Force supports continued research on the formation, migration, and mitigation of fine particulate matter (particulate matter smaller than 2.5 micrometers, termed PM2.5). These particles, primarily from combustion sources, have been shown to have significant acute and chronic impact on human health. The appropriation requested, $66.6M, is a slight increase (1.8 percent) from the fiscal year 2002 enacted budget of $65.7M. We believe that EPA's commitment to ongoing research to address this significant health concern is essential.

Tropospheric Ozone Research.—The Task Force supports continued research into the formation and mitigation of troposhperic (ground-level) ozone. Repeated exposure to ozone pollution can cause permanent damage to the lungs, even at low levels. Ground-level ozone damages plant life and is responsible for $500 million in reduced crop production in the United States each year. The appropriation requested, $6.8M, is a 4.6 percent increase from the fiscal year 2002 enacted budget of $6.5M. We support EPA's commitment to ongoing research to address this costly environmental and health problem.

Air Toxics Research.—The Task Force supports continued research in the identification, reduction, and mitigation of air toxics. Humans and animals can experience health problems when exposed to sufficient concentrations of air toxics over time. Numerous studies conclude that deposited air toxics are contributing to birth defects, reproductive failure, and disease. Persistent toxic air pollutants are of particular concern in aquatic ecosystems because the pollutants accumulate in sediments and may bioaccumulate in tissues of animals at the top of the food chain to concentrations many times higher than in the water or air. The fiscal year 2003 appropriation request for Air Toxics Research, $19.8M, is a 4.8 percent increase from the fiscal year 2002 enacted budget of $18.1M. We support EPA's commitment to ongoing research to reduce the formation of air toxics.

Pollution Prevention.—The Task Force strongly supports EPA's commitment to pollution prevention research and strategies. The appropriation requested, $25.1M, represents a significant increase (16.2 percent) from the fiscal year 2002 enacted budget of $21.6M. However, the fiscal year 2003 request is still substantially lower (–8.4 percent) than the fiscal year 2000 enacted budget of $27.4M. Pollution prevention technologies can provide both environmental and economical benefits while also avoiding the damage to human health and the ecosystem that arises from the release of toxic and hazardous substances. We urge EPA to increase funding for pollution prevention to at least fiscal year 2000 levels and to maintain strong support for this critical area of research.

Watershed and Drinking Water Research.—The Task Force remains concerned regarding overall Federal funding necessary to protect watersheds and drinking water supplies. Watershed protection comprises a key issue, especially since severe drought conditions exist in both Eastern and Western states. Competing needs in agriculture, protection of endangered species, and water rights represent just a few of these issues. The President's fiscal year 2003 budget proposal for EPA in the areas of ecosystem protection remains essentially flat from fiscal year 2002 levels at $38M. We are encouraged by the proposed increase (18.6 percent, to $38.3M) in the Environmental Monitoring and Assessment Program (EMAP), designed to pro-

vide watershed data for key inland waterways, and by a proposed increase of 8.6 percent, to $49.5M in funding for safe drinking water research. While EPA's proposed research program addresses important needs, we are concerned that proposed funding reductions for collaborative Federal agencies (USGS, USACE, USDA) pose significant risks to improvement of the technical basis of watershed protection. We suggest that the overall Federal budget for watershed research be considered as a whole, and urge increased funding over the overall levels proposed for fiscal year 2003.

Hazardous Waste Research/Superfund Innovative Technology Research.—Hazardous waste cleanup, especially at Federal sites (i.e., Department of Defense and Department of Energy facilities) represents a significant challenge for the EPA. Many of these challenges relate to gaps in the scientific basis for risk assessment strategies and ongoing needs for both policy changes and technology advances to achieve cleanup at complex sites. For example, many hazardous waste streams resulting from decades of nuclear weapons research lack identified disposal methods. Through partnership agreements with industry and other governmental entities, EPA traditionally leverages its own research efforts. The Task Force supports these collaborative efforts, but further recommends a more aggressive approach, such that the Agency assumes a leadership role in the resolution of hazardous (including radioactive) waste disposition. Target areas for this recommendation are provided within the specific Agency funding objectives.

The budget request for hazardous waste research (science and technology) for fiscal year 2003 is $9.6M, including continuation of SITE (Superfund Innovative Technology Evaluation). The Task Force supports these efforts, and recommends that the Agency continue to leverage its own research funding to support related efforts at the State and local level. We also note, with approval, that EPA recognizes the need to reconsider policy decisions in the Resource Conservation and Reclamation Act in view of recent technical advances or identified needs. The Agency also proposes implementation of National Academy of Sciences recommendations in contaminated sediment remediation. In view of potential funding reductions for the USGS and USACE, measurable progress in this effort remains at risk for 2003.

The EPA's environmental education program has been transferred to the National Science Foundation (NSF) for fiscal year 2003. We are concerned with regard to the possible adverse impact this transfer could have on environmental education. In particular, the STAR Fellowship Program has been eliminated in the EPA's fiscal year 2003 budget. In the past, this program provided a funding source for graduate students interested in the solution of environmental problems and allowed them to undertake research in areas directly relevant to EPA's mission and objectives. It is the opinion of the Task Force that EPA has a vested interest in environmental education and therefore EPA would be a better steward of the environmental education initiatives.

The mechanism must be in place to train substantial numbers of graduate students in areas relevant to EPA's core research areas if the Agency is to maintain or strengthen its Science and Technology base. Sound public policy requires a strong scientific and technological basis. The overall decline in funding for physical sciences and engineering within the Federal budget over the past decade must be reversed in order to assure that the complex problems associated with issues such as environmental contamination and public health can be solved. In this vein, the Task Force recommends that extramural research funding, such as the STAR Grants Program, allocated to the EPA should increase, concomitant with the leadership role the Agency must play. Furthermore, 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 to solve science and technology problems of the future. The Task Force encourages lawmakers to consider not only current programmatic needs, but also the number of graduate students to be funded by Federal programs in particular science and engineering disciplines, as vital to ensuring future success in addressing national science and technology issues.

Conclusions

Because of the complex, multidisciplinary nature of environmental issues, it is imperative that EPA base its actions on sound science. The change from a command-style regulatory/compliance model to a participatory risk-based model only heightens the need for a keen awareness of the environmental science in making policy decisions and recommendations. A strong R&D program is essential for the ongoing development of science- based decision-making. The Task Force supports:

—Strong input and involvement of the Science Advisory Board in helping set EPA research priorities;
—Focusing on national environmental priorities that impact human health, ecosystem health, and climate, particularly particulate matter, greenhouse gases, and water quality;
—Education of future environmental professionals, and building interdisciplinary teams through the support of extramurally-funded research; and
—Building a strong science and technology base, both within EPA, and through partnerships with industry and other Federal and State government agencies.

These collective comments represent the views of the NSF Task Force of the Council on Education, the Aviation Research and Technology Task Force of the Aerospace Division and the Environmental Protection Agency (EPA) Task Force of the Environmental Engineering Division, of the Council of Engineering, of the ASME International and are not necessarily a position of the Society as a whole.

PREPARED STATEMENT OF THE AMERICAN THORACIC SOCIETY AND THE AMERICAN LUNG ASSOCIATION

The American Thoracic Society (ATS) and the American Lung Association are pleased to present our recommendations for programs in the Environmental Protection Agency and the Department of Veterans Affairs medical and prosthetic research program.

The American Thoracic Society founded in 1905, in an independently incorporated, international education and scientific society which focuses on respiratory and critical care medicine. The Society's members help prevent and fight respiratory disease around the globe through research, education, patient care, and advocacy. The Society's long-range goal is to decrease morbidity and mortality from disorders and life-threatening acute illnesses.

The American Lung Association, established in 1904, is the nations oldest voluntary health association. The ALA is committed to improving the nation's lung-health through programs of education, community service, advocacy and research.

The ATS and the ATS are united in our support for programs that protect the lung-health of the American public.

Lung disease is a significant health problem in the U.S. Lung disease is the third leading cause of death in the U.S.—responsible for one in every seven deaths. More that 25 million Americans suffer from a chronic lung disease. Lung diseases cost the U.S. economy an estimated $89.1 billion annually. Lung disease represent a spectrum of chronic and acute conditions that interfere with the lung's ability to extract oxygen from the atmosphere, protect against environmental and biological assaults, and regulate a number of vital metabolic processes. Lung diseases include: chronic obstructive pulmonary disease (COPD—which includes emphysema and chronic bronchitis) lung cancer, tuberculosis, pneumonia, influenza, sleep-disordered breathing, pediatric lung diseases, occupational lung diseases, sarcoidosis, asthma and acute lung injury.

Nearly all lung diseases are impacted by air pollution. How well or poorly our lungs perform is contingent on the quality of air around us, making the impact of air pollution inescapable. Air pollution remains a primary contributor to a high prevalence of respiratory diseases.

For nearly 40 years, the American Thoracic Society and the American Lung Association have conducted scientific, public health and educational programs to fight air pollution and to improve the quality of the air we breathe. We remain strong supporters of the Clean Air Act and its amendments. We can attest to the significant impact that the Clean Air Act has had in improving the quality of our nation's air.

However, much remains to be done. It is estimated that millions American's live in counties that do not meet current Clean Air Act health-standards, including our nation's Capitol. The American Lung Association State of the Air 2001 report estimates that 141 million Americans live in areas that expose them to unsafe levels of ozone. Millions live in areas that experience unsafe levels of particulate air pollution.

Research has shown that air pollution is causing the premature death of literally thousands of people due to complications from exposure to air pollution.

ENVIRONMENTAL PROTECTION AGENCY

Federal Enforcement Funding

The ATS and the ALA are extremely concerned that the Administration has proposed dramatic reductions in EPA federal enforcement budget. We are extremely concerned that the proposed reductions in the federal enforcement program are a

calculated attempt to weaken enforcement efforts of the Clean Air Act. Without strong federal leadership in the EPA enforcement, increases in funding for State, Tribal and local government enforcement efforts will ineffective and will ultimately erode recent gains in the quality of our nations air.

The American Thoracic Society and the American Lung Association strongly encourage the Subcommittee to reject the Administration's proposed cuts to EPA Clean Air federal enforcement budget.

NAAQS Research

The American Thoracic Society and the American Lung Association strongly supports the EPA National Ambient Air Quality Standards (NAAQS) research program. The NAAQS research program provides value information the health effects of exposure to polluted air. The NAAQS also helps develop the monitoring and pollution control technology that will ultimately lead to cleaner air of all of America.

The American Thoracic Society and the American Lung Association recommend a $50 million increase in the EPA NAAQS research program.

Fine Particulate Matter and Ozone

Recent studies have confirmed the significant adverse impact that existing levels of smog and fine particles have on health. Two recent studies have made clear the need to proceed with enforcement of the health-based Clean Air standard established 1997. A study published in the February 2, 2002 issue of Lancet showed a relationship between exposure to high levels of ozone and the development of asthma in children.[1] A second study published in the March 6, 2002 edition of the Journal of the American Medical Association establishes a correlation between exposure to fine particulate air pollution and increased mortality from lung cancer and cardiopulmonary diseases.[2] Despite the growing body of evident that air pollution plays a direct role in causing lung disease, the EPA has yet to implement the new more protective standards finalized in July 1997.

The American Thoracic Society and the American Lung Association urge the Subcommittee to oppose any amendments, which would impair the expeditious implementation and enforcement of these standards.

New Source Review

We are extremely concerned about the Administration initiatives to weaken the Clean Air Act and undermine the enforcement of the law. In particular, we are concerned about the effort to undercut the Clean Air Act's New Source Review Program. New Source Review (NSR) is a simple concept, made extremely complicated by those who want to avoid complying with the law. Simply stated, the NSR program requires facilities that undergo modification that significantly increase emissions, to install pollution control equipment. If the facility does not increase pollution, NSR does not apply. Do not buy the rhetoric. This program only applies when pollution increases. The NSR program is reducing pollution that is saving lives this year and every year. Legislative proposals promising greater air pollution reductions are no substitute for NSR. Such proposals must be implemented in concert with NSR, just as the current acid rain reduction program is. The public demands cleaner air and this program provides substantial public health benefits.

The American Thoracic Society and American Lung Association urge the Subcommittee to resist efforts by the Administration to weaken the implementation or enforcement of the EPA New Source Review program.

Tier 2 and Heavy Duty Vehicles Standards

In 1999 the Environmental Protection Agency established new tailpipe and gasoline standards for cars, light trucks, minivans and SUVs. The EPA also established new limits on sulfur in gasoline. When fully implemented, this program would be the equivalent of taking 164 million cars off the road. EPA calculates that the final rule will prevent as many as 4,300 deaths, more than 10,000 cases of chronic and acute bronchitis, and tens of thousands respiratory problems a year.

In 2000, EPA established new emission standards for heavy-duty vehicles and diesel fuel. These standard provide dramatic pollution reduction from heavy-duty vehicles. As a result of this program, each new truck and bus will be more than 90 percent cleaner than current models. The clean air impact of this program will be dramatic when fully implemented. This program will provide annual emission reduc-

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[1] R. McConnell et. al, *Asthma in Exercising Children Exposed to Ozone: A Cohort Study,* Lancet, Feb. 2, 2002, p.386–391.

[2] C. Pope, et.al., *Lung Caner, Cardiopulmonary Mortality, and Lung-term Exposure to Fine Particulate Air Pollution,* JAMA, March 6, 2002, p. 1132–1141.

tions equivalent to removing the pollution from more than 90 percent of today's trucks and buses, or about 13 million trucks and buses.

The American Thoracic Society and the American Lung Association encourage the Subcommittee to provide EPA the resources necessary to proceed with implementation and enforcement of the Tier 2 and Heavy-Duty Vehicle Standards.

VA MEDICAL AND PROSTHETIC RESEARCH PROGRAM

The ATS/ALA recommends $460 million for the VA medical and prosthetic research program for fiscal year 2003. The fiscal year 2003 2003 recommendations build on the $20 million increase provided for the current year. The Administration's fiscal year 2003 budget request for a $38 million (10 percent) increase in research program dollars is notable for being the first time in many years that an administration has proposed funding sufficient to maintain VA's current level of effort in advancing treatments for conditions particularly prevalent in the veteran population including prostate chronic obstructive lung disease (COPD) lung cancer, pneumonia and other pulmonary related diseases that impact the America's veterans. We applaud the Administration and Department of Veterans Affairs Secretary Anthony J. Principi for recognizing the invaluable contribution VA research makes to delivering high quality care for veterans and toward improving the health of veterans and the nation.

The American Thoracic Society and the American Lung Association recommend the Subcommittee provide at least 4460 million for the VA medical and prosthetic research program.

Please note that the Administration's budget request for a $38 million increase for VA research includes a shift from OPM to VA of $15 million in accrued government health and retirement benefit funds. Consequently, the Administration's budget proposes a $23 million (6 percent) increase in research program funds plus $15 million in federal employee benefit expenses previously paid by an OPM account, for a total increase of $38 million (10 percent) over current year funding of $371 million. We strongly recommend that the entire $38 million increase be allocated to VA research's programmatic needs and that accrued benefits continue to be paid out of the OPM trust fund.

However, even a $38 million increase would not allow VA to address all of the opportunities it has to improve care for veterans, nor to meet the new challenges presented by the tragedies of September 11 and subsequent events. We strongly encourage the VA–HUD Subcommittee to recommend an fiscal year 2003 appropriation of at least $460 million for the VA medical and prosthetics research program. This represents growth in program dollars of $89 million (24 percent).

Four core needs justify the ATS/ALA recommendation of $460 million:

Investments in investigator-initiated research projects at the VA have led to an explosion of knowledge that promises to advance our knowledge of disease and unlock new strategies for prevention, treatment and cures. Attachment 1 is a list of just a few of VA's recent achievements and initiatives. However, many health challenges still confront the veteran community. Additional funding is needed to take advantage of the burgeoning scientific opportunities and to improve quality of life for our nation's veterans as well as the general public. We urge the Committee to support additional funding for the following research priority areas identified by the VA for fiscal year 2003:

—*Special Populations.*—VA would expand research in quality of care, community access and restoration of function to achieve greater understanding of existing racial, ethnic and gender disparities in health care.

—*Micro Technology.*—In the area of low vision, work in retinal prostheses is an emerging science and may restore sight lost as a result of a variety of disorders including age-related macular degeneration and retinal pigmentosa.

—*Patient Outcomes in Rehabilitative Care.*—Specific areas of emphasis include long-term care strategies to enhance patients' independence and activities of daily life, consequences of community reintegration and the impact of assistive technology on quality and functionality of life.

—*Chronic Disease Management.*—VA is proposing two major initiatives in comparing clinical efficacy of (1) vascular surgery conducted on and off cardiopulmonary bypass machines, and (2) open versus endovascular surgery for abdominal aortic aneurysms. The ATS/ALA are working with the VA to expand the Chronic Disease Management concept to include COPD—a major cause of morbidity and morality in the veteran's population.

The complexity of research combined with biomedical research inflation has increased the costs of research. The average cost of each VA research project is now

$150,000, a 9 percent increase in just 2 years. As a result, VA requires an increase of at least $15 million just to maintain a stable number of programs.

In response to the events of September 11, VA seeks to establish a research portfolio to address the threats of bio-terrorism. This objective is consistent with VA's statutory obligation to provide medical back-up services in times of national emergencies. VA has an established history of research accomplishments in the areas of infectious diseases and immunology, including vaccine development. The laboratories of VA research scientists are disseminated nationwide, and are affiliated with top-flight universities. VA research provides a unique national resource that can be readily adapted and quickly mobilized in response to diverse biological threats.

To meet this emerging challenge, consistent with H.R. 3253, the National Medical Emergency Medical Preparedness Act of 2001, we strongly support VA's proposal to establish four new centers of research excellence focusing on fundamental issues critical for responding to chemical, biological and radiological threats to public safety. The targeted research portfolio would include pathogen detection, disease diagnosis and treatment, protection, and vaccine development. The mission of these centers would also encompass the evaluation and management of illnesses consequent to military service, especially in our current conflict.

VA's career development programs are a national resource for training the next generation of clinician scientists, those doctors who treat patients and address questions that have a direct impact on patient care. Additional funding is needed to expand this program in order to address the growing national shortage of clinician-investigators.

In 1997, NIH conducted site visits of six VA research facilities and concluded that, "VA has had increasing difficulty in providing sufficient resources via its congressional appropriation to satisfactorily fund the infrastructure necessary to support research at the VAMCs." It is our understanding that VA has made no significant, centrally administered investment in its existing research facilities since this finding. Ventilation, electrical supply and plumbing appear frequently on lists of needed upgrades along with space reconfiguration. Substandard facilities make VA a less attractive partner in research collaborations with affiliated universities; reduce VA's ability to leverage the R&D appropriation with other federal and private sector funding; and make it difficult to attract cutting edge researchers, both clinician investigators and laboratory scientists, to careers in VA. Facility R&D Committees regularly disapprove projects for funding consideration because the facility does not have the necessary infrastructure and has little prospect of acquiring it.

Under the current system, research must compete with other medical facility and clinical needs for basic infrastructure and physical plant support. Unfortunately, the minor construction appropriation is chronically inadequate to meet facility needs for clinical improvements much less research upgrades, and year after year the list of urgently needed research repairs and upgrades grows longer. VA has identified 18 sites in urgent need of minor construction funding to upgrade their research facilities. These sites plus the many facilities with smaller, but no less important needs, provide more than sufficient justification for an appropriation of $45 million specifically for research facility improvements.

We recommend that a new funding mechanism, such as a minor construction appropriation specifically for research facilities, be developed to provide a permanent, steady stream of resources dedicated to upgrading and renovating existing research facilities. State-of-the-art research requires state-of-the-art facilities.

Separate from its recommendations for the VA research appropriation, ATS/ALA strongly encourage the Committee to address the increasingly urgent need for improvements in VA's research facilities by providing $45 million to address research facility improvements.

The America Thoracic Society and the America Lung Association thank the Committee for consideration of its views. We look forward to working with the Subcommittee to further promote and protect the health of the American public.

PREPARED STATEMENT THE AMERICAN PSYCHOLOGICAL SOCIETY

Madam Chair, Members of the Committee: Thank you for this opportunity to present the views of the American Psychological Society (APS) on the fiscal year 2003 appropriations of the National Science Foundation (NSF). I am Alan Kraut, Executive Director of APS. We are a 15,000-member organization of scientists and academics, most of whom are located in colleges and universities across the country. Many members of the American Psychological Society are supported by the NSF, and much basic research in our field could not exist without NSF funding.

APS strongly supports the Coalition for National Science Funding's recommendation of $5.5 billion for the National Science Foundation in fiscal year 2003. This would be a 14.7 percent increase over fiscal year 2002.

Both Congress and the Administration have expressed a high degree of confidence in NSF's mission and its efficient management of resources. As the only government agency to receive a "green light" rating from the Office of Management and Budget (OMB) for financial management in the President's budget, NSF has proven that this would be an investment that pays off for Congress and America. OMB's praise did not end there—its director, Mitch Daniels, added last November that "The National Science Foundation is one of the true centers of excellence in this government It has supported eight of the 12 most recent Nobel Prize awards earned by Americans at some point in their careers. Programs like these. . . deserve to be singled out, deserve to be fortified and strengthened."

More recently, the House Budget Committee proposed an increase of 11 percent for NSF in the fiscal year 2003 budget resolution passed on March 13th. Chairman Boehlert's assessment, that "the federal investment in science and technology is absolutely vital to our nation's economic stability and national security," could not be more accurate. However, it should be noted that $76 million of this increase is due to the transfer into NSF of three programs formerly operated run by other agencies.

The increase that you and your colleagues in the Senate provided for NSF in fiscal year 2002, and the increase that we are recommending in fiscal year 2003, are important steps in offsetting the comparative under-funding that has characterized NSF's budget in the past several years. The scientific community is grateful for your support and it is our hope that you will continue to approve the much-needed expansion of NSF's budget.

Within the NSF budget, we ask the Committee to continue its history of support for behavioral and social science research at NSF. This Committee was instrumental in encouraging NSF to establish its Social, Behavioral, and Economic Sciences (SBE) Directorate a decade ago, and over the years has encouraged many of the initiatives coming out of that directorate. The fiscal year 2003 budget request to Congress contains a 15.9 percent increase for SBE as a whole, and an 11.6 percent increase in the Behavioral and Cognitive Science program.

These increases reflect the high regard in which NSF holds these fields. For the first time at NSF, the budget calls for funding of a Foundation-wide priority area in the Social, Behavioral and Economic Sciences, which will explore the complex interactions between society and technology. NSF's budget recommendation calls for $10 million in "seed money", with this goal in mind: for our society to take greater advantage of the technology available to it, and to prepare for further advances. There will be an emphasis on studies of decision-making, cognition, and learning. The money is there, and the time is now.

Before addressing specific activities of the SBE directorate, I first want to provide a brief overview of basic psychological research, to give you an idea of the scope and breadth of the field that I represent.

An Overview of Basic Psychological Research: Programs and initiatives that involve psychological science are our best chance to solve the enigma that has perplexed us for so long: How does the human mind work and develop? APS members include thousands of scientists who conduct basic research in areas such as learning, cognition, and memory, and the linked mechanisms of how we process information through visual and auditory perception. Others study decision-making and judgment; mathematical reasoning; language development; the developmental origins of behavior; and the impact of individual, environmental and social factors in behavior. The basic psychological research conducted by APS members has implications for a wide range of applications, including designing technology that incorporates the perceptual and cognitive functioning of humans; teaching math to children; improving learning through the use of technology; developing more effective hearing aids and speech recognition machines; increasing workforce productivity; and ameliorating social problems such as prejudice or violence. While this is a diverse range of topics, all of these areas of research are bound together by a simple notion: that understanding the human mind, brain, and behavior is crucial to maximizing human potential. That places these pursuits squarely at the forefront of several of the most pressing issues facing the Nation, this Congress, and the Administration.

Progress and investments in psychological science will not simply lead us to a better understanding of how humans think, decide, evaluate, and adapt. It will lead us to revolutionary advances in our powers to predict, detect, and prevent. In this time of uncertainty, where we can come to rely so heavily on technology to keep us safe and confident, we must turn to cognition in order to maximize this technology. An understanding of how people process information will enable us to design tech-

nology and computers that fit our needs and make us comfortable when using them. The potential for advances would be limitless.

Turning now to the SBE Directorate, I'd like to highlight some of its programs, specifically those cognitive neuroscience, and those in child development. These initiatives exemplify SBE's essential leadership on the cutting-edge frontiers of research, and they illustrate the important work that will only flourish if funded to the levels that they deserve.

NSF's Cognitive Neuroscience Initiative.—Basic behavioral science supported by SBE traditionally has included research in cognition, perception, language, development, emotion/affect, and social psychology. These have been funded primarily through its Division of Behavioral and Cognitive Sciences. Theoretical work in behavioral science has greatly advanced our understanding of the basic mechanisms underlying memory, emotion, learning, and other psychological and cognitive processes. Recognizing the potential contributions of neuroscience to these and related areas, the directorate has added funds to these programs for the express purpose of bringing more neuroscience perspectives to bear on these topics to map these psychological mechanisms onto the physical dimensions of the brain.

NSF, with the right support, will have the ability to link advances in human thought and behavior to the natural and social sciences. Now, with brain imaging and other non-invasive techniques, we are poised to confirm and extend these theories through studies of the living brain. Scientists from a range of areas will be able to test theories about normal brain functioning; assess the behavioral consequences of brain damage; and reach new levels of understanding of how the brain develops and matures, in terms of both structure and function. NSF is currently seeking highly innovative, interdisciplinary proposals aimed at advancing the understanding of how the brain supports thought, perception, action, social process, and other aspects of behavior.

One final point on this topic: Investment in new technologies is no longer the sole domain of the physical sciences. A stable, long-term commitment to the study and development of new technology ensures continued advances in all fields, including our own discipline of psychological science, which is part of the broader behavioral and social science research enterprise. Emerging fields, such as behavioral genetics and cognitive neuroscience—which employ the latest in imaging and computing technology to unlock the mysteries of the mind and the origins of behavior—are examples of where gains in technology are necessary if we are to see a return on our investment in science. In addition, addressing human factors in the design of technology is essential; advances in technology would be severely undermined unless we incorporate what we know about perception, learning and memory, and other behavior-based processes that people draw on in using technology. Advances in science and technology will not only make the U.S. a world leader in many arenas, but will also contribute to better homeland security and a stronger economy.

NSF's Children's Research Initiative.—Recognizing that a combination of perspectives—cognitive, psychological, social, and neural—is needed to fully understand how children develop and how they acquire and use knowledge and skills, the SBE directorate will support new interdisciplinary research centers that will focus primarily on integrating traditionally disparate research disciplines concerned with child development. Known as the Children's Research Initiative (CRI), this program will bring together such areas as cognitive development, cognitive science, developmental psychology, linguistics, neuroscience, anthropology, social psychology, sociology, family studies, cross-cultural research, and environmental psychology, to name only some of the relevant disciplines. Basic researchers from these areas will focus on problems that cannot be solved through single investigator studies. This initiative aims to enhance the content knowledge of the fields involved; build an intellectual infrastructure within and among disciplines; and build a program of research in relevant aspects of developmental, learning, and human sciences.

One of the CRI's four research centers is the one led by principal investigator and psychology researcher Stephen J. Ceci, of Cornell University. The Cornell Institute for Research on Children will conduct rigorous multi-disciplinary research on issues of significance to children and their families. Specifically, the center will commission national teams of the nation's most distinguished developmental scientists to study policy relevant questions, and to create a consensus position for dissemination to the public. Ultimately, this project will place science-based information in the hands of Congress and other policymakers.

The two initiatives I just described are in the Division of Behavioral and Cognitive Science. SBE's other main component, the Division of Social and Economic Sciences, also supports a substantial amount of basic psychological science. Examples of research topics being addressed in that division include: human dimensions of global change, group and individual decision making, risk management, and

human factors. Research in these areas has the potential to increase employee and organizational productivity, improve decision making in critical military or civilian emergency situations, and inform the public policymaking processes across a range of areas.

The Science of Learning.—How people think, learn and remember is a core area of interest at NSF. Known as the science of learning, this field draws from a variety of research topics across psychology, such as brain and behavior, learning, memory, perception, social psychology, and development. The basic challenge for both the science and education communities is this: How can we apply and extend our knowledge of how people think, learn and remember to improve education?

NSF's program has two broad goals: improving our understanding of the learning process, and then transferring that understanding into application. We have the knowledge base and a critical mass of top-flight scientists to help solve the educational and learning issues that have been identified by the government as high priorities. But getting that knowledge into the classroom is going to require a multidisciplinary, multi-agency effort. This will be facilitated via investigations in human-computer interactions, cognitive psychology, cognitive neuroscience, and other activity related to child learning and cognitive development. Through the establishment of three or four multi-disciplinary Science of Learning Centers, NSF will for the first time attempt to focus the full range of science and research onto a scientific workforce objective. These centers will also provide a research base for the President's Math and Science Partnership.

I'm pleased to report to the Committee that two recent editions of the APS journal Psychological Science in the Public Interest (PSPI) are excellent examples of how psychological science can be used to enhance the education of our children. One of three scientific journals we publish, PSPI presents reports modeled after those generated by the National Academy of Sciences. Developed by panels of distinguished scientists, our reports focus on issues where psychological science can contribute to our understanding of topics of national importance, such as education and education research.

The May 2001 issue of PSPI, entitled "Does Class Size Matter," describes what we know about the effects of class size on children's learning. Of all the ideas for improving education, few are as simple or attractive as reducing the number of pupils per teacher. With its uncomplicated appeal, class-size reduction has lately gone from being a subject of primarily academic interest to a policy juggernaut. In the United States, more than 20 states and the federal government have adopted policies aimed at decreasing class sizes, and billions of dollars have been spent or committed in the past few years. But those policies are based on anecdotal assumptions. The research summarized in this report indicates that class size alone is not the only determinant of effective learning.

Similarly, in the November 2001 issue of PSPI, "How Psychological Science Informs the Teaching of Reading," the authors examine research, theory, and practice relevant to how children learn to read English, summarizing research from developmental psychology on children's language competency when they enter school and on the nature of early reading development. Two inescapable conclusions emerged: (a) Mastering the alphabetic principle (Phonics) is essential to becoming proficient in the skill of reading, and (b) methods that teach this principle are more effective than those that do not. Using whole-language activities to supplement phonics for instruction does help to make reading fun and meaningful for children, but ultimately, phonics instruction is critically important because it helps beginning readers understand the alphabetic principle and learn new words. Thus, elementary-school teachers who make the alphabetic principle explicit are most effective in helping their students become skilled, independent readers. I'm pleased to provide copies of these reports to the Committee. In addition, they are available online at our website: www.psychologicalscience.org/journals. You should also know that NSF has supported the development and dissemination of PSPI.

These are just two examples among a range of others that illustrate how important the science of learning is when it comes to getting the most out of education. We ask this Committee to monitor and support NSF's efforts to bring the science of learning to bear on the nation's educational needs. Congress has demonstrated that it understands the importance of education research by introducing such legislation as HR 3801, which will provide for education research, and HR 3130, the Technology Talent Bill. The expanded budget we recommend for fiscal year 2003 will allow NSF to capitalize on the growing momentum surrounding this issue both at NSF and in the field. Last year, Congress passed the historic ESEA, promising to leave no child behind. Using the science of learning and education research to develop education will make sure that none are.

In closing, I want to note that building and sustaining the capacity for innovation and discovery in the behavioral and social sciences is a core goal of the National Science Foundation. We ask that you encourage NSF's efforts in these areas, not just those activities I've described here, but the full range of activities supported by the SBE directorate and by NSF at large. Your support in fiscal year 2003 will help NSF lay the groundwork for this long-overdue emphasis on these sciences.

Thank you again for the opportunity to appear before you to present our recommendations. I would be pleased to answer questions or provide additional information.

PREPARED STATEMENT OF THE ASSOCIATION OF AMERICAN UNIVERSITIES

Madam Chair and Members of the Subcommittee: My name is Nils Hasselmo and I am president of the Association of American Universities (AAU), which includes 63 of North America's most prominent public and private research universities. These universities are among the main recipients of research and education grants provided by the National Science Foundation (NSF) and the National Aeronautics and Space Administration (NASA).

While policymakers disagree over precisely the right mix of fiscal and monetary policy to ensure a continuation of our nation's prosperity, many now recognize that continued investment in basic scientific research and in the people who do this research is an essential catalyst for progress. A study released last year by the prestigious Council on Competitiveness, which includes some of our nation's leading chief executives in industry and academia, called for an increasing commitment to innovation, particularly to Federal investments in research and development funding. The study said these investments were necessary "just to maintain the position of the United States, much less improve in relative terms."

Basic research in each field of science expands the knowledge base in that field and, increasingly, creates new opportunities and raises new questions that can only be addressed by interdisciplinary research. Thus, a thriving research base in many scientific disciplines is important to the vitality of them all: research advances in the physical sciences, mathematics and engineering are increasingly interdependent. There is also growing interdependence between these disciplines and the biological and medical sciences. Medical technologies such as magnetic resonance imagery, ultrasound, and genomic mapping could not have occurred without underlying knowledge in biology, physics, mathematics, chemistry and engineering. Continuing significant medical advances in our lifetime will require concomitant advances in other sciences.

NATIONAL SCIENCE FOUNDATION

The National Science Foundation (NSF) is at 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. Despite its small size, it is the only Federal agency with responsibility for research and education in all major scientific and engineering fields.

NSF is also widely recognized for excellence in the management of Federal funds. Approximately 95 percent of the agency's total budget goes directly to support the actual conduct of research and education, while less than five percent is spent on administration and management at NSF. NSF was the only agency in the entire Federal government to receive a "green light" for Financial Management in a review utilizing the "traffic light" grading system by the Treasury Department, General Accounting Office and Office of Management and Budget. The review was published in the Administration's fiscal year 2003 budget request. All other agencies were graded either with "yellow" or "red" lights.

Two years ago, congressmen and senators from both parties began to pursue the objective of doubling the budget of NSF from its funding level in fiscal year 2000 ($3.9 billion) to approximately $8 billion by 2005. This process began in the fiscal year 2001 appropriation with the largest increase that Congress has provided NSF in a single year an increase of $519 million, or 13.3 percent, over the fiscal year 2000 level. Last year, although President Bush had requested an increase of only one percent for the Foundation above the fiscal year 2001 appropriation, the Congress provided an increase of $374 million, or 8.5 percent. You and Senator Bond played a critical role in securing these increases, Madam Chair, and the university community is enormously grateful for your support. This year, we believe it is critical not to lose the opportunity to build on this strong start, and we strongly hope the fiscal year 2003 appropriation will continue this effort.

The Administration has requested $5.036 billion for NSF in the fiscal year 2003 NSF budget request. AAU recommends $5.508 billion, an increase of $718 million (or 15 percent) above the fiscal year 2002 appropriation. We suggest that the additional funds, above the fiscal year 2002 appropriation, should be devoted to achieving the following objectives:

Advance core programs for research and education.—Presently, 13 percent of highly rated proposals to NSF are not funded because of inadequate resources. High quality NSF research contributes to the development of new knowledge and the preparation of the next generation of scientists and engineers. NSF education programs contribute to improved student learning at all levels in science, engineering and mathematics. The proposed increase would provide $220 million to enable more highly rated proposals to be funded and to strengthen NSF's important education programs.

Continue supporting key initiatives.—Nanotechnology; biocomplexity; information technology research; workforce development (including math and science partnerships); mathematics research; and social and behavioral sciences have all been identified as fields ripe for advances. An increase of $220 million would continue progress in these critical areas.

Increase grant size and duration.—The average NSF grant in the year 2001 was for $93,000 and lasted for just under three years. By comparison, the average NIH grant in 2000 was for $338,000 and lasted for just over four years. Increasing the size and time period of grants will enable researchers to concentrate on discovery rather than paperwork. Of the proposed increase, $135 million would be devoted to increasing grant size and duration.

Add funding for Major Research Equipment and Facilities Construction and Major Research Instrumentation.—Several proposals are pending for large-scale research resources that would provide benefits not only to the institution or region where the research project is located, but also to researchers throughout the United States and the world. An increase of $50 million to the Major Research Equipment and Facilities Construction program would hasten progress on these important capital projects. In fiscal year 2001, the NSF Major Research Instrumentation program awarded $75 million, but many worthy applications could not be funded. NSF could easily and quickly award an additional $50 million for needed research instrumentation in fiscal year 2003. If additional funds were made available, this equipment (virtually all of which is supplied by American companies) could be purchased rapidly from American vendors. Not only would these purchases advance important scientific research goals, but they would also benefit the domestic economy.

Assist with Homeland Security and anti-terrorism efforts.—The September 11 calamity has greatly increased recognition of the role of science and engineering in preventing and/or mitigating future disasters. Working closely with other Federal agencies, NSF can enhance support for groundbreaking research into information security, detection of airborne hazards, structural studies to improve building safety, psychological effects of living with terrorism, wireless communications, and a broad range of other relevant issues. Of the proposed increase, $25 million would support grants in critical areas related to the War on Terrorism.

Increase graduate student stipends.—Providing better compensation to graduate students will attract more qualified Americans to science and engineering careers, thereby addressing long-term workforce needs. With an additional $23 million above the fiscal year 2002 appropriation, NSF can increase these stipends from $21,500 per year in fiscal year 2002 to $25,000 in fiscal year 2003.

INTERNATIONAL TRAFFIC IN ARMS REGULATION (ITAR)

Universities engaged in space science research have been concerned over the past 2 years by Executive Branch and space contractors interpretations of the International Traffic in Arms Regulation (ITAR) that place increasingly strict restrictions on unclassified, civilian research collaborations with foreign-born scientists. Science is an international activity, and space science, in particular, has thrived through such interactions. Indeed, Congress has encouraged such partnerships in the past. Although we recognize that security considerations have changed dramatically since September 11, we continue to believe that scientists carrying out unclassified research on civilian spacecraft do not pose a threat to national security.

In both the fiscal year 2001 and fiscal year 2002 conference reports, the VA–HUD-Independent Agencies Appropriations Subcommittees directed the Office of Science and Technology Policy (OSTP) to work jointly with other government agencies, including the National Security Council, NASA, and the State Department, to expeditiously issue clarification of ITAR in order to allow important university collaborations and personnel exchanges to continue. A report was issued on March 18, and

while we have not yet had time to determine whether this will adequately address the universities' concerns, we appreciate the Subcommittee's support in this area.

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

Both the current and former NASA Administrators have publicly expressed concern on NASA's ability to continue to attract and retain qualified scientists and engineers. Within the next 5 years, one third of NASA's workforce will be eligible for retirement. At the same time, the pipeline of the next generation of space scientists and engineers is declining. The consequence could be an inability to ensure success in any challenging future NASA program. In some fields the problem is acute, with the major scientists all in their sixties, and limited enrollments of graduate students to follow them. In other areas, there is expected growth major new initiatives to be undertaken and yet no certainty that the required educated workforce will be available.

The workforce problem is seen in another area as well. Over the last decade there has been a growing recognition of the need for infusion of new technology to execute the space program, and considerable funds to pursue this new technology have been applied. And yet new and better technology is only one part of the problem. Unless there is an adequate workforce that is well trained, with imagination and vigor, the space program cannot succeed. However, NASA's investment in producing the required workforce has been minimal.

The nation's security also depends on a space program, both for surveillance and active defense, and the economic impact of space communications and remote sensing is large. An educated workforce can be seamlessly applied to any and all space applications, for defense or for economic growth. Undergraduate education is often not sufficient, however. Graduate education, at the Master's and Doctoral level is required, and for the graduate training to be most effective, the students must participate in forefront research during their graduate studies.

At the inception of the space program, NASA recognized that the talent necessary to pursue the science and engineering for the space program resided in the universities, and that in universities the required future workforce would be developed. NASA invested heavily, in infrastructure and capabilities, in research and education, and virtually every success that the nation has enjoyed in space can be traced back to this investment. This includes scientific discoveries, new instrumentation, or simply the graduate student support that allowed individuals who have devoted their careers to the pursuit of space to be trained.

These initial investments have run their course. The current aging workforce benefited greatly from it, as did the nation, but it is time for a new generation to be developed. It is time to invest again in the capabilities of the nation's universities to pursue forefront research, to have faculty who are leaders in space science and engineering, to have students who are well- supported, well-trained, and determined to continue this nation's exploration and utilization of space.

The Administration has requested $8.918 billion for NASA's Science, Aeronautics and Technology (SA&T) account in fiscal year 2003. The AAU recommends $9.054 billion for these activities. Within the SA&T account, the following items are of particular interest to research universities.

Space Science.—AAU supports the Administration's request of $3,428.3 billion for the Office of Space Science (OSS). This represents a 19 percent increase over fiscal year 2002, although since $210 million of this is due to the transfer of the Deep Space Network to OSS, the net increase is 11.7 percent. Space science missions produce basic knowledge about our environment, the solar system, and the universe. This information gives us a deeper understanding of the history and condition of our world that enables us to make better decisions about how to sustain and improve it.

The most substantial proposed changes in NASA's budget concern planetary exploration. The Administration has proposed an unprecedented long-term plan for planetary science and exploration. For the first time in a decade, the budget provides a real, albeit small, increase in Research and Analysis funds. This line has long been a priority of the space science community. The request also maintains a vigorous program to explore Mars, adds a line (New Frontiers) for moderate-size missions, and supports the development of nuclear power and propulsion technologies to allow longer-lived landers and more capable space missions. The Explorer and Discovery programs, both of which have strong university components, would receive increases as well. We applaud these developments that augur well for future solar system exploration.

The New Frontiers activity will be competitively selected and, according to current guidelines, are restricted to missions concerned with origins and the outer solar sys-

tem. We appreciate the focus on competitive selection but suggest that the scientific priorities being established by the ongoing National Research Council planetary decadal survey be used to guide selections. This program will re-invigorate our exploration of the solar system.

The development of nuclear capabilities should revolutionize the type of planetary missions that can be flown a decade hence. We are enthusiastic about this revitalization and believe that the support of other technologies may also yield significant benefits to the planetary program. We caution that these improvements, however, will not be available for a decade or more.

Biological and Physical Research.—Last year, significant cost overruns were identified in the International Space Station (ISS). In a report released last November, the ISS Management and Cost Evaluation Task Force reaffirmed the importance of research as a primary rationale for the ISS and emphasized the indispensable role of the ISS life science centrifuge facility.

The quality of the ISS research facilities is a crucial factor in determining the value of its scientific program. There is already a queue of over one hundred flight investigations waiting their turn for access to these on-orbit facilities. These investigations encompass five disciplines in the physical sciences in addition to biological and biomedical research. Although NASA emphasizes the biomedical research associated with crew health maintenance and preservation, a large number of investigations address cutting-edge scientific problems of fundamental importance, but also with direct application to Earth-based technological, industrial, and health issues. Advances in the scientific understanding of these issues can be significantly advanced through low-gravity experiments.

Ground-based research is also essential for developing the knowledge base and for validating experimental approaches for spaceflight experiments. NASA currently funds approximately five ground-based investigations for each flight investigation, and hopes to eventually reach an eight to ten-to-one ratio to guarantee that the highest quality research goes on for further testing on a flight platform.

NASA's Office of Biological and Physical Research (OBPR) currently provides multi-year grant support to approximately 450 investigators. Last year, OBPR received roughly 430 investigator-initiated grant applications. Of this amount, over one-third were judged as meritorious and worthy of funding by the peer-review system. However, due to budget constraints, less than 20 percent of the submitted proposals were funded. Increased funding for OBPR extramural research would permit grants to be funded at higher levels for longer periods of time and would allow a second review cycle to be added. AAU recommends an increase of $100 million to enhance these research opportunities.

AAU also recommends that the National Space Biomedical Research Institute receive $25 million in fiscal year 2003, a $2.5 million increase over fiscal year 2002. These two recommended augmentations to the budget would increase overall funding for OBPR to $953.8 million.

Earth Science.—AAU urges that the Earth Science Enterprise (ESE) receive an increase equal to inflation. The Administration requested $1.64 billion, which is $14 million, or 0.9 percent below the fiscal year 2002 level. A 2 percent inflationary increase would be $29.5 million, raising the total for the office to $1.67 billion. ESE is in the midst of deployment of the Earth Observing System (EOS), a set of spacecraft and associated interdisciplinary science investigations to initiate a long-term data set of key parameters required for the study of global climate change. A number of academic institutions and other partners are also working with ESE to develop the next generation of new instruments and smaller, more capable spacecraft. Increased funding would help achieve these goals.

Space Grant.—The Space Grant College system continues to play an important and successful role in workforce development through its university programs and its K–12 outreach. Its matching funds result in a highly leveraged program. AAU urges Congress to fund the Space Grant program at its authorized level of $28 million. The Administration has requested $19.1 million for this program in fiscal year 2003, while Congress appropriated $24.1 million for it last year.

Competitive Merit Review.—Finally, NASA's numerous scientific achievements are due both to the hard work of agency and university scientists and to the agency's use of merit review for allocating research funding. We believe that merit review should continue to be the method NASA uses to allocate research funds, since this system has helped produce the discoveries and advances from which the nation has benefited.

Thank you for your attention to these matters, and for the opportunity to provide this testimony.

PREPARED STATEMENT OF THE ASSOCIATION OF MINORITY HEALTH PROFESSIONS SCHOOLS

Mr. Chairman and members of the subcommittee, thank you for the opportunity to express the views of the Association of Minority Health Professions Schools (AMHPS).

I am Dr. John E. Maupin, Jr, President of Meharry Medical College, and President of the Association of Minority Health Professions Schools. AMHPS is an organization which represents twelve (12) historically black health professions schools in the country. Combined, our institutions have graduated 50 percent of African-American physicians and dentists, 60 percent of all the nation's African-American pharmacists, and 75 percent of the African-American veterinarians.

AMHPS has two major goals (1) to improve the health status of all Americans, especially African-Americans and other minorities; and (2) to improve the representation of African-Americans and other minorities in the health professions. We are working toward achieving this goal by seeking to strengthen our institutions and fortify other programs throughout the nation that will improve the role of minorities in the provision of health care and research.

AGENCY FOR TOXIC SUBSTANCES AND DISEASE REGISTRY

Congress created the Agency for Toxic Substances and Disease Registry (ATSDR) to implement the health-related sections of law that protect the public from hazardous wastes and environmental spills of hazardous substances. The mission of ATSDR is to prevent exposure and adverse human health effects and diminished quality of life associated with exposure to hazardous substances from waste sites, unplanned releases, and other sources of pollution. ATSDR works in partnership with Environmental Protection Agency, the Centers for Disease Control and Prevention, and the National Institute of Environmental Health Sciences to carry out its public health activities.

ATSDR is performing critical work in the field of environmental and toxicological studies that has a profound impact on public health. In order to carry out the level of activity that is called for in its mission statement, AMHPS recommends an appropriation of $85,000,000 for ATSDR in fiscal year 2002, an increase of $6,765,000 over fiscal year 2002.

THE ATSDR/AMHPS COOPERATIVE AGREEMENT ON ENVIRONMENTAL HEALTH AND TOXICOLOGY RESEARCH

In 1992, ATSDR identified a need for enhanced information on 38 hazardous substances. Through a cooperative agreement between ATSDR and the Minority Health Professions Foundation (MHPF), the historically black health professions schools that I represent are engaged in research on twelve of these priority hazardous substances. They include: Lead; Mercury; Benzene; Cadmium; Benzo (a) pyrene; Flouranthene; Trichlorocthylene; Toluene; Zinc; Manganese; Chlordane; and Di-n-butylphthalate.

Mr. Chairman, I would like to express my appreciation to the subcommittee for its support again last year of the ATSDR/MHPF Cooperative Agreement. The productivity of this research program is evidenced by the number of publication and scientific presentations made by the funded investigators. To date, more that 55 manuscripts reporting the finding of the various research projects have been published in peer-reviewed and prestigious scientific journals. These journals include: Brain Research, Neurotoxicology, Journal of Neurochemistry, and Environmental Health Prospectives.

Moreover, investigators have made more than 120 presentations at national and international scientific meetings, including the annual meeting of the Society of Toxicology, the Experimental Biology meeting, the International Congress of Toxicology meeting, and the International Society of Psyschoneuropharmacology meeting. Finally, the ATSDR/MHPF Cooperative Agreement has contributed significantly to the training of students in toxicology and environmental health. Annually, more than 30 students, both graduate and undergraduate, are actively involved in the research program.

Mr. Chairman, MHPF and ATSDR are completing 10 years of successful research. We expect to continue with a new cooperative agreement in fiscal year 2003, to not only conduct toxicological research, but to also engage in health services and health disparity research. For fiscal year 2003, we ask that the subcommittee provide $4 million for this important research collaboration.

Thank you very much for the opportunity to present the views of the Association of Minority Health Professions Schools. I would be pleased to answer any questions that you may have.

PREPARED STATEMENT OF THE AEROSPACE ENGINEERING DIVISION, AMERICAN SOCIETY OF MECHANICAL ENGINEERS; AEROSPACE INDUSTRIES ASSOCIATION; AMERICAN ASSOCIATION OF ENGINEERING SOCIETIES; AMERICAN HELICOPTER SOCIETY; AMERICAN INSTITUTE OF AERONAUTICS AND ASTRONAUTICS; AMERICAN SOCIETY OF CIVIL ENGINEERS; GENERAL AVIATION MANUFACTURERS ASSOCIATION; INSTITUTE OF ELECTRICAL AND ELECTRONICS ENGINEERS-U.S.A.; NASA AERONAUTICS SUPPORT TEAM; AND NASA ALUMNI LEAGUE

In 1947, the American Institute of Biological Sciences was federally chartered as a non-profit scientific organization to advance research and education in the biological sciences. Today the American Institute of Biological Sciences comprises 86 scientific societies with a collective membership of over 240,000 scientists in disciplines spanning all of biology—from basic to applied, from molecular to landscape ecology, from agronomy to zoology. AIBS facilitates communication and interactions among biologists, biological societies, and biological disciplines in order to serve and advance the interests of organismal and integrative biology in the broader scientific community and other components of society on issues related to research, education, and public policy.

We appreciate the opportunity to provide testimony on these important matters. If we may be of further assistance, please do not hesitate to contact Dr. Adrienne Froelich at the AIBS Public Policy for further assistance (afroelich@aibs.org or 202–628–1500 x232).

The need for biological science funding from NSF

Much has been said about the need for more balance in funding between the various scientific disciplines. At a recent House Science committee hearing on the future of the NSF budget, several witnesses presented charts documenting funding in physical sciences and engineering, as compared to the life sciences. While funding for a portion of the life sciences, that related to human health, has steadily increased in recent years due to increased funding for the NIH, funding for the biology of the natural world has not matched that pace. The NSF remains the principal federal supporter of academic, non-medical research in biology and ecology. In the fiscal year 2002 appropriations, most of NSF's research directorates received increases (over fiscal year 2001 appropriations) greater than 8 percent, except for the Biology Directorate, which increased by only 4.9 percent from fiscal year 2001 to $509 million.

In many cases, the link between hot issues like West Nile Virus and pesticides, and work funded by the biological sciences directorate at NSF, may not be immediately obvious. For instance, we have seen ridicule of NSF funding for research into the sexual behavior of insects, which can lead to the development of non-chemical pest control. In fact, one of the earliest Golden Fleece awards targeted a research grant entitled "The Sexual Behavior of the Screw-worm Fly." Former NSF deputy director Richard Atkinson, in a 1999 talk at UC Berkeley, recalled that Sen. William Proxmire, who created the Golden Fleece award, got tremendous attention for this particular award. However, Atkinson recalled, Proxmire later admitted that the study of the sex life of the screw-worm fly had been of major importance in the field of non-chemical pest control. (Colloquium Series on the History of Science and Technology, University of California at Berkeley, 10 November 1997, and published in the Proceedings of the American Philosophical Society, Vol. 143, No. 3, September 1999).

Similarly, in 1996 The Conference of the Parties to the Convention on Biodiversity (COP) requested a report from the Subsidiary Body on Scientific, Technical and Technological Advice (SBSTTA) on ways to overcome the shortage of taxonomists available to inventory and characterize the world's biodiversity a word that is now in everyday usage by the general public. Yet, the Association for Systematics Collections (now the Natural Science Collections Alliance) says taxonomy is largely outside the world economy. It and reliable knowledge about the natural world are taken for granted as a free good by governments, resource managers, drug and seed companies, and even by many scientists. People want taxonomy, but do not see the connection between that need and the need for increased funding at the National Science Foundation.

In our testimony, we address funding levels for NSF's Research and Related Activities, with particular emphasis on the Biological Sciences directorate and the Geo-

logical Sciences directorate. A summary of funding requests is below, followed by a detailed explanation of each request.

Summary of budget requests

The American Institute of Biological Sciences requests the following items:

—$5.2 billion for NSF, $4.0 billion of which would be for "Research and Related Activities," as included in the House Budget Resolution;

—$550 million for the Biology Directorate;

—$15 million for the National Ecological Observatory Network;

—$79.2 million for the Biocomplexity in the Environment initiative;

—$37 million to increase the annual stipend for graduate students from $21,500 to $25,000;

—$200 million for the Math and Science Partnership program;

—$185 million for the Learning for the 21st Century Workforce program.

—Funding for the core programs of the GeoSciences Directorate should be increased at the same rate as other directorates of NSF, independent of any funds that may be transferred from other agencies.

—AIBS does not support the transfer of programs from NOAA, USGS or EPA. However, should the transfer of Sea Grant to NSF remain in place, we request that it be funded at a minimum of the fiscal year 2002 appropriation of $62.4 million. Likewise, we request the fiscal year 2002 appropriated level for the USGS Toxic Substances Hydrology program, which would be downsized to $10 million under the President's budget.

Overall funding for the National Science Foundation

At the March 2002 House Science Committee hearing on the NSF budget, Dr. Stephen Director of the University of Michigan told the committee that of the NSF proposals receiving "Very good" to "Excellent" reviews, only 56 percent are actually funded. Even more disturbing, 14 percent of the proposals receiving an evaluation of "Excellent" were not funded. Dr. Director noted that low funding rates "discourage faculty from submitting good ideas because of the low probability of success Success rates below one-third are generally viewed as detrimental to encouraging the submission of best ideas, and the NSF rate is now below this level." He also told the committee that one impact of low NSF funding is that researchers are tailoring their research programs to meet the needs of more "mission-oriented" research agencies such as the Department of Defense. In the long-term, low funding rates are also influencing career decisions of future young scientists. Dr. Irwin Feller from Pennsylvania State University told the committee that:

"students with talents and aptitudes for research perceive research as life on a treadmill, one that constantly requires them to run in place to stand still, much less progress. Being at a formative period of their career, graduate students are apt to focus on those aspects of academic life that involve constantly writing proposals rather than the challenge and excitement of finding answers to intrinsically and extrinsically rewarding questions. Talented and flexible as they are, they opt out of academic careers and indeed careers in research in other settings, becoming in many ways productive members of society, but also failing to replenish or add to the nation's pool of scientific and engineering personnel."

While we support the move to double the research budget at NSF, we acknowledge that initiating a 5-year doubling effort under the current budget scenario may not be possible. However, we believe that a substantial increase in funding for core NSF programs is long overdue. We support the House Budget Resolution funding levels for the National Science Foundation, which would provide $5.2 billion for the agency, $4.0 billion of which would be for NSF's "Research and Related Activities". This represents an 11.1 percent increase in the major grant programs, but assumes the inclusion of the programmatic transfers included in the President's budget. AIBS does not support the transfer of these programs and respectfully requests that the entire 11.1 percent increase in funding for NSF's grant programs be distributed equally among the existing, core programs for each directorate.

Biological Sciences Directorate

Advances in understanding the biology of the natural world are dependent on advances in each of the disciplines represented by our member societies. To provide an example, the field of parasitology is a classic example of the interaction of the many disciplines of biology it draws from taxonomy, epidemiology, ecology, wildlife biology, genetics, molecular biology, physiology, biochemistry and other disciplines and has a wide range of applications. The various disciplines of biology are not mutually exclusive and increased funding for one sector of the field should not come at the expense of other disciplines.

Advances in ecology and interdisciplinary programs such as biocomplexity depend on a foundation of biological studies at the organismal level, as well as taxonomy and systematics. Ecological theory and large-scale projects enable managers to evaluate impacts of various activities on a system, and thus enhances their ability to provide useful recommendations regarding policy.

Traditional, single-organism zoological and botanical studies are essential not only to investigators working at larger scales, but to natural resource managers who must make decisions with the data that is available. While managers use ecological theories to predict impacts of human activities, management of threatened and endangered species is first dependent on basic biological information for those species (e.g., range of occurrence, life span, food habits, reproductive rate). Having a foundation of rigorous, peer-reviewed studies on the basic biology of those species is essential for agencies tasked with determining critical habitat and imposing regulations on activities in that area. Unfortunately, managers must make decisions with or without quality science to guide their decisions. Decisions made without adequate scientific information have proven to be extremely costly, and could have been avoided with a better investment in the biological research programs funded by the National Science Foundation.

A high-profile controversy regarding an endangered species highlights this point. In late 2000, a lawsuit by environmental groups prompted the National Marine Fisheries Service (NMFS) to issue strict fishing regulations in habitat used by steller sea lions, an endangered species of marine mammal. Acting on the assumption that Alaskan pollock was the preferred food source of the mammals, NMFS issued strict regulations that severely threatened the nearly $1 billion pollock fishery. In March 2002, the Anchorage Daily news reported that approximately $80 million of federal funding is being spent to study the sea lions to determine the cause of their decline. Hundreds of scientists from at least 25 institutions have initiated over 150 studies on the sea lions in the past 2 years. In one such study, scientists have discovered that even where pollock is abundant, sea lions forage only on a different species of fish, herring. Thus, harvest restrictions on pollock would not aid recovery of steller sea lions. This instance highlights that even basic biological studies on the feeding habits of a single species are of extremely high value. Having that information available before controversies erupt could save American taxpayers a substantial amount of money spent on lawsuits.

In addition to the societal benefit to funding research at the organismal level, studies of this type are ideal for smaller universities and undergraduate research projects. Organismal studies are typically of a shorter duration and smaller spatial scale than ecological studies. To attract top talent into the pool of U.S. scientists, students must have first-hand experience with what scientists do. For students to be involved in all aspects of conducting research (hypothesis formation, study design, data collection and analysis), there must be funding available for small, short-term projects.

In the fiscal year 2002 appropriations, most of NSF's research directorates received increases (over fiscal year 2001 appropriations) greater than 8 percent, except for the Biology Directorate (BIO; up 4.9 percent from fiscal year 2001 to $509 million). It is difficult to determine how much funding is necessary for research in the various disciplines. However, given the immediate relevance of studies funded by NSF–BIO to natural resource management, we believe that BIO should receive an increase of at least that received by other directorates in fiscal year 2002. Therefore, we request an 8 percent increase in funding for the Biology Directorate in fiscal year 2003 to a level of approximately $550 million.

Transfer of programs from NOAA, EPA and USGS

Whatever the merits of the proposed transfers, we are concerned that the probable costs have not been adequately considered. These changes may have dire effects on these programs. In some cases, the effect may be tantamount to termination and valuable research efforts will be lost. It can be difficult and costly to rebuild strong scientific research programs, if it can be done at all, so it is important to assess carefully the costs and benefits of major structural changes such as those under consideration by OMB.

We appreciate the fact that this administration values competitive research, and we also agree with Mr. Daniel's view that the National Science Foundation has an excellent record of supporting the Nation's research. We whole-heartedly support NSF. However, NSF is legislatively mandated to fund basic research. Therefore, we question whether NSF is the best place for the USGS and Sea Grant. Sea Grant's research agenda is based on the needs of marine industry, government, resource managers and the public. We question whether NSF can and will fund this kind of research. The National Research Program of the USGS Water Resources Division,

as well as the entire USGS research program, are commonly characterized as "applied" research. Indeed, it is the very research that is needed for management of the quality and quantity of the natural resource that is vital to our very existence. We are concerned that NSF cannot and will not fund much of the research underway at USGS, not because it is not valuable or of high-quality, but because it is of a different nature from that typically funded at NSF. Therefore, AIBS does not support the transfer of these programs.

Within the transferred programs, we note that Sea Grant only receives $55.8, a 10 percent decrease from its fiscal year 2002 appropriation. Should the transfer of Sea Grant to NSF remain in place, we request that it be funded at a minimum of the fiscal year 2002 appropriation of $62.4 million. Likewise, we request the fiscal year 2002 appropriated level for the USGS Toxic Substances Hydrology program, which would be downsized to $10 million under the administration's budget.

GeoSciences Directorate (GEO) and Ocean Research Funding

While it appears that GEO will receive a 13.4 percent increase of approximately $82 million in fiscal year 2003, $74.0 million of that increase is due to the transfer of programs from NOAA, EPA and USGS. The remaining $8.0 million represents a mere 1 percent increase in funding. We are particularly concerned about the funding level for the Ocean Sciences Division, which is slated for an approximate decrease of 2 percent in funding, notwithstanding transfers of programs from other agencies. Combined with the decrease in funding for the Sea Grant Program, total funding for ocean science and research would decrease by 3.5 percent. The decreases in ocean research funding for NSF and Sea Grant proposed in the President's budget are in stark contrast to the testimony presented before the President's Commission on Ocean Policy, which was created through the Oceans Act of 2000. While the Commission will not issue its recommendations until next year, numerous credible witnesses have testified before the Commission that funding for ocean research and education is sorely inadequate. Therefore, we oppose the administration's decrease in ocean research funding and respectfully request that funding for the core programs of the GeoSciences Directorate be increased at the same rate as other directorates of NSF, independent of any funds that may be transferred from other agencies.

National Ecological Observatory Network (NEON)

With NEON, NSF hopes to improve scientific understanding of complex ecosystem dynamics and to enhance the ability to predict the effects of changes from such trends as climate change. Because of its ultimately wide network across the nation, NEON would have the potential to detect threats ranging from invasive species to chemical or biological terrorist activities. NEON has gone through peer review, with the National Science Board recommending its funding. Through its Major Research Equipment budget area, NSF is requesting $12 million to launch to NEON prototype sites. An additional $3 million for operational support of the two prototype sites is included in the Biological Sciences Directorate under Biological Infrastructure. AIBS strongly supports the administration's total request of $15 million for NEON-related expenses.

Biocomplexity in the Environment

The Biocomplexity initiative is designed to respond to the demand for new approaches to investigating the interactivity of biota and the environment. It will result in more complete understanding of natural processes, of human behaviors and decisions in the natural world. The Biocomplexity initiative encourages collaboration among investigators in multiple fields of science, extending questions of sustainability beyond biology to include, among others, mathematicians, social scientists and economists. AIBS supports the administration's request of $79.2 million for the Biocomplexity in the Environment initiative.

Investing in the future U.S. scientific workforce

Graduate Student Stipends.—The average starting salary for students holding a Bachelor's degree in science or engineering are nearly twice the level of current stipends for graduate students. The amount of debt incurred by U.S. undergraduates has more than doubled in the 1990's. The low level of stipends, combined with the increasing burden of debt, acts as a deterrent, limiting the number of students choosing to pursue advanced studies. A student's time in graduate school will be much more effective if they are not constantly worrying about making ends meet. Therefore, we support the administration's request for $37 million to increase the annual stipend for graduate students from $21,500 to $25,000.

Math and Science Partnership and Learning for the 21st Century Workforce

AIBS believes that safeguarding the biosphere and promoting sustainable global development increasingly depends upon understanding the earth's biological interactions. Maintaining the integrity of the biosphere therefore depends upon a strong research, education, and outreach program with resources adequate to support the increasing demand for biological scientists and students, as well as a scientifically-literate public. NSF's programs, Math and Science Partnership and Learning for the 21st Century Workforce, will result in a more scientifically- literate public and will increase the number of talented young people entering the U.S. scientific workforce. Therefore, we support the administration's request for $200 million for the Math and Science Partnership program and $185 million for the Learning for the 21st Century Workforce program.

PREPARED STATEMENT OF THE AVIATION RESEARCH AND TECHNOLOGY

THE CRISIS IN U.S AVIATION RESEARCH AND TECHNOLOGY

We are deeply concerned about the lack of a national commitment to sustain U.S. leadership in aviation research and technology. While public demand for aviation transportation services is expanding, federal funding for civil and military aviation research is declining. Since 1998, the combined NASA and DOD investment in aeronautics research and technology programs has been reduced by one-third, and this trend is continuing. Advanced technologies are needed to assure public safety and on-time flight schedules. Without continued investment in aviation R&T, U.S. market share in aviation products and services will decline, as will employment in the nation's aviation industry.

The NASA and DOD aeronautics R&T budgets have been cut dramatically over more than a decade, and tens of thousands of skilled workers have left the industry. U.S. graduates at the bachelor and master degree levels in aerospace engineering and related disciplines have dropped by 57 percent and 39 percent, and Electronics respectively, since 1990. These facts, combined with the fact that the average age of those employed in the aerospace industry is in the mid-to-upper 40s and climbing, suggest a potentially catastrophic loss of one of the nation's most important sources of societalbenefits.

NASA and DOD have taken the first steps toward clearly articulated visions for aviation research and technology. These visions must now be supported by national aviation research and technology strategy that maintains and builds U.S. market share in aviation products and services, ensures our national security, provides a continuing supply of qualified people to meet the nation's future aviation workforce needs and creates an environment conducive to a healthy U.S. aviation industry.

While U.S. government support for aviation research is declining, foreign government funding is increasing. European and Asian countries recognize the value of the aviation industry and its quality jobs to their economies. National will, available capital, and investments in leading edge technology are determining winners in this global competition.

According to a 1999 National Research Council report, "Recent Trends in U.S. Aeronautics Research and Technology," the U.S. aviation and rotorcraft industries (Boeing, Pratt & Whitney, General Electric, General Dynamics, Lockheed Martin, Textron, and others) contribute approximately $436 billion per year of total output to the U.S. economy. Of this amount, air transportation and aircraft manufacturing account for approximately $339 billion, accounting for over half a million manufacturing and engineering jobs. If the American public expects the U.S. aviation industry to continue to be the largest positive contributor to U.S. balance of trade, then we must have the ability to develop the next generation of aircraft that will enable them to compete internationally.

The future of U.S. aviation, with respect to both global competition and societal benefits, depends on new technology and new concepts. Government research establishments have conducted essential fundamental and applied research, which were high risk, high cost, and long term. The uncertainty and risk inherent in revolutionary concepts cannot be undertaken solely by the private sector. The future demands a clear statement of national policy, establishing U.S. leadership both in aircraft and rotorcraft technology development that assures national security with additional societal benefits, such as:

—Advanced vehicle technologies for innovative applications;
—Increased safety;
—Efficient air traffic management systems to reduce delays;
—Reduced air transportation cost and travel time;

—Increased fuel efficiency; and
—More environmentally friendly aircraft.

Historically, the government's support of aeronautics and rotorcraft research and technology (in collaboration with industry and universities) has been indispensable in for attracting highly talented people whose contributions have made possible the societal benefits that we have seen to date. If America fails to support aviation R&T, it may well fail to provide an essential nucleus of next generation professionals for the nation's aviation future.

Recommended Actions:

—Adequate funding for NASA and DOD aviation R&T must be addressed, not only with respect to the fiscal year 2001 budget, but also—and even more significantly—with respect to the preservation of U.S. capability and leadership in long term aeronautics research and technology, as required by law.
—As the fiscal year 2000 federal budget has generally subsumed aeronautical research and technology programs within an all-encompassing category termed "Aerospace Research and Technology," it is essential that the aeronautics R&T programs at the key mission agencies (NASA, DOD and FAA) be clearly identified and adequately funded within this category.
—The establishment of a National Aviation R&T policy to plan and provide adequate resources that will ensure sustained U.S. world leadership in civil and military aviation.

As we approach the centennial of the Wright Brothers' first flight, it is more important than ever that America renews our national commitment to leadership in aviation. In order to do so, we must ensure the strength and stability of the nation's aviation infrastructure by formulating and committing to a national aviation research and technology policy that incorporates adequate federalfunding for long-term aviation research.

PREPARED STATEMENT OF BABYLAND FAMILY SERVICES, INC.

Mr. Chairman: Thank you for giving me an opportunity to submit written testimony on behalf of Babyland Family Services, Inc. about two economic development initiatives: (1) Project NET-TO-WORK: A Neighborhood Employment and Technology Initiative for Healthy Children and Self-Sufficient Families and (2) the Babyland Pediatric Health Center.

PROJECT NET-TO-WORK

Babyland Family Services seeks $1 million through the Department of Housing and Urban Development (HUD) and the Economic Development Initiative (EDI).

Project NET-TO-WORK is a 1-year capital and program start-up request in which federal funding will enable the agency to complete the construction or renovation of a major facility (approximately 36,000 square feet) that will thereafter offer the ongoing employment training, placement and support services necessary to promote economic development. It will also provide the necessary seed funds for program operations, which will be sustained through the generation of program income, local and state government contracts and grants from foundations.

Project NET-TO-WORK will provide a comprehensive safety net and partnership—one-stop employment and self-sufficiency services that eliminate common barriers to employment for TANF recipients and low to very low-income families in Newark and surrounding areas. Babyland's current service area includes those portions of Newark (Central, West and North Wards) and East Orange that are still economically distressed. The project will target low-income African-American and Latino families who are receiving or at risk of receiving public assistance. In particular the initiative will be addressing the needs of single mothers, teenage parents and males involved in or at risk of involvement in the criminal justice system.

The project will create 50 new child care jobs and will provide employment training and placement services for 150 residents. In addition, the project will address multiple barriers to job training and employment retention, including: (1) Full-day, year-round child care, especially for infants; (2) Pediatric health care services, including asthma management and preventive health education; (3) Family counseling, especially substance abuse and mental health services and (4) Quality of life and violence issues, especially family violence, crime and dilapidated housing.

The main components of the project include the following:

—Employment training, placement and follow-up support services—which includes individualized assessment, planning, basic skills development including literacy and computer skills, mentorship, peer counseling, support service refer-

rals, classroom instruction, internship placements, job placements and ongoing mentorship after placement.
—Child care and early childhood education services for 198 children, from infant to 5 years old, and their families through center-based and family child care options.
—Preventive health services will be provided onsite at the facility, including assessment, screening and examination, education, referral and follow-up for children and families.
—Access to Computer Technology for community residents through the creation of computer labs and training programs.
—Family counseling to prevent and address family violence and child abuse issues, with an emphasis on parent education, substance abuse counseling and mental health counseling.
—Neighborhood safety and quality of life initiative that trains and empowers residents to develop a five-block safety zone around their neighborhood through the creation and development of block associations, community policing, local business associations and other community organizing efforts.

The goal of Project NET-TO-WORK is to help eliminate physical and economic distress in the communities that the agency serves. Through this project, Babyland expects to create at least 200 new jobs, especially in the areas of education, security, medical child care, human services and food preparation. The agency also expects to create a facility that will serve as a stabilizing force in an economically distressed neighborhood. A child care component will promote the healthy development of 198 children as well as serve as a job-supporting service for 198 parents.

A health component will directly benefit over 1,500 at-risk children in the Babyland service area through the prevention and management of childhood illnesses, thereby further preventing parent absenteeism from work. A computer technology component will provide over 300 low-income residents with access to basic and individualized computer technology knowledge that is essential to their long-term success at work. Finally, a grass-roots neighborhood violence reduction component will promote partnerships among residents, law enforcement, churches, businesses and other stakeholders and achieve the following: the reduction of physical blight (graffiti and dilapidated housing), prostitution, drug dealing, car jacking, domestic violence and various forms of crime.

There is widespread support for this very important initiative. Babyland Family Services, Inc. expects to receive funding for the project from the following sources:
—The Annie E. Casey Foundation Families Count Award—$166,000 unrestricted funds
—The Newark Public Schools—approximately $1 million for early childhood education
—Private lending institutions—$1 million for capital support
—Local government (City and County)—$250,000 for employment training and employment support services.
—Local Foundations—$70,000 for health and community organizing projects.
—United Way—$200,000 for program operations
—Other potential funders include The Healthcare Foundation of New Jersey and the Prudential Foundation.

THE BABYLAND PEDIATRIC HEALTH CENTER

Babyland Family Services seeks $1 million as an Economic Development Initiative (EDI) through the Department of Housing and Urban Development (HUD). The project is a 1-year capital and program start-up request that will enable the construction or renovation of a facility that will offer direct family health services and employment training in the pediatric health care field. Federal funding will also provide the seed funds for program operation which will be sustained through local and state government contracts, third-party affiliations and foundations.

Background.—Babyland provides child care and early childhood education services for 750 children (0 to 5 years old) at eight child care centers and provides emergency shelter and family support services to 750 other at-risk and low-income children and families. Babyland is currently Newark's Early Head Start grantee (serving children 0 to 3 years old, pregnant teenagers, young fathers and families living with HIV/AIDS) and has a partnership with the Newark and East Orange Public Schools to provide Abbott preschool services to over 250 children. The agency has an extensive partnership with the New Jersey Department of Human Services for the provision of child welfare, family violence and child care services.

Babyland is a lead agency for the United Way's Success By 6 Initiative and the State's Family and Children Early Education Services (FACES) Initiative which,

combined, provides early childhood support services to 2,000 children and over 30 other child care agencies and schools. The agency provides employment training and placements in the areas of child care and medical day care for TANF recipients as well as accreditation support for local teachers and child care centers. Babyland is implementing the Open Airways Asthma Education Program at eight elementary schools through a grant from the Centers for Disease Control. Finally, the agency's newly established Technology Initiative is providing early computer education to preschool children, a Technology Center for computer-related employment skills to local residents and an agency intranet that will develop an outcome and service-based model for family support services.

Project Description

Babyland is in a unique position, as the lead agency for several collaborative initiatives that promote the development of young children under 6 years old, to launch a pediatric health initiative that will prevent and manage childhood illnesses in Newark. In partnership with over 30 child care agencies, elementary schools and local health care providers, Babyland will develop a coordinated community-based approach for residents to gain access to health care services. As part of the agency's new multipurpose building, this grant will enable the agency to include a pediatric and family health center that will directly provide basic health services to over 1,000 families and provide health education, assessments, screening and follow-up services to 2,000 families with children under 6 years old.

In addition to the pediatric and family health center, the new multipurpose building will include a child care center for 198 children (0 to 5 years old), a computer technology center, an employment training and placement center and family resource center. The new health center will particularly focus on increasing immunizations, screening for lead poisoning, asthma management, preventive dental care services, nutrition, prenatal care, home safety, parent education and child development, HIV/AIDS prevention and other preventive health education.

Increased access to health care services will be achieved through the following methods: training and placing 45 low income residents in the medical day care/special needs field; training for over 50 Abbott Family Workers who provide case management services for 2,000 preschoolers; parent-to-parent workshops that will be part of a series of parent and health education workshops; and creative grass-roots efforts that will encourage families to utilize the health center's resources. Community outreach workers, parents, nurses and a team of other health professionals will provide health outreach, education and services. Services will be coordinated with existing partners that include the Newark Department of Health, the Newark Public Schools, child care agencies and other local health care service providers.

In conclusion, the project will also eliminate physical distress by developing a facility that will serve as a stabilizing center that will help revitalize a distressed neighborhood. The health center will prevent illnesses and provide health maintenance support for young, sick, low-income children. In addition, the center will serve as an onsite employment-training center for TANF recipients who will enter the health-related field for children with special needs. The project's health services will reduce the need for emergency services and lost time and wages for working parents.

Matching Funds.—$1 million capital funding from the following: The Annie E. Casey Foundation ($166,000 unrestricted award) and $500,000 from a lender. Operating funds will come from the United Way, Essex County and the State of New Jersey. Other potential funders could include previous health-related supporters such as the Robert Wood Johnson Foundation, the Johnson and Johnson Company and the Healthcare Foundation of New Jersey.

We hope the Subcommittee will support these two critically important economic development initiatives as the appropriations process gets underway.

Thank you for your consideration.

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 2003 funding request of $2.5 million from the Environmental Protection Agency (EPA) for CCOS as part of a Federal match for the $8.7 million already contributed by California State and local agencies and the private sector.

Most of central California does not attain federal health-based standards for ozone and particulate matter. The San Joaquin Valley is developing new State Implementation Plans (SIPs) for the federal ozone and particulate matter standards in the 2002 to 2004 timeframe. The San Francisco Bay Area has committed to update their ozone SIP in 2004 based on new technical data. In addition, none of these areas attain the new federal 18-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 State Implementation Plans (SIPs), as well as advance fundamental science for use nationwide. The CCOS field measurement program was conducted during the summer of 2000 in conjunction with the California Regional PM10/PM2.5 Air Quality Study (CRPAQS), a major study of the origin, nature, and extent of excessive levels of fine particles in central California. CCOS includes an ozone field study, a deposition 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 six main components:

—Developed the design of the field study

—Conducted 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

—Designing and conducting a deposition field study

—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 Particulate 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 $8.7 million for the field study. The federal government has contributed $2,150,000 to support some data analysis and modeling. In addition, the CCOS sponsors are providing $2 million of in-kind support. The Policy Committee is seeking federal cofunding of an additional $6.75 million to complete the remaining data analysis and modeling portions of the study and for a future deposition study. California is an ideal natural laboratory for studying deposition given the scale and diversity of the various ground surfaces in the region (crops, woodlands, forests, urban and suburban areas).

There also exists a 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. The CCOS field study took place concurrently with the California Regional Particulate Matter Study previously jointly funded through Federal, State, local and private sector funds. Thus, CCOS was timed to enable leveraging the efforts of the particulate matter study. 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 cost-effective since it builds on other successful efforts including the 1990 San Joaquin Valley Ozone Study. Federal assistance is needed to address these issues effectively.

For fiscal year 2003, our Coalition is seeking funding of $500,000 from the Department of Energy (DOE) Fossil Program.—The California Energy Commission is a key participant, having contributed $3 million. Consistent with the memorandum of understanding between the California Energy Commission and the DOE, joint participation in the CCOS will result in: (1) enhanced public interest in programs on energy research, development, and demonstration; (2) increased competitiveness and economic prosperity in the United States; and (3) further protection of the environment through the efficient production, distribution, and use of energy.

The CCOS program coincides with DOE's initiative to develop the Federal Government's oil technology program. In fact, the oil industry in California has been working for several years with DOE to identify innovative partnerships and pro-

grams that address how changes in those sectors can cost-effectively reduce particulate matter and ozone-related emissions. This approach will likely result in new ideas for technologies to improve oil recovery technologies, as well as improve environmental protection in oil production and processing operations. The overlap of CCOS and the California Regional Particulate Matter Air Quality Study provides a unique opportunity to perform research related to petroleum-based VOC and particulate matter emissions as well as methods to characterize these categories of emissions. The CCOS program is utilizing modeling, instrumentation, and measurement to obtain results that can be used to better understand the impact of oil and gas exploration and production operations on air quality. CCOS program results might also be applied to identify the most efficient and cost-effective methods of reducing emissions from oil and gas operations.

The Department of Energy has been a key participant in many programs with the oil and agricultural sectors. By becoming a partner in this program, DOE will be furthering its own goals of "Initiatives for Energy Security" by aiding domestic oil producers to enhance their environmental compliance while reducing their costs. DOE will also be building upon an established and effective partnership between state and local governments, industry, and institutional organizations.

For fiscal year 2003, our Coalition is also seeking funding of $250,000 from the National Park Service (NPS) and $250,000 from the Forest Service.—The National Park Service and Forest Service conduct prescribed burns that contribute to both ozone and particulate matter pollution. Prescribed burns are needed for forest health or to reduce fuel loads, and must be carefully managed to minimize public health and visibility impacts.

Improving the fundamental science related to emissions, meteorological forecasting, and air quality modeling will help in designing effective smoke management programs. In addition, attainment of air quality standards is an important goal for protecting national parks and forests. Ozone damage to trees and vegetation in national parks and forests is well documented in California and nationwide. The National Park Service and Forest Service are key stakeholders relying on the success of SIPs in achieving the emission reductions needed to attain air quality standards. The participants in the CCOS have been partners in regional study efforts addressing visibility and haze impacts on national parks and forests in the West. The results of this study will provide valuable information that will further those efforts on a regional basis.

Scientists at the University of Nevada, Desert Research Institute (DRI) are involved with the CCOS. To expedite research studies related to biomass burning and smoke management for CCOS, it is requested that funds provided by the National Park Service and Forest Service be allocated directly to DRI.

Thank you very much your consideration of our requests.

PREPARED STATEMENT OF THE CITY OF GAINESVILLE, FLORIDA

Mr. Chairman: On behalf of the City of Gainesville, Florida, I appreciate the opportunity to present this written testimony to you today. The City of Gainesville is seeking Federal funds in the fiscal year 2003 HUD Appropriations bill to assist with the following two innovative projects the City is undertaking:

—The Depot Regional Stormwater Park, to provide stormwater treatment for approximately 125 acres of the Downtown and allow the redevelopment of existing buildings and parking lots within Downtown into mixed residential, commercial, and office uses. This project will serve as a mechanism not only to further the revitalization of Downtown but also to treat the stormwater runoff prior to discharging to Sweetwater Branch and ultimately Paynes Prairie and the Floridan Aquifer, and

—The Underserved Neighborhood Improvement Project, to upgrade the public infrastructure in particular older neighborhoods in east Gainesville. Specifically, the City has identified the neighborhoods that are encompassed in the newly designated Eastside Redevelopment District and the Porter's Neighborhood, which is included in the Downtown Redevelopment District Expansion Area. The Eastside Redevelopment District is primarily residential in nature but includes commercial sections along NE Waldo Road, East University Avenue and SE Hawthorne Road. Except for a few businesses on the periphery, the Porter's Neighborhood is strictly residential.

Depot Regional Stormwater Park

The Depot Regional Stormwater Project is a U.S. Environmental Protection Agency (USEPA) and Florida Department of Environmental Protection (FDEP) des-

ignated Brownfield pilot project. The project includes the cleanup of contaminated soils, construction of the regional stormwater management facilities, installation of reuse water system for irrigation, and development of the recreational components of the park.

The Depot Regional Stormwater Project is located on the southern boundary of Downtown. The Downtown area is located within the Sweetwater Branch watershed, which contains approximately 3 square miles of Gainesville. The Sweetwater Branch drains into Paynes Prairie Preserve, which is part of the State of Florida Park System and has been designated as an Outstanding Florida Water. An earthen levee segregates creek flow to a small area of the prairie before discharging into Alachua Sink, a natural sinkhole located on the northeast boundary of the prairie. Alachua Sink is an active sink with direct hydraulic connection to the Floridan aquifer.

Urbanization of the watershed has resulted in significant pollution loads entering the creek from non-point sources. Land use within the urban sections of the Sweetwater Branch watershed includes commercial, industrial and residential types. Most of the surfacewater runoff is discharged directly to the creek without receiving treatment or attenuation. The urbanization of eastern Gainesville took place prior to implementation of regulations requiring on site treatment of surfacewater. The Saint Johns River Water Management District's (SJRWMD) non-point source-screening model indicates that the non-point pollution load to Sweetwater Branch is significant. The water quality within Sweetwater Branch adversely impacts the Paynes Prairie ecosystem and contributes to the degradation of the Floridan aquifer.

The Paynes Prairie Preserve provides habitat to a variety of wildlife, including threatened species and species of special concern including the, bald eagle, white ibis, roseate spoonbill, and Florida sandhill crane. It is believed that the degraded water quality within Sweetwater Branch has had an adverse impact on vegetative communities in Paynes Prairie. A diagnostic study is currently underway to determine the extent of this problem.

Water quality within Sweetwater Branch is described as fair according to the Water Quality Index (WQI) presented in the State of Florida Department of Environmental Protection's (FDEP) 1996 305(b) Report, see Appendix E. The WQI is the arithmetic mean of anywhere from 1 to 6 water quality index categories (water clarity, dissolved oxygen, oxygen demanding substances, nutrients, bacteria, and biological diversity).

The Depot Regional Stormwater Park will provide stormwater treatment for approximately 125 acres of the Downtown and allow the redevelopment of existing buildings and parking lots within Downtown into mixed residential, commercial, and office uses. This project will serve as a mechanism not only to further the revitalization of Downtown but also to treat the stormwater runoff prior to discharging to Sweetwater Branch and ultimately Paynes Prairie and the Floridan Aquifer.

The regional stormwater management facility is being planned as a landmark stormwater park that will not only serve as a functional stormwater management facility, but will return unusable brownfield property into an active land use. The project is located on the southern boundary of Downtown adjacent to the City's Historic Train Depot (built in 1907) and the City's Electric Utility's historic Kelly Power Plant, which has recently been repowered. The Historic Train Depot was purchased by the City and is in the process of being renovated in accordance with Federal and State Historic requirements and using Transportation Enhancement Program and State Historic Preservation funding. The Historic Train Depot will be a vital component of the regional stormwater park to allow a center of activity that is complementary of the overall goals of the Depot Regional Stormwater Management Project and the Revitalization of Downtown.

The Stormwater Park will also function as a Rail Trail Hub to provide linkage of four primary existing and proposed rail trail systems. From the south the existing Gainesville Hawthorne Rail Trail provides a linkage to the Historic Boulware Springs facility and proposed park owned by the City, the State Payne's Prairie Preserve and further out to the City of Hawthorne. The proposed Downtown Connector will connect the Gainesville Hawthorne Rail Trail through the Stormwater Park and is being implemented with funding through the Transportation Enhancement Program. From the east the existing Waldo Road Beautification Trail connects the Stormwater Park with the City's recently completed Martin Luther King Multipurpose Center, a community sports complex that provides much needed community meeting space and recreational programs. In addition, the Waldo Trail provides a linkage to many predominately African American neighborhoods including the City-developed Cedar Grove residential affordable housing neighborhood. The proposed 6th Street Rail Trail will provide access to the north and west through three historic, and predominantly African American communities: the Porters, Pleasant

Street, and Grove Street Neighborhoods. The 6th Street Trail will be constructed using a combination of local, State and Federal dollars. The existing Depot Avenue Rail Trail connects these trails along the borders of the Stormwater Park and Depot Avenue. The trail and enhanced roadway will provide a primary multi-modal transportation corridor connecting the University of Florida and Shands Medical Complexes to Downtown.

The Depot Regional Stormwater Park component will provide stormwater treatment for Depot Avenue, the proposed Rail Trails, as well as the Downtown portion of the Sweetwater Branch watershed located upstream of the park. The site of the proposed Park served as the rail transportation hub linking Fernandina Beach on the east coast of Florida to Cedar Key on the west coast in the mid-1800's. The Historic Train Depot's under-roof, otherwise open loading docks will provide open vistas to the proposed Sweetwater Urban Stormwater Park. The historic Depot building's unique character and location will serve to make it both a lively destination hub for the neighborhood and a catalyst for further redevelopment of Downtown. The building is a standing testament to and a significant visual emblem of Gainesville's rich history. The restoration of this building in conjunction with the restoration of the 22-acre Sweetwater Urban Stormwater Park is expected to provide a major community destination and regional "eco-tourism" attraction for the community.

The remaining unfunded costs of the Depot Regional Stormwater Park are estimated at $10,700,000.00. The City of Gainesville has acquired approximately 25 acres for the project and anticipates completing acquisition of the balance of the property by summer of 2002. The City has set aside $1 million of the Stormwater Management Utility revenues for construction of the stormwater management components. Grant funding from a variety of Federal, State and local sources totals $3,111,365.00. Among these are a Florida Communities Trust grant to assist with acquisition costs, State and Federal Brownfield grants for site investigation and design activities currently underway, and an EPA grant for $500,000 for preliminary engineering and environmental work for a portion of the stormwater component of the project. The City's Federal funding request is for $10,700,000.00 to complete the Depot Regional Stormwater Park.

The Underserved Neighborhood Improvement Project

The City of Gainesville is pursuing a strategy to assist in upgrading the public infrastructure in its older neighborhoods. Gainesville has a significant number of older, predominantly low- and moderate-income neighborhoods that lack adequately paved roadways, curbs and gutters, and sidewalks. The population of these neighborhoods tends to include a disproportionately large percentage of children and youth, single-parent families and the elderly. Due to income limitations of the residents, it is not feasible to utilize special assessment districts as a funding mechanism for upgrading the infrastructure in these neighborhoods.

The City currently allocates 15 percent of its annual Community Development Block Grant (CDBG) entitlement for upgrading public infrastructure in eligible neighborhoods. This year (fiscal year 2001–02), that amounted to about $230,000. However, due to the significant numbers of neighborhoods that need assistance, this funding strategy is inadequate to meet the demand.

To make a meaningful impact on the problem, the City is requesting $1 million to upgrade the public infrastructure in particular older neighborhoods in Gainesville. Specifically, the City has identified the neighborhoods that are encompassed in the newly designated Eastside Redevelopment District and the Porter's Neighborhood, which is included in the Downtown Redevelopment District Expansion Area. The Eastside Redevelopment District is primarily residential in nature but includes commercial sections along NE Waldo Road, East University Avenue and SE Hawthorne Road. Except for a few businesses on the periphery, the Porter's Neighborhood is strictly residential.

According to the 1990 Census, the Eastside Redevelopment District had a total population of 4,043 persons, with 71 percent qualifying as low- and moderate-income under HUD's definition (80 percent of median family income). The Porter's Neighborhood had a total population of 441 persons in 1990, with 87 percent low- and moderate-income. This compares with about 49 percent low- and moderate-income for the city as a whole in 1990.

As part of the City's November 2000 Finding of Necessity for the 4th Redevelopment District (now known as the Eastside Redevelopment District), the City Public Works Department identified approximately 11 miles of semi-paved local streets and seven miles of local streets with pavement only meaning no sidewalks or storm drainage facilities in the District. The total cost to repave or reconstruct all of these semi-paved streets and streets with pavement alone, including providing sidewalks where needed, was estimated to be $9 million. The Department estimated that it

would cost another $1 million to repave the approximately 6.5 miles of streets with curb and gutter in the District.

Similarly, the Porter's Neighborhood has numerous deficiencies in its public infrastructure. The December 2000 Assessment of Need Study prepared for the Downtown Redevelopment District Expansion Area noted a general lack of sidewalks in the neighborhood, narrow streets with deteriorated pavement surfaces and a widespread absence of stormwater management and pollution control facilities. While the cost to upgrade the infrastructure in the broader Downtown Redevelopment District Expansion Area is estimated at upwards of $4.4 million, a sizable portion of this cost (approximately $1 million) can be attributed to just the Porter's Neighborhood.

Street and structure (mainly residences) flooding is known to occur at several locations in the Eastside Redevelopment District and the Porter's Neighborhood due to inadequate and non-existent storm drainage facilities. This results in unsafe and unsanitary conditions. None of the semi-paved streets in either area have curbs and gutters, as most of these neighborhoods pre-date local government requirements for stormwater management and treatment.

In order to address these critical needs in the Eastside Redevelopment District and the Porter's Neighborhood, the City proposes to replace open drainage swales with closed drainage systems, build sidewalks in locations where they are needed, and continue work on master stormwater management systems. An infusion of $1,000,000.00 additional capital would allow the City to make a significant impact in both areas.

Depot Regional Stormwater Park Project: External Funding

Component	Source	Amount	Notes
Assessment and Park Design			Use of these funds is in progress.
	US EPA; 1997	$200,000	
	OTTED; 1998	$200,000	
	OTTED; 2001	$111,000	
Total		**$511,000**	
Construction			For infrastructure improvements related to stormwater.
	EPA Water Quality; 2001	$500,000	
	SJRWMD; 2002	$100,000	
Total		**$600,000**	
Land Acquisition			Used to purchase approx. 21 acres. Funding released 2002.
	FCT; 1999	**$177,874**	
Depot Rehabilitation			Depot will become park welcome center.
	FDOT; 2001	$750,000	
	SHPO; 2001	$226,491	
	University of Florida; 2000	$16,000	
Total		**$992,491**	
Rail Trails			For park connection to Bouleware Springs.
	Ofc. Greeways and Trails; 2001	**$480,000**	
Cleanup			For Gas Depot cleanup. Amount based on 1999 estimates.
	FDEP Petroleum Program; 2002	**$350,000**	
Grant Total		**$3,111,365**	

PREPARED STATEMENT OF THE CITY OF MIAMI BEACH, FLORIDA

Mr. Chairman: On behalf of the City of Miami Beach, Florida, I appreciate the opportunity to submit this written testimony to you today on three extremely important initiatives, currently underway within our city, for which we are requesting Federal assistance.

HUD Requests

Initiative on the Homeless.—Miami Beach seeks $1 million in assistance for the development of a Homeless Assistance program under the sole jurisdiction of the City of Miami Beach. (Priority #1)

North Beach Cultural Center.—The City seeks $5 million for the rehabilitation of a large downtown theater to serve as a cultural and community center. (Priority #3)

EPA Request

Stormwater Infrastructure Improvements.—The City is seeking a 90 percent-10 percent local/Federal split of the total cost through the wastewater account within the EPA, with the total Federal share for this project being $9 million. (Priority #2)

The Homeless Issue on Miami Beach

Every day, by some accounts, many Miami Beach residents are homeless. Homeless individuals and families live in substandard conditions in places usually not suitable from human habitation, and face violence, sickness and despair; as well as the attendant issues resulting from abject poverty. Public health and safety are affected, and community concerns spur the City to undertake service enhancements such as additional police, fire, rescue, parks and street maintenance, sanitation services, and others. Within the Miami-Dade County area, the City of Miami Beach is singularly attractive to homeless migration. Routinely, the City receives a number of homeless that have left neighborhood municipalities in search for a place to sleep. With its tropical climate and beautiful beaches, the City provides a comfortable environment for encampments to take root. To address this continuing challenge, the City of Miami Beach provides funds to local nonprofit organizations and service providers, who attempt to serve the needs of the homeless population. The City also funds the enhancements that result from this activity.

In 1994, homeless individuals in Miami settled a historic lawsuit with the City of Miami. Although not a party to this lawsuit, the City of Miami Beach is, however, directly affected by it. City of Miami Beach homeless individuals and families were left out of the zoning for the Homeless Assistance Center built by the Miami-Dade County Homeless Trust. In practical terms, this means that on any given day, homeless found in Miami Beach will only have access to a limited amount of shelter beds, which are shared by all other municipalities in the County. In 1999, the City Administration, the City of Miami Beach Police Department and the Committee on the Homeless developed a 3-year pilot program to further address the needs of homeless individuals and families on Miami Beach.

The program tied into the City's adopted "Continuum of Care" Plan, which is a part of the City's Consolidated Plan for Federal Funds. Services included outreach and emergency shelter for homeless individuals identified by the Police Department and local service providers. The program served a total of 185 individuals and families. At the end of the first 3 years of the program, several obstacles have been identified that have an impact on the ability of the City of Miami Beach to meet the needs of its homeless population.

First and foremost is the lack of funds. Current Federal programs for the homeless are allocated on a competitive basis rather than to each community. This has benefited the Miami-Dade County community; however, there are still significant needs that are not being addressed in Miami Beach. The County allocates funds received under the SuperNOFA, to address countywide priorities that may not coincide with local, municipal priorities, such as the need for emergency shelter and transitional housing. It is estimated that approximately $1,000,000 will be needed over the next 3 years to fund a sufficient amount of emergency shelter beds in available facilities, to address the needs of the Miami Beach homeless population. An additional amount of $1,300,000 will be needed to fund transitional housing over the next 3 years. To complete the Continuum of Care System for Miami Beach, permanent housing must also be funded, at an estimated amount of $1,500,000 over the next 3 years.

The second largest obstacle is the need for coordination of housing and supportive services, regardless of funding source. In addition to its funding of homeless activities, the City also expends approximately $2 million each year in Federal funds for affordable housing initiatives for very low, low and moderate-income residents. The City funds approximately $500,000 each year in social services for low and mod-

erate-income residents, which includes homeless individuals. Although the City of Miami Beach's homeless individuals and families are currently participating and benefiting, in part, by the countywide Continuum of Care system, better linkages and coordination between the City's Federally-funded affordable housing, social services and homeless activities—and the SuperNOFA-funded programs at the County level needs to take place. The City estimates that the development of such service coordinators and the establishment of an intake facility will represent an expenditure of approximately $900,000 over the next 3 years.

The third and final obstacle is the lack of data on the homeless population in Miami Beach and its treatment needs. The information is key to tracking the progress or failure of the homeless person after a shelter intake; report on and evaluate results; and recommend program changes, treatment gaps, and funding needs. The development and implementation of an information tracking system is estimated at approximately $300,000 over the next 3 years.

A total of $1,560,173 is currently being targeted from diverse sources to assist the homeless in Miami Beach. The County applies for, and receives the City's Pro-Rata share from the HUD-funded SuperNOFA each year. This amounted to $766,963 last year. Additionally, the City has set aside approximately $752,750 for activities that include homeless prevention activities, outreach, emergency shelter and transitional housing for homeless individuals. Approximately $40,500 of City of Miami Beach Police Department funds are used to support these activities.

The City of Miami Beach has identified that need exists for $1,000,000 for emergency shelter beds, $1,300,000 for transitional treatment beds, $1,500,000 for permanent housing for formerly homeless individuals and families; $900,000 for the development of intake and outreach facility and staffing for the City; and finally $300,000 for an information system. This cost of this program is estimated at $5,000,000 over the next 3 years.

The City of Miami Beach requests Federal assistance in the amount of $3,439,000 for the development of a 3-year Homeless Assistance Program on Miami Beach, beginning with an appropriation of $1 million in the 2003 VA, HUD and Independent Agencies Appropriations Bill.

Stormwater Infrastructure Improvements

The City of Miami Beach is facing a significant financial challenge in its attempts to provide adequate potable water and stormwater treatment/protection to its citizens. The City Commission has approved a local expenditure of $60,000,000 for the water and stormwater improvements, which has resulted in water and sewer rate increases to 126 percent of national averages in fiscal year 2000 with approved increases bringing rates to 144 percent by fiscal year 2006. Unfortunately, the estimated cost to complete construction of these water and stormwater improvements is $90,000,000. The City does not have the ability to fund this entire amount. We are here today to ask for supplemental funding of $9,000,000 from U.S. EPA's State and Tribal Assistance Grant Account. This figure represents 10 percent of the project cost. The funds will be spent in the most socio-economic disadvantaged neighborhoods in the City.

The City is responsible for distribution of potable water and providing stormwater conveyance, treatment and disposal to a diverse permanent population of 87,933 people, and a seasonal population of approximately 140,000 people. During the mid to late 1990s, the City of Miami Beach commissioned the preparation of a Water Master Plan, Sewer Master Plan and Comprehensive Stormwater Management Master Plan. These planning efforts evaluated the existing infrastructure and recommended improvements to meet the needs created by changes in land use and aging infrastructure. These Master Plans led to the creation of the City of Miami Beach Neighborhood Right-of-Way Infrastructure Program ("Program"), the funded portions of which the City anticipates to complete in late 2006. The City is reconstructing aged watermain and stormwater infrastructure in existing neighborhoods to maintain safe and reliable potable water service, improve water quality in the Biscayne Bay aquatic preserve and minimize stormwater flooding damage to public and private property. Individual neighborhoods will benefit from infrastructure upgrade projects relating to watermain replacement, sanitary sewer rehabilitation, and stormwater collection, treatment and disposal facility improvements.

The majority of existing watermains in the City were installed anywhere from 50 to 80 years ago, and have reached the end of their useful life. Planned enhancements will replace corroded galvanized pipes and pipes installed with lead joints and will improve safety issues related to potable water distribution. Some water mains have become almost "blocked" by a process called tuberculation, where deterioration of a pipe's interior wall lining has occurred as result of chemical reactions with potable water. Excessive tuberculation has significantly decreased the effective

pipe diameter, thereby affecting public safety through inadequate fire flows and by decreasing water pressure at the household tap, or more drastically, causing pipe collapse or failure. The new or rehabilitated watermains will improve water pressure and provide appropriate internal pressure to safeguard against backflow contamination during fire flows or other peak use situations.

With regard to the City's stormwater system, the Master Plan identified over 160 drainage basins throughout the City of Miami Beach. Approximately 34 basins were identified as a priority based upon pollutant loading, pollutant concentration, flooding potential, citizen complaints and City operational staff rankings. The City experiences various levels of flooding, depending on the extremity of the rain event. With many of the City's priority drainage basins barely above sea level, and the system not being capable of handling a 5-year storm event, flooding occurs in many of the basins during a regular rain event, with higher flooding levels occurring during high tide or a major storm. Due to high groundwater elevations, drainage is slow, requiring extensive periods of time to dissipate. Continuous excessive ponding over the long term causes the deterioration, and ultimately failure, of paved roads, and can lead to mosquito breeding areas. When the proposed improvements are completed, these priority basins will dispose of a 7.2-inch rainfall (5-year storm) event over a period of 24 hours.

All of the City's stormwater runoff is drained into Biscayne Bay, a nationally recognized aquatic preserve. Biscayne Bay was identified as one of Florida's highest priority water bodies and was the subject of a specific plan developed to help protect and enhance it. This plan is referred to as the Biscayne Bay Surface Water Improvement and Management (SWIM) Plan. One of the main goals of the plan is to maintain and improve water quality to protect and restore natural ecosystems and compatible human uses of Biscayne Bay. The City's plan to construct and/or enhance existing systems for stormwater conveyance, treatment and disposal facilities helps achieve that goal. As a municipality within Miami-Dade County, the City is a National Pollutant Discharge Elimination System (NPDES) Phase I permittee, and is required to eliminate pollutants to the maximum extent practical. The proposed stormwater improvements will enhance treatment of runoff prior to discharge, minimizing pollutant loadings into the Bay and help the City fulfill its requirement.

While the majority of the Program is currently locally funded, requesting Federal cost sharing is reasonable. The City is one of the few large Dade County communities to embark on such a program before regulatory pressures require it. Typically, municipalities have waited to make such improvements until either State or Federal officials used regulatory reform or enforcement actions to force the issue through a consent degree, administrative order or court judgments. In contrast, the City has already bonded $60,000,000 for these improvements from local resources, which represents two-thirds of the total Program cost. The City is considered a major vacation spot in the County, as well as the nation. Regular flooding impedes the commercial uses of the City and detracts from the City's reputation as a tourist destination. The City's system is not even capable of expelling stormwater at a 5-year storm level, whereas most places in the nation are able to expel stormwater at that level.

The City has limited its Funding Request to four neighborhoods that comprise the City's North Beach area. These neighborhoods, including Biscayne Point, North Shore, Normandy Shores and Normandy Isle, have very low Median Household Incomes (MHI). The targeted neighborhoods' average MHI is approximately $18,000, or 70 percent of the State of Florida average. These neighborhoods include a variety of land uses, including highly urban commercial, residential, recreational and multifamily areas, with some pockets of single-family residential, and are eligible for such Federal funding as the US Department of Housing and Urban Development (HUD) Community Development Block Grant and Section 108 funds.

As discussed earlier, the City seeks to have funding in the amount of $9,000,000 for this Program approved in the fiscal year 2003 VA, HUD, and Independent Agencies Appropriations Act's STAG Account by having the following language included:

"A $9,000,000 grant to the City of Miami Beach, Florida for the watermain reconstruction and stormwater improvements in the neighborhoods of Biscayne Point, North Shore, Normandy Shores and Normandy Isle."

The City is in a position to accept the traditional local match share requirement of 45 percent and will make the $7,000,000 in local funds available upon approval of the funding. However, without the approval of this grant, portions of the Program will be in jeopardy of not being constructed because of lack of local financing.

To date, this Appropriations Act has granted $4,894,812,625 in "special needs" water related grants between fiscal year 1992 and fiscal year 2002 to similar projects in municipalities across the nation. During this same time frame, Florida has received $117,945,000 of the total monies granted. This is the City of Miami Beach's first request for funding from this source. This Program truly impacts the

health and safety of City residents by replacing deteriorated watermains that will improve fire flows and prevent backflow contamination during peak use. In addition, enhanced stormwater collection, treatment and disposal will provide residents and property with adequate storm protection, facilitate the dissipation of standing water, and remove pollutants from stormwater runoff flows prior to disposal to the Biscayne Bay, a nationally recognized aquatic preserve.

North Beach Cultural Center

The Byron Carlyle Theater was an abandoned 7-screen movie theater that is located in the central business district of Miami Beach's North Beach area. The theater was closed by Regal Cinemas in 1999, and was vacant until the City purchased it and leased a small portion to four local non-profits in late 2001. The City of Miami Beach has begun the implementation of a strategic plan for the revitalization of the North Beach area, which includes approximately $124 million in capital improvement projects that will be implemented during the next 6 years. The redevelopment of vacant buildings such as the theater is crucial to the economic and business development components of the North Beach Strategic Plan. However, due to the unique layout and structural nature of older movie theaters, such as this, redevelopment options are limited and expensive.

There are two reasons that Miami Beach is transforming this building into the North Beach Cultural Center. First, the redevelopment of this theater is an integral component of the Strategic Plan for the economic revitalization of the North Beach area of Miami Beach. While other areas of Miami Beach have enjoyed tremendous economic success over the last 10 years, the North Beach area has lagged in its growth and continues to evidence a concentration of low-income households and a lack of private sector investment. The emergence of cultural institutions during the beginnings of the economic revitalization of South Beach's Art Deco District directly contributed to the area's continued success. Secondly, the success that cultural organizations helped create in South Beach is also a reason for the creation of a cultural facility in North Beach. As South Beach boomed, local cultural institutions became self sufficient and successful, area market trends began to improve and property values appreciated significantly. In 1993, the primary cultural area in South Beach was on Lincoln Road, where rental rates averaged $12 per foot. In 2000, rental rates reached $75 per square foot, and many small businesses and cultural organizations were forced to either relocate or dissolve. Additionally, many cultural organizations currently housed in City-owned facilities will soon have to relocate as the City expands to meet the ever-increasing service levels expected by the citizens. A central facility that accomplishes both goals is critical to the economic revitalization of North Beach. To date, the City has completed the Phase I renovation of the former lobby area, and has leased this new office space to three cultural organizations that were displaced from South Beach. The City has leased additional space in the facility to the North Beach Development Corporation.

The development of the North Beach Cultural Center will also help transform the entire City of Miami Beach into a world-renowned center for the creation and consumption of culture. Miami Beach is home to many internationally acclaimed cultural organizations, such as the New World Symphony, the Miami City Ballet, and the Bass Museum. These organizations, however, are located in a small concentrated area of South Beach. The City also has over 75 smaller cultural groups that are the true cultural heart of Miami Beach. Organizations such as the Concert Association of Florida, Ballet Flamenco La Rosa, and the Performing Arts Network continue to struggle for their economic survival. The ability to provide a facility that allows these groups to remain in Miami Beach will provide a venue where many emerging small organizations can continue to grow and prosper and at the same time provide a catalytic cultural component to the revitalization effort in North Beach.

In 1999, in an economic impact report to the City of Miami Beach's Mayor's Economic Council, Florida International University identified that investment in the cultural arts has the highest economic output multiplier of all local industries. The challenge for cities such as Miami Beach, however, is, providing the level of Cultural Arts investment that is required to generate this "biggest bang for the buck."

The City of Miami Beach purchased the facility for $1.7 million, and spent an additional $500,000 on the Phase I renovations. Phases II and III are much more extensive and costly, and projected costs are approximately $6 million. These phases will include renovation of two of the former movie theater spaces into a single use space capable of accommodating 250 people. The City has applied to the State of Florida for a $460,000 grant for this project, and the North Beach Development Corporation, the Miami Beach Community Development Corporation, and Miami-Dade County have committed a total of $750,000 to the Phase II renovations. The City

has also identified funding sources that will be committed to the annual operation of the facility once it opens. When completed, the Facility will interact with the nearby North Beach Youth Center, a $6 million project that is currently under development one block away. The City of Miami Beach requests an appropriation of $5 million for the North Beach Cultural Center in the 2003 VA, HUD and Independent Agencies Appropriations Bill.

PREPARED STATEMENT OF THE CITY OF NEWARK, NEW JERSEY

The City of Newark, NJ hereby submits for the record, testimony regarding three projects that are of great importance to the State of New Jersey's largest City. The projects described below each address an aspect of the needs of Newark's low income population. The third oldest major city in America, Newark is also one of the most densely populated. The provision of educational, cultural and recreational opportunities for our residents continues to be critical to the economic and social growth of the City. Through partnerships with other levels of government and the non-profit and private sectors, Newark is involved in expansive change. Your assistance is sought on the three projects described below.

NEWARK PUBLIC LIBRARY

The Newark Public Library system is one of the unsung foundations of the City. It has serviced every segment of the Newark community for over 100 years. Located in the heart of the city's James Street Historic District, the Newark Public Library has since 1888 served as a major influence in the intellectual and cultural life of this great American city. The Newark Public Library system, anchored by the Main Library on Washington Park, includes 10 branches one in every neighborhood of the city. The library system offers service to 270,000 city residents, to 175,000 people who commute to Newark every day to work or attend college and university classes, and to many individuals and libraries from the surrounding region and throughout the state.

The Newark Public Library's mission is to be Newark's premier center for education and learning. Fulfilling this mission, it serves as an education and learning support center, a reference and research library, a popular materials library, and a community center. The Library offers encouragement and support to all people in the achievement of their educational goals and their pursuit of lifelong learning. It provides people of all ages with abundant opportunities for enrichment and supports them in the discovery of the joy of reading.

During the past several years, the Newark Public Library has systematically improved and modernized each of its ten branches, which serve as homework centers and Internet access sites, in addition to more traditional library functions. Indeed, the City's $5 million capital allocation has enabled the Library to completely renovate one branch in each of the City's five wards.

With an operating budget of approximately $12 million dollars, the Library still relies upon foundation, corporate, individual and State/Federal grants to meet the increasingly diverse needs of the patrons. With grants from funders like the Prudential Foundation, the Victoria Foundation, Lucent, MCI, and the Turrell Fund, the Library is able to augment its operating budget by approximately $2 million dollars per annum.

Now the Library, recognizing that Newark requires and deserves a first rate downtown facility, will undertake a major renovation of its landmark main building. The Library needs to add environmentally controlled collection space, accessible reader areas, parking facilities, and upgraded systems to support expanding technology capabilities. A comprehensive fundraising campaign has been planned and adopted by Library leadership to reach out to private donors, corporations, foundations and government sources. The Library's current donor base, including the 13-year old organization, Friends of the Library, will also be asked to make significant pledges over a 5-year period. The Library has hired professional fundraising counsel, a feasibility study has been completed and the leadership gift phase of the campaign is underway with its first gift of $1 million.

In addition to the lead gift from The Prudential Foundation, the Library has received $289,733 from the Public Library Construction Bond Fund, and $90,000 in project support from the Victoria Foundation. Federal funds are sought to support the renovation initiatives and to act as a critical incentive for private source giving.

An investment in the Main Library facility is also an investment in its services and programs. For decades, the Newark Public Library has provided significant programming for its entire community. The Library's summer educational program for children is a model for the nation. That program provides unique weekly activities

for thousands of children throughout the summer. During the academic year, the Library, together with the Newark School District, provides daily educational services for children in grades K–12.

Evening cultural programs include lectures by significant authors and other educational and cultural figures. Performances conducted in Library facilities encompass the full spectrum of the arts including, dance, theater, film, and music. Adults have been attending in record numbers in recent years.

Classes for adults include English as a Second Language, literacy, and computer skills training. The Library is, appropriately, the city's primary source for Hispanic collections and translation services. Sign language classes are also conducted on a regular basis to assist the deaf community. The Library's facilities are a significant resource for local organizations. The Main Library provides free meeting rooms and program space for many local organizations.

FISCAL YEAR 2003 REQUEST

An appropriation of $5 million is sought to assist in the implementation of the Newark Public Library renovation and modernization.

NAT TURNER FIELD DEVELOPMENT

Nat Turner Field is an undeveloped tract of land that the City of Newark acquired with NJ Green Acres funding so that it would be preserved as parkland rather than undergo development. It is surrounded by newer housing developments on the west, a City pool/recreation center and elementary school on the east, and an elementary school to the south. To the north was a large abandoned factory, which was a troublesome brownfield site for many years. It has recently been demolished, and has been selected by the Newark Public Schools as the site of a new high school, to be built through the State Abbott District program. This activity presents a unique opportunity for partnership between the Schools and the City.

It is proposed that Nat Turner Field be developed into a recreational facility that will jointly serve the needs of the two elementary schools and the new high school, as well as the community at-large beyond school hours. The existing pool and recreation center could be renovated to be part of a larger, more comprehensive complex, and serve the schools as well. The schools will educate approximately 1,800 students. The summer recreation program will serve over 2,000 low to moderate income families from the neighborhood.

FISCAL YEAR 2003 REQUEST

The City of Newark is seeking $3,000,000 in order to take the conceptual design to an implementable plan, and construct the Nat Turner Field. It will serve as the recreation focus for thousands of students and families in a redeveloping neighborhood, as part of a comprehensive revitalization plan.

JOHN F. KENNEDY RECREATION CENTER MODERNIZATION

The JFK Recreation Center was built in the 1960's, and serviced the population of several high-rise public housing projects. The Newark Housing Authority has proceeded with the demolition of those failed projects, and has recently received $35,000,000 for its HOPE VI Redevelopment plan. The 45 acre site is being completely renovated, with 755 new townhouse and low-rise public housing units, which will become a part of the fabric of the City. The State of New Jersey is committed to building new schools in the neighborhood through its Abbott District program, and new commercial facilities are planned nearby.

The City of Newark proposes to modernize and improve its neighborhood recreation facility so that it can serve as the neighborhood center for the newly rehabilitated area. The JFK Recreation Center has, in two buildings, a full sized gymnasium, and an Olympic-sized swimming pool under a retractable roof. But the buildings are not connected children must walk outside to get from the pool to the gym. This causes difficulty in programming and management, as well as potential health problems for young, as well as elderly, program participants. In addition, the buildings present fortress-like brick walls to the street; rather than being a neighborhood beacon, the facility appears forbidding. There is no green space or outdoor play areas, and no parking facilities. Equipment modernization is also needed for the pool filtration and air systems, so that activities can go on 365 days a year. To date, the City of Newark has allocated Capital Budget funds of $6,731,173 to this project.

FISCAL YEAR 2003 REQUEST

The City of Newark is seeking $3,000,000 in order to upgrade mechanical systems, construct a new entryway, and make other improvements to make the JFK, Jr. Recreation Center a full-service community facility for the HOPE VI neighborhood.

The consideration of this committee will be greatly appreciated by the citizens of the City of Newark.

PREPARED STATEMENT OF THE COALITION FOR INDIAN HOUSING AND DEVELOPMENT

On behalf of the members and Board of Directors of the Coalition for Indian Housing and Development, I would like to thank Chairwoman Mikulski, Ranking Member Bond and other distinguished members of the Subcommittee for the opportunity to submit public witness testimony.

HUD'S BUDGET REQUEST

As Chairman of the Coalition for Indian Housing and Development and the National American Indian Housing Council, and Executive Director of the Navajo Housing Authority, I come to you representing Americans who daily endure the most deplorable housing conditions in the country. These are people within America's borders who commonly live 15 to 20 people in one small house. These are people for whom proper sewage facilities, roads, and indoor plumbing is often a luxury, rather than a standard. These are people who, like many other Americans, dream of owning their own homes.

Indian housing is at a crucial stage. Many of the housing problems that have long plagued Indian communities remain unresolved. The passage of the Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA) has given tribes and Tribally Designated Housing Entities (TDHEs) incredible new opportunities, and with adequate funding, NAHASDA can be the most important tool in building sustainable, healthy communities in Indian Country.

President Bush has requested roughly $646 million for the NAHASDA block grant for fiscal year 2003. This is four million dollars less than was proposed in fiscal year 2002, and roughly two million less than appropriated for fiscal year 2002. In light of current events, the Coalition recognizes the new priorities of the Federal government in terms of homeland security; however, it is important intrinsic needs like housing for Americans are not sacrificed for the wartime effort. In times of peace or conflict, homeland security begins with a home, and it is only through steady increases in the NAHASDA block grant that the Native American population may begin to realize a home life outside of third-world-like destitution.

FUNDING NEEDS FOR INDIAN HOUSING

CIHD believes Indian housing could be in more need of federal support than any other housing program in this country. The lack of significant private investment and the dire conditions faced in many communities mean that federal dollars make up a larger portion of the total housing resources than in other areas. NAHASDA has been one key to housing improvement and homeownership in Indian country. By direct application of NAHASDA funds, or by leveraging their tribe's NAHASDA allocation for large-scale projects, tribal housing authorities have been able to use NAHASDA to dramatically improve the severe living conditions on their reservations.

CIHD supports NAHASDA and believes it has been effective in providing better housing for American Indians and Alaska Natives. Housing production under NAHASDA has more than tripled since its passage in 1996. Before NAHASDA, there were only around 2000 homes being built per year, now more than 25,000 homes are complete or under construction.

For NAHASDA to continue to be effective, however, an increase in funding is necessary to meet existing housing shortages. CIHD estimates 71,000 units need renovation or replacement, with an average cost of $26,000 each. New housing needs are at least 4,500 new units per year at an average cost of $96,000 per unit. Finally, existing housing operation and program operating costs are expected to be over $300 million.

The Coalition for Indian Housing and Development estimates that, to meet the suitable housing shortage as presented to us now, we need at least $1.0752 billion in funding for the NAHASDA block grant. Increasing the size of the block grant given to the office of Housing and Urban Development through the Native American Housing Assistance and Self-Determination Act (NAHASDA) from $650 million per

year to $1 billion per year is necessary to provide the nearly 200,000 housing units currently needed in Indian Country.

Native communities are in dire need of improved housing. The Coalition for Indian Housing and Development and the National American Indian Housing Council estimate more than 40 percent of the Native American population lives in overcrowded or physically inadequate housing. For the Navajo Nation alone, the immediate need is between 20,000 and 30,000 housing units. Spanning over 18 million acres of land, the Navajo Nation suffers from chronic unemployment and massive housing need. Over 56 percent of Navajos live below the poverty level. As for many other tribes across the nation, this is a situation that requires drastically increased federal assistance to remedy.

Indian housing needs are many and varied. Basic infrastructure, low-rent housing, homeownership and housing counseling services are all crucial. The NAHASDA block grant allows tribes to determine their own needs and their own course of action. In this respect, NAHASDA is a model program and should be supported. In supporting NAHASDA, however, the Congress must also support improved technical assistance for tribes seeking to efficiently and effectively utilize NAHASDA's unique features.

Although fully funding NAHASDA to meet the existing needs would require an increase in funds of $350 million, Native Americans would be well served if the Congress chose to increase the program incrementally over the next 5 years. For fiscal year 2003, $700 million, for fiscal year 2004 $775 million, for fiscal year 2005 $850 million, for fiscal year 2006 $925 million and for fiscal year 2007 $1 billion.

Without an increase in funding, tribes and tribally designated housing entities will not be able to provide housing for the 1.6 million Native Americans and Alaskan Natives who live without proper shelter. CIHD urges you to support an increase in NAHASDA block grant funding to at least $1 billion over the next five fiscal years.

THE EFFECT OF NEW CENSUS DATA

Recently released census data for 2000 confirm a major increase in the Native American population. Data show a doubling of the number of Native Americans and Alaska Natives from 1.96 million to 4.1 million, including Americans of mixed-race Native descent. For Native Americans and Alaska Natives that are not of mixed-race, data show an increase of over 28 percent for a total of 2.5 million.

For a population struggling intensely to provide adequate shelter for its families, an increase of this magnitude puts an incredible strain on the restricted funds tribes rely on. These census figures only confirm what tribal leaders and tribal housing administrators have known for some time—housing needs on reservations have outgrown available funding. While not all Native Americans live on reservations where housing needs are the most severe, tribal leaders attest to population increases across the board, including on reservations.

In light of this new data, it is the Coalition's hope that Native communities will receive the funding increases outlined to offset hardship brought on by rapidly growing need.

TOXIC BLACK MOLD

The growth of black mold in tribal homes has been linked to health risks ranging from flu-like symptoms, skin rashes, fever, and headaches to inflammation of the respiratory tract, neurological problems and suppression of the immune-system. In more recent years, black mold is also suspected to blame for several deaths, particularly of children. As of August 1, 2001, HUD compiled a list of over 20 tribal areas experiencing mold problems, including 320 federally-subsidized homes on the Turtle Mountain Indian Reservation. Other areas affected are concentrated in the northeast, northwest, and northern plains where wet seasons and flooding have exacerbated the mold growth. Tribal housing officials say black mold is ravaging their homes, putting a terrible strain on already tight housing funds, since many homes with black mold must be remodeled or completely destroyed to remedy the situation.

No specific funding currently exists for addressing black mold in tribal homes, but estimates are that $20 million is needed to fix the situation at Turtle Mountain alone. Tribes have been trying to address the problem with their NAHASDA block grant funds (approximately $650 million for fiscal year 2002), but this block grant was not created for disaster relief. It was created for new construction and normal rehabilitation of aging homes. Under objection from CIHD, $5 million was taken from NAHASDA in fiscal year 2001 specifically for Turtle Mountain for black mold. NAHASDA is not large enough to support this sort of set-aside, particularly since so many other tribes across the country are experiencing the same problem.

Black mold is not only a problem for tribes, however. It has also be causing problems for the rest of America, but to date, no particular agency or program has been able to fill in the gaps.

Recently, HUD Secretary Mel Marinez authorized the use of a new weapon for tribes and other affected groups to battle Black Mold. Secretary Martinez is opening up the Lead Based Paint Hazard Control Grant Program and Healthy Homes Initiative to those homes and families being harmed by Black Mold. Having been highly successful program in dealing with the lead based paint crisis, the Coalition is excited by the prospect of a new awareness and remedy of Black Mold on reservations; with adequate funding, the incorporation of Black mold into the accepted uses of the Lead Based Paint Hazard Control Grant Program could mean its eradication. The Coalition for Indian Housing and Development supports budget increases for HUD's Lead Based Paint Hazard Control Grant Program and Healthy Homes Initiative to a total allocation of $30 million.

PUBLIC AND INDIAN HOUSING DRUG ELIMINATION PROGRAM

Eliminating funding for the Public and Indian Housing Drug Elimination Program (PIHDEP) would abruptly halt successful efforts by tribes around the country to combat drug abuse and its resulting effects on tribal communities. The President has put an end to this important program with a redistribution of funds to increase operating subsidies for public housing authorities in hopes that PHAs will use the funds for more effective anti-drug activities or for other priorities.

Tribes and TDHEs do not participate in public housing programs and therefore receive no public housing operating subsidies. The Administration claims the program should be eliminated because of general misuse of funds and ineffective anti-drug activities, but in Indian Country, these programs have seen remarkable success.

According to an eleven-month study conducted by NAIHC in 1999 and 2000, the PIHDEP has created an opportunity for TDHEs to develop innovative, creative, unique solutions to crime reduction in Native communities. A National American Indian Housing Council study noted that, prior to the Public and Indian Housing Drug Elimination Programs, tribes reported feeling overwhelmed with the burden of having to address these problems on their own, without knowledge of how to solve the problems or money with which to build an infrastructure of programs and services designed to address these community issues.

HUD Secretary Mel Martinez has said that the PIHDEP is too open-ended and that HUD has no business being involved in such a program. While it is not possible at this point to come to quantitative conclusions about the percentage of improvement in these communities in regard to any decrease in crime or substance abuse, the NAIHC study indicates that the PIHDEP is having a positive effect in tribal communities. Decreased crime and improvements in community values can do much to support sustainable housing conditions on reservations.

The Coalition for Indian Housing and Development feels it was an oversight on the part of the Administration to end this program without arranging for supplemental funding for tribes elsewhere. A blanket verdict on the Drug Elimination Program does not take into account several successful programs around the country, including Indian Drug Elimination activities. If this is the direction the Department chooses to go, providing operating subsidies to take the place of PIHDEP, then the tribes must be compensated with an increase in the NAHASDA block grant to support drug elimination programs on reservations.

RURAL HOUSING AND ECONOMIC DEVELOPMENT PROGRAM

CIHD is also concerned with the elimination of the Rural Housing and Economic Development Program from the President's budget for the second year in a row. We are grateful to the Senate Appropriations Committee for insuring that the program was funded in fiscal year 2002 despite it being left out of the President's budget and the House appropriations bill.

Although funded at only $25 million for the past 2 years, a large portion of RHED grant recipients have been tribes and TDHEs. Furthermore, although RHED has been said to duplicate USDA programs, on the contrary, this program has been able to fill in for tribes where other programs have not. It has been a new and useful tool in capacity building and for supporting innovative housing and economic development activities. Taking into consideration the limited resources available in Indian Country, removing useful programs is counter-productive. If the goal is to increase the capacity of tribes and other rural communities in order to make them self-sustaining, this is just the sort of program that ought to be supported by the Congress and Administration.

FUNDING FOR NATIVE HAWAIIAN HOUSING

In 2000, Congress enacted the Native Hawaiian Housing Assistance program (Title II, Public Law 106–568). This is the first such effort to provide aid for Native Hawaiians since the Hawaiian Homes Commission Act of 1920. Modeled after the NAHASDA, the new Native Hawaiian Housing Assistance program provides tools desperately needed to improve Native Hawaiian housing.

Although housing conditions for the greater Native American population are appalling, Native Hawaiians continue to have the greatest unmet need and the highest rates of overcrowding in the United States. Overcrowding is seen in Native Hawaiian homes at a rate of 36 percent as opposed to 3 percent for all other homes in the United States. While housing problems are seen in 44 percent of American Indian and Alaska Natives homes, the number is actually higher at 49 percent for Native Hawaiians, and only 27 percent for other homes in the United States. Right now there are 13,000 Native Hawaiians, or 95 percent of those eligible to live on the Hawaiian Home Lands, who are in need of housing.

In light of these desperate conditions in Hawaii, the President has authorized $10 million in fiscal year 2003 for the Native Hawaiian Housing Block Grant. The Coalition for Indian Housing and Development supports this request, and is encouraged by the Administration's support of this new program.

COMMUNITY DEVELOPMENT BLOCK GRANTS

The Community Development Block Grant (ICDBG) program is a crucial tool in the development of infrastructure and economic opportunities in tribal communities. The Indian set-aside under the CDBG program has been 1.5 percent of the total appropriation for several years. The Coalition for Indian Housing and Development believes that to both develop effective housing strategies and to stimulate economic development needed to support homeownership and necessary to job creation, this ICDBG amount should be expanded. The President's budget reflects an increase of $2.5 million to the Indian Community Development Block Grant program. While CIHD is encouraged by the President's recognition of the need to increase ICDBG, the Coalition feels that to adequately meet the basic needs of tribes, the fiscal year 2003 increase should be boosted to reflect at least 3 percent of the total CDBG program allocation, or $144 million.

CONCLUSION

In closing, I would again like to thank all the members of this subcommittee, in particular Chairwoman Mikulski and Ranking Member Bond for their continuing support for Indian housing programs and the tribes. CIHD looks forward to working with each of you in this and future sessions of Congress and I am happy to answer any questions you may have.

PREPARED STATEMENT OF COLLEGE PARTNERS, INC.

Madame Chairwoman and members of the subcommittee, thank you for opportunity to submit testimony on behalf of College Partners, Inc (CPI) regarding fiscal year 2003 appropriations for the Department of Housing and Urban Development. CPI is a not-for-profit organization comprised of Spelman College, Morehouse College, and the Morehouse School of Medicine in Atlanta, Georgia.

CPI evolved out of a shared commitment to enhance the revitalization of Atlanta's West End community which sits at the boundary of the Atlanta University Center (AUC), and is less than three miles from downtown. Our principal objective is to acquire and revitalize an eleven acre plot of land in Atlanta's West End which holds tremendous potential for our institutions and the surrounding community. With the acquisition of this property we will blend the colleges with the community and create sustainable development through activities focused on quality housing, youth and adult education, job training, health services, and public awareness.

We would like to express our appreciation for the $200,000 that was provided for this important initiative in the fiscal year 2002 VA–HUD appropriations conference report. With respect to fiscal year 2003, we request that the subcommittee provide $5 million from the Economic Development Initiatives account to support this innovate project.

We would now like to discuss in greater detail the CPI partnership, and what we are trying to accomplish for our institutions and the West End community.

The West End Community

The immediate West End includes the now-demolished Harris Homes public housing project, minor retail and commercial properties, an insurance field office, and a MARTA rail and bus line. Moving outward, the property is three miles southwest of prime commercial developments such as Phillips Arena, the Georgia Dome, and the World Congress Center. Despite the West End community's strategic location, however, the area has been unable to significantly capitalize on the current renewed interest in "in town" residential and commercial development. Recent reports profile the West End as a community with high unemployment, low educational attainment, deteriorating and/or vacant housing, and a preponderance of families that live at, or below, the federal poverty level. According to the 1990 U.S. Census data, statistics show that this community suffers from an unemployment rate of over 25 percent, while the median income of the Harris Homes community in particular was a staggering $5,912. Moreover, while 61 percent of the families are living below the poverty level, over 70 percent of the female-headed households are similarly situated. Additionally, these and other statistics significantly affect the health and mortality rates of city residents. Subsequently, the overall mortality rate of Atlanta African American residents, which are the overwhelming majority in the West End community, is almost one and one-half times that of white residents.

The Vision

Our vision includes transforming the under-developed property in the Lee Street Corridor into an inviting entrance to a vibrant learning and living environment. The development will integrate the colleges with the surrounding neighborhoods to create an educational corridor or "College Town" and will provide an improved physical linkage between the neighborhoods and adjacent college campuses. Ashby Street, traditionally a dividing line between the Colleges and neighborhoods west of the campuses, will be redesigned with a fabric of public spaces, landscaping and local-serving retail uses. Ashby Street will become a "seam" joining the neighborhoods and the Colleges, as opposed to the divider it has been in the past.

CPI is working in partnership with the Atlanta Housing Authority (AHA) to acquire the 11-acre tract of land in a value-for-value land swap. As part of an agreement signed in May 1999, CPI agrees to purchase real estate in other parts of southwest Atlanta in exchange for the 11-acre tract held by AHA. Acquisition of this property is critical to our efforts to expand the campuses for future growth. Such expansion is currently curtailed by Interstate Highway 20 and the 2,700 public housing units that are within a one-mile radius of our campuses. The requested land will enable the surrounding community development process to continue and remain on target with the objectives of the city's Empowerment Zone, which already has improved the neighborhoods east and north of the campuses.

With the acquisition of the requested land, the Colleges will be in a stronger position to expand their capabilities and establish and/or expand programs in our institutional areas of expertise and experience. For example;

Spelman College, through its Education department, plans to provide local residents with training in early childhood development and childcare while simultaneously providing a hands-on laboratory for student education majors. Through the College's Continuing education program, Spelman would be able to work with single heads-of-households to transition from welfare to work. Additionally, Spelman would be able to expand it's Entrepreneurial Business Development Program, which already has provided nearly 200 local community residents with training on how to establish, maintain, and expand a home- based or micro-enterprise in retail, service, and manufacturing industries.

Morehouse College anticipates expanding its partnership with the Fannie Mae Foundation and HUD to provide leadership training to community organizers, local nonprofit organizations, and the members of the Neighborhood Planning Units (NPUs). The Fannie Mae project is designed to establish mutually beneficial relationships with adjacent communities that will result in sustained economic and social improvement and provide students with service- learning opportunities that cultivate civic growth and development. Additionally,

Morehouse, in partnership with each of the other AUC institutions, has already taken the lead to work with the Atlanta Public Schools in the development of an application to establish a charter school, which will have an emphasis on mathematics and science and will provide clinical experiences for aspiring teachers from each of the AUC institutions.

The Morehouse School of Medicine has made health services an integral part of its focus in developing primary care physicians and anticipates expanding its Community Health and Preventive Medicine Programs. Several components of the program include a Health Promotion Resource Center, a Center for Public Health Prac-

tice, and a Preventive Medicine Residency Program. Each of these programs is designed to partner with communities to provide services to assist with health related issues. Additionally, the School would like to expand its Benjamin Carson Science Academy, an initiative to introduce minority elementary and middle school students to health and science careers early in their education. The program, which has worked aggressively with youth from Harris Homes, consists of a Saturday academy and a four-week summer component.

Additionally, the acquisition of the property will allow all three CPI institutions to expand their campuses, helping to alleviate problems associated with projected student enrollment increases and limited space within the AUC generally. The combined student enrollment for all six AUC institutions is approximately 12,700, up from 8,400 in 1990, an increase of over fifty percent. Moreover, combined enrollment is expected to grow by approximately 2,000 students over the next twenty years. All six AUC institutions are in full support of CPI and this initiative.

A study conducted by real estate appraisers Pritchett, Ball, & Wise comments on the West End community that, "within the life cycle of a neighborhood, including growth, stability, decline, and revitalization, we place this neighborhood in the early stages of revitalization." The West End's geographic proximity to the downtown epicenter, coupled with its balanced set of land uses, lends the area to reap secondary benefits from housing to entertainment to small-, mid- and large-scale commercial development. CPI acknowledges and appreciates the academic, community, and municipal support that it has received from the City of Atlanta generally and the West End community specifically. By acquiring this land and utilizing it, CPI will be able to give back to the West End community and assist it in its development efforts.

Madame Chairwoman, thank you for the opportunity to submit testimony to the subcommittee and for your support of this important initiative. If you have any questions or need additional information, please do not hesitate to contact us.

PREPARED STATEMENT OF THE CONSORTIUM OF SOCIAL SCIENCE ASSOCIATIONS (COSSA)

The Consortium of Social Science Associations (COSSA) represents over 100 professional associations, scientific societies, universities and research institutes concerned with the promotion of and funding for research in the social, behavioral and economic sciences (SBE). COSSA functions as a bridge between the research world and the Washington community. A list of COSSA's Members, Affiliates, and Contributors is attached.

COSSA appreciates the Subcommittee's past strong support for NSF, particularly last year's substantial increase over the President's proposed budget. We are well aware that every year the Subcommittee confronts difficult choices among competing agencies under its jurisdiction in a budget constrained by the desires of some to limit Federal spending. COSSA hopes that NSF will remain an important priority for the Subcommittee.

COSSA strongly believes that investing in NSF's research and education efforts will help ensure this country's future economic well-being and national security. Therefore, COSSA finds the administration's proposal for a 5 percent increase for NSF in fiscal year 2003 inadequate. In agreement with Coalition for National Science Funding (CNSF), recommends a fiscal year 2003 budget for NSF of $5.5 billion. COSSA strongly endorses this recommendation. This budget enhancement will return many-fold its value in economic growth, help save lives, promote prosperity, improve society, and provide more excellent science from more excellent scientists.

Over the past half century science has been the engine that has driven the nation's economic success and quality of life improvements. Fundamental university-based science has clearly delivered the great technological advances that provided new methods and products that have advanced our nation forward. These include: geographic information systems, World Wide Web search engines, automatic heart defibrillators, product bar codes, computer aided modeling, retinal implants, optical fibers, magnetic resonance imaging, and composite materials used in aircraft.

A substantial increase for NSF in fiscal year 2003 will help prepare us for the great advances in the 21st Century. It would provide NSF a much-needed boost for the size and duration of its research and education grants. It would also lead to improving the scientific literacy of the nation's students and general population. As our business leaders continually point out, without improvements in education and training and new innovations and scientific findings, economic growth stagnates. NSF needs a significant influx of new funds.

The Fiscal Year 2003 Budget and the Social, Behavioral, and Economic Sciences (SBE)

COSSA supports a substantial increase for the Research and Related Activities account, so that SBE and the other directorates can continue to fund important research seeking scientific breakthroughs to help secure a better life for people and society. A significant increase will also provide enhanced support of the fundamental research that social, behavioral, and economic scientists conduct to understand economic, social, and political behavior.

COSSA is delighted with the substantial percentage increase in the President's proposed budget for the SBE directorate. However, because of its small base, the absolute dollar increase remains smaller than the research opportunities in the areas this directorate supports. In addition, for Fiscal 2003, NSF has designated the SBE directorate a "priority area," and provided it with a down-payment on significant increases in the future. As Norman Bradburn, the Assistant Director for SBE, told COSSA's 20th Anniversary symposium, new tools will enable the social and behavioral sciences to expand their research and produce new breakthroughs. These tools include: neuroimaging, collaboratories, wireless computers, web-based surveys, geographic information systems, and statistical techniques like data mining and hierarchical analysis. In particular, the importance of data mining techniques grows more important as the quantity and complexity of data grows immense.

SBE Research and Technological Change

SBE will support research with the use of these new tools to study how technology and society advance through continual interactions. Rapid technological change impacts all areas of our lives. We need to know how this alters our economic, political and social systems. It has clearly led to the growth of new businesses in areas of biotechnology, geographic information systems, and now nanotechnology. Social and behavioral scientists continue to study how these new tools have impacted business organizations and the SBE's Innovation and Organizational Change program is at the forefront of supporting this research.

As members of Congress know, the new technologies have changed how we communicate with our decision-makers, and have also raised the possibilities of voting through the Internet. We have also tragically learned that these tools also create opportunities for anti-government groups to communicate and plan acts of destruction. They also raise questions of how governmental policies regarding intellectual property and privacy can be sustained in the face of all this change. SBE continues to support research in all of these areas.

Our educational system has been overwhelmed by the introduction of technologies in the classroom and their use as a pedagogical tool. Yet, we still know little about its impact on learning. The social consequences of the Internet and other new forms of interpersonal communication also need investigation. How individuals interact with each other and with their society are also being affected by technology. Robert Putnam in Bowling Alone suggests that Americans have become less community oriented. September 11 may have changed that. However, we need to study the manifestations of that change and whether it has staying power.

SBE stands ready to support studies on the social, political, and economic consequences of all of these changes and needs a significant influx of funds to do it. We urge you to support the SBE priority with a substantial increase for the SBE directorate.

SBE Research and Terrorism

The tragic events of September 11 have certainly changed how Americans look at the world and their country. Utilizing hypotheses and tools derived from research on reactions to earlier disasters, natural and man-made, SBE investigators have studied the reactions of people to the World Trade Center and Pentagon bombings.

Using Small Grants for Exploratory Research (SGER), NSF"s SBE directorate was able to rapidly fund post-September 11 research in Social Psychology, studying such issues as: predicting affective reactions to collective loss; how individuals respond to a salient and pervasive health threat such as anthrax; resiliency and coping in the wake of the attacks and ongoing threats. SGER awards were also made in other SBE programs: Human Cognition and Perception, Geography, Sociology, and Political Science. The sociology awards included one for a supplement to the General Social Survey for field work starting on September 13 to assess attitudes towards a number of issues, including confidence in government, civil liberties, and health issues. Another award was for a post-crisis analysis of attitudes and values of the Islamic public in Egypt, Iran and Morocco.

The SBE directorate's long-term approach to research on terrorism includes the expectation of increased funding for basic research in a number of areas, including:

the communication of risk; decision-making and responses of institutions, governments, organizations and social groups to extreme events including terrorism, natural and human-generated disasters; the structure, formation, and behavior of social groups and networks; formation, mobilization, trajectories and consequences of social protest; social identities of immigrant, racial, and ethnic groups; experimental studies on the formation of status beliefs, trust and cooperation; fundamental research on democratization; multi-linguality (basic linguistic research on the structure of languages underlying natural language understanding, speech recognition and automatic translation); corpus linguistics, the statistical and linguistic analysis of bodies of text, including written documents e-mail correspondence to discover patterns and regularities that can be used for analysis, including source attribution; developmental research, including research on adolescence, to examine attitude formation, group behavior and the effects of mediators of learning, transfer of learning and environmental factors on behavior, emotion, cognition, and perception.

Since terrorists are people, and terrorism is behavior, SBE scientists are participating in the National Academy of Sciences' efforts to help understand terrorism, terrorists, and how to stop further destructive actions. There is a sub-panel, chaired by Neil Smelser, of the Branscomb-Klausner committee, that is investigating the social/behavorial aspects of terrorism. In addition, the National Research Council's Committee on Law and Justice has instituted a roundtable chaired by Assistant Attorney General Michael Chertoff and former Deputy Attorney General Philip Heymann, which explored many issues at its first meeting on March 18. One of these used basic research on adolescent behavior to examine how young men are recruited into terrorist groups. The other focused on criminal deterrence research to look at disincentives for participating in terrorist activity. Also at the meeting Martha Crenshaw, a political scientist presented a history of terrorist activities in the past 30 years, that puts September 11 into perspective.

NSF has also funded a workshop that helped geographers develop a research agenda on terrorism. Geographers were instrumental in helping New York City respond to the attacks on September 11 by using geographic information systems to dispatch rescue teams and disaster response units. The geographers will employ their experience in researching hazards and natural disasters, regional and international activities, and the tools of geospatial data and technologies to examine all aspects of terrorism. In the past few weeks, psychologists, political scientists and others have met with the FBI Behavioral Science Unit at Quantico, VA to their expertise from their research experiences to combating terrorism in the U.S. Much of the basic research that contributes to these activities has been supported by NSF's SBE directorate.

Social and Behavioral Science Research Contributions to Public Policy

As part of the Consortium's 20th Anniversary, late last year we published Fostering Human Progress: Social and Behavioral Contributions to Public Policy. In the book, COSSA discussed how social and behavioral research has impacted six societal goals: Creating A Safer World; Increasing Prosperity, Improving Health, Educating the Nation, Promoting Fairness, and Protecting the Environment. Many of the research studies cited either had initial NSF support or grew out of the basic research supported by the Foundation. This includes the training of researchers and policy makers.

One example of the NSF supported research under Creating A Safer World focuses on the difficulties nations have had with their transitions to democracy. Research conducted by James Gibson of Washington University, St. Louis, Donna Bahry of Vanderbilt, and Brian Silver of Michigan State have examined the struggles in Russia, while Gibson has also looked at South Africa.

Another aspect of Creating A Safer World deals with reductions in personal violence. The NSF-supported National Consortium on Violence Research continues to research into the causes and correlates of crime and the impacts of various policies on big city crime reduction in recent years.

Nobel Prizes validate research that helped Increase Prosperity. The 2001 award went to three NSF supported economists—George Ackerlof, Michael Spence, and Joseph Stiglitz—for their fundamental contributions to the understanding of asymmetric markets. These are markets in which one side has more information than the other. The film and book "A Beautiful Mind," illustrated that game theory and its applications have also played a significant part in our understanding of prosperity and markets. Robert Solow's Nobel winning work on economic growth and the importance of technology to that growth is still studied and refined today. Another Nobel prize winner, Robert Mundell, researched exchange rates, which helped lay the intellectual groundwork for Europe's common currency.

Improving Health is not just a biomedical research endeavor, nor does it just result from discoveries in the physical sciences and engineering. Basic research in the social/behavioral sciences has examined the importance of lifestyle and behavior to good health. Interventions to change behavior stem from basic research in social psychology and other behavioral sciences. Studies of aging also utilize research in linguistics to examine how older people communicate and use language.

Enormous contributions from the social and behavioral sciences influence how we Educate the Nation. The discoveries in basic cognitive science have determined how children learn. Research on childhood development focuses on the importance of early social relationships as a source of either support and adaptation or risk and dysfunction. The NSF support for Science of Learning Centers, Research on Learning and Education (ROLE), and the Interagency Education Research Initiative (IERI) carry on this research and merits support. In addition, the Children's Research Initiative deserves enhanced funding.

In Promoting Fairness, the study of how our legal system works has been a province of NSF's Law and Social Science program for many years. Support for research of the jury system has resulted in landmark studies on how those bodies make their decisions. Research into police investigation practices has also discovered the difficulties of using eyewitness identifications and line-ups as evidence in criminal trials.

In studies associated with Promoting the Environment, social scientists have played a significant role in researching various responses to environmental degradation. Economists, such as William Nordhaus of Yale, have developed models to examine the economics of global climate change. Geographers have demonstrated the importance of mitigation and adaptation strategies. The NSF-supported Center for Integrative Assessment at Carnegie Mellon University discovered that slowly changing environmental conditions did not tend to motivate adaptation and mitigation strategies. Other scientists have looked at societal responses to environmental challenges. Economists have developed cost/benefit analysis that has been an important tool in regulatory responses to environmental problems. Elinor Ostrom and her colleagues at Indiana's Center for the Study of Institutions, Population and Environmental Change have had NSF support to devise ways for institutions to equitably manage common pool resources such as fisheries, grazing grounds, and water supplies.

On all these issues of public policy and others, NSF support for basic research in the social, behavioral and economic sciences has been vital. COSSA urges the Subcommittee to enhance that support.

Other Issues

COSSA also supports increased funding for the Graduate Research Fellows program. It is time to provide the funds to increase the stipends to make them competitive with other Federal agencies' graduate fellows. Increasing the stipends should not occur as a trade off with the number of fellowships available. The stipends should be increased without a corresponding reduction in the number of these prestigious, portable, student controlled support for graduate training.

The SBE directorates' Science, Resources and Statistics division is slated for a significant increase. This boost would allow for the once-per-decade incorporation of the results of the decennial census to redesign the samples and surveys used to collect data on the scientific and engineering workforce. We urge the Subcommittee to support this increase.

COSSA is concerned that the proposed project for neutrino research for the Homestake Mine in South Dakota, if funded without peer review and National Science Board approval, would create a dangerous precedent for NSF. The NSF budget must remain free of directed spending to a specific project that has not been through the merit review process. We are also concerned that the indemnification and liability costs, if incurred by NSF without large infusions of new funds, would dwarf NSF's other programs. We urge the Subcommittee to examine this project and ensure that NSF's integrity and budget are protected.

Conclusion

The National Science Foundation remains the key funding agency for fundamental research in the social and behavioral sciences. Indeed, it is the premier funding agency in the world for basic research across all the sciences and engineering. The SBE community joins with the rest of the science community and the business and industrial community in supporting a substantial increase for NSF. We urge the Subcommittee to be as generous as it can in providing NSF with the support it needs to keep the U.S. on top in science and engineering to provide this nation

and the world with the scientific and technological advances that will, as John Kennedy said, "light the world," and bring us back from the darkness of September 11.

Thank you for the opportunity to present COSSA's views on the fiscal year 2003 budget for the National Science Foundation and its Social, Behavioral, and Economic Sciences directorate.

PREPARED STATEMENT OF THE DORIS DAY ANIMAL LEAGUE

Mrs. Chairwoman and members of the Subcommittee, thank you for the opportunity to present testimony relevant to the fiscal year 2003 budget request for the U.S. Environmental Protection Agency's (EPA) Office of Research and Development (ORD) and the Endocrine Disruptor Screening Program (EDSP). I hope the Subcommittee willconsider the concerns of the 300,000 members and supporters of the Doris Day Animal League and take steps to ensure the EPA recognizes the necessity of sound science approaches in its research, development and validation of non-animal, alternative toxicological test methods. These methods can significantly reduce the numbers of, and ultimately replace, animals in its testing programs.

Research, Development and Validation of Non-Animal, Alternative Test Methods

In recent fiscal years, the enacted budget for the ORD has hovered at approximately $500 million, comprising just 9 percent of EPA's total budget. In a report filed by the agency's own Science Advisory Board, fiscal year 2002 Presidential Science and Technology Budget Request for the Environmental Protection Agency: An SAB Review, the SAB urged Congress to increase the proportion to 12 percent by 2004. However, within these appropriations, we have found it difficult, if not impossible, to track funding by ORD for specific non-animal, alternative test methods to meet the EPA's needs in new testing programs. It is our contention that many emerging technologies, which often prove to be faster to run, less expensive and at least as predictive as current animal tests used for hazard and risk assessment, would benefit from research and development dollars.

Thanks to the leadership of Chairman James Walsh, House Subcommittee on VA, HUD and Independent Agencies Appropriations, the House inserted a $4 million directive for the EPA to research, develop and validate non-animal, alternative test methods in the fiscal year 2002 bill. Ultimately, the conference committee for the VA, HUD and Independent Agencies fiscal year 2002 bill agreed to the request.

The animal advocacy community is greatly appreciative of this first-ever directive to the EPA. However, we have had significant difficulty in obtaining concrete information from the agency on the expenditure of funds to date and the plans for the rest of the fiscal year. Should this committee decide to champion a request for a directive for fiscal year 2003, I strongly urge you to include a reporting requirement in the language.

I request that $10 million, from the current budget request, be set aside for research, development and validation for regulatory acceptance of non-animal, alternative test methods. Activities funded by these allocations shall be designed in consultation with the Office of Pollution Prevention and Toxic Substances. It is our preference that these test methods have direct relevance to new EPA testing programs, including the High Production Volume chemical testing program, EDSP and Children's Health initiative. Our request for $10 million represents just 2 percent of the total ORD budget and would be perceived by all stakeholders as a genuine commitment by EPA to new non-animal, alternative test methods.

I also request that the Subcommittee require the EPA report to the Subcommittee by March 30, 2003 regarding expenditures and plans for additional expenditures for fiscal year 2003 funds.

Endocrine Disruptor Screening Program (EDSP)

The Environmental Protection Agency has been mandated, under the Food Quality Protection Act and the Safe Drinking Water Act Amendments of 1996, "to determine whether certain substances may have an effect in humans that is similar to an effect produced by a naturally occurring estrogen, or such other endocrine effects as EPA may designate." This statutory requirement was in response to concerns about abnormal reproductive and developmental effects in wildlife exposed to various chemicals in their natural environments. The EDSP is an effort to primarily assess the health effects to humans, with wildlife concerns a component of the program. On its face, it is a worthy endeavor.

However, as currently proposed by the agency, thousands of chemicals may be tested by a protocol comprised of 16 test methods, most which are animal tests. It has been estimated that as many as 1.2 million animals will be killed per every 1,000 chemicals tested under the current structure of the EDSP. These projections

make this proposed program the largest use of animals in toxicological testing by a federal agency. For this reason, it is being carefully scrutinized by concerned animal protection organizations wanting to ensure that all concrete steps are taken with this new science to protect animals both wildlife and animals in the laboratories.

The very language in the FQPA on which the EDSP is based can strongly address one of the concerns of the animal protection community. To my knowledge, this is the first time that the word "validation" has been used as a requirement for sound science in developing test methods for a federal toxicological program. The statutory language required the screens and tests used in the EDSP to be validated to ensure appropriately relevant, reliable and reproducible tests and screens for the best science. The EPA, as co-chair of the Interagency Coordinating Committee for the Validation of Alternative Methods, supports the following definition of validation: the process by which the reliability and relevance of a procedure are established for a specific purpose. ("Validation and Regulatory Acceptance of Toxicological Test Methods," NIH Report 97–3981).

In 1996, when the Acts were passed, the Interagency Coordinating Committee for the Validation of Alternative Methods (ICCVAM) was in its infancy. Since then, federal regulatory and research agencies, including the EPA, have benefited from the effective assessment of validity of new screens and tests afforded by ICCVAM. The ICCVAM assesses the validity of new and revised test methods, including alternatives, that have cross-agency application. In light of the interagency agreements between EPA and the Food and Drug Administration's National Center for Toxicological Research and the National Institute of Environmental Health Sciences and the fact that the proposed test methods for the EDSP are new or revised for new endpoints, the ICCVAM could clearly provide a uniform assessment of the validity of all EDSP test methods. Indeed, the ICCVAM was permanently authorized by Congress in recognition of the continuing crucial role it can play to facilitate assessment of test methods that have cross-agency application, while giving a level of confidence in the scientific assessment to various stakeholders.

The Advisory Committee on Alternative Toxicological Methods for the National Toxicology Program, comprised of scientists from the public and private sectors, passed unanimous resolutions on two occasions strongly supporting the ICCVAM assessment. However, EPA continues to assert that the non-animal, alternative test methods can be reviewed by ICCVAM, while the animal test methods will solely be reviewed by the agency's Science Advisory Board/Scientific Advisory Panel (SAP/SAB). This approach gives animal protection advocates and other stakeholders cause to believe that two different standards of scientific validity may be applied. And while the agency claims it will use the same criteria for assessment of validation as the ICCVAM, the level of confidence in the ICCVAM is stronger. Also, any claim made by the agency that ICCVAM assessment may slow down implementation of the EDSP is simply hyperbole.

I urge the Subcommittee to support the assessment of validation of tests and screens for the EDSP by the ICCVAM with appropriate fiscal support from the EPA. This interagency process can provide appropriate peer review of new tests and screens proposed for the EDSP. The ICCVAM should work with the EPA's SAB/SAP to avoid unnecessary delay in the program. Among other things, ICCVAM's assessment can serve to ensure due consideration is given for the replacement, reduction and refinement of the use of animals in these new tests and screens. This request should in no way be perceived as calling for a reduction of the President's request for activities in the Science and Technology account addressing endocrine disruption.

I would also request that the Subcommittee require the Agency provide a report to the Subcommittee by March 30, 2003 regarding expenditures and plans for additional expenditures for fiscal year 2003 funds under the EDSP.

Conclusion

I respectfully request that the Subcommittee direct the EPA provide $10 million for the ORD to research, develop and validate non-animal, alternative toxicological test methods for regulatory acceptance.

I also respectfully request that the Subcommittee direct the EPA to provide appropriate fiscal support to the ICCVAM for assessment of validation of all tests and screens to be incorporated into the EDSP.

PREPARED STATEMENT OF THE FEDERATION OF AMERICAN SOCIETIES FOR EXPERIMENTAL BIOLOGY

Madam Chair and distinguished Members of the Subcommittee, I am Robert R. Rich, M.D., President of the Federation of American Societies for Experimental Biology (FASEB) and Executive Associate Dean at Emory University School of Medicine in Atlanta, GA.

FASEB is the largest coalition of biomedical research associations in the United States and is comprised of 21 societies with more than 60,000 scientist-members. FASEB's 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.

It is my privilege to join my colleagues in other fields of science and engineering in thanking you for the Subcommittee's strong support for the National Science Foundation over the past years. Your commitment, Madam Chair, and that of Ranking Member Bond to a doubling of the NSF budget has inspired the research community to join with you in advocating such a worthy goal.

We join with you, Madam Chair, and Senator Bond in urging the Subcommittee to recognize the vital contribution of NSF basic science research to our economy and our national security by increasing funding for NSF by at least $718 million, or 15 percent, over the $4.8 billion appropriated in Fiscal 2002.

MISSION

NSF supports the ideas, people and tools necessary to maintain our leadership in science and engineering, which in turn significantly contribute to improvements in the nation's health, prosperity and welfare. NSF support has been central to the development of new technologies, promotion of national economic growth and establishment of the world's premier graduate research and education system. Although NSF"s share of the federal research and development budget is less than 4 percent, NSF provides nearly a quarter of all Federal support for basic research at academic institutions.

RECENT ACCOMPLISHMENTS

Since its establishment in 1950, the NSF has served the nation by investing in the core disciplines of science, mathematics and engineering. Over the years, NSF"s investments in research and education have helped the nation achieve an unmatched capability in scientific and technical fields. From 1960 to the present, a total of 117 NSF-funded scientists have won the Nobel Prize. This prestigious group includes three physicists, three economists, a chemist and a biologist. One of the physicists, Eric Cornell, was awarded the NSF Alan T. Waterman Award for Outstanding Young Scientists in 1997. The biologist, yeast geneticist Leland Hartwell, was awarded the Nobel Prize in Physiology or Medicine for his contributions toward the discovery and understanding of genes that regulate cell division in all living organisms. This seminal research that began in the 1960s, paved the way for understanding how healthy cells divide and how errors in a cell division may lead to cancer and related diseases.

Included below are a few examples of the bold and practical initiatives funded in the last year. These illustrate NSF"s accomplishments in the generation, communication and translation of science in the United States.

—An NSF-funded biomedical engineer at the University of Illinois at Chicago has developed an implantable capsule that releases a steady supply of insulin into the bloodstream of diabetics. The capsule contains insulin-secreting cells that are protected from the immune system by a silicon membrane containing nanoscale pores that allow insulin to flow out while preventing antibody access to the pancreatic cells.

—The NSF investment in plant genomics has yielded a wealth of new information about the genomes of economically important crop plants, including corn, barley, soybean and tomato. Newly funded projects focus on the complex gene networks that regulate plant responses to drought, disease and changing climate conditions.

—Training professionals to handle cyber-threats that have the potential to breach internet security is a national priority. This year the NSF announced the establishment of the Scholarships for Service Program to educate college students in information assurance.

—The program will offer Federal internships and will require a commitment of working for the Federal Government for 1 year for each year of scholarship received upon graduation.

—Building on its longstanding sponsorship of basic research in engineering, robotics, and social sciences, NSF was able to respond promptly to the events of September 11, 2001. Immediately after the terrorist attacks, NSF issued grants for studies of structural failures, search robots and social responses to the terrorist attacks.

SCIENTIFIC OPPORTUNITIES

Recent investments in science, engineering and mathematics have given us revolutionary new products and technologies that will enhance our quality of life. The potential to create, improve and harness technology for the betterment of humankind has never been greater. We must continue our investments in basic research, instrumentation and education in order to ensure continued improvement in our quality of life.

Research and Related Activities

The NSF Research and Related Activities budget supports fundamental research in science, engineering and mathematics through research grants awarded to scientists from research institutions across the nation on the basis of competition. NSF grants provide support for research in core disciplines as well as for interdisciplinary projects. Currently, the budget of the NSF is insufficient to support all of the meritorious proposals submitted. These unfunded proposals represent lost opportunities for advancing our knowledge in important fields of research. In order to maximize the number of proposals funded, NSF is forced to make smaller awards. Adjusting for inflation, the average size of an NSF grant is now worth less than it was 40 years ago. NSF grants are also shorter than those awarded by many other research sponsors. This means that NSF-supported scientists must apply for funding frequently, spending a higher fraction of their time seeking support and less time in the laboratory and classroom.

Research Instrumentation as Science Infrastructure

Cutting edge technology and instrumentation have become far too expensive for many individual laboratories. Examples of such advanced instrumentation include mass spectrometers, DNA sequencers, and the computers and software for the analysis of data derived from use of this instrumentation. Extensive training in the use of this technology is necessary and costly. Complicated, state-of-the-art instrumentation also requires expensive maintenance and operation.

The continued progress of science and engineering in the U.S. is dependent on the availability of advanced research equipment. NSF provides support to more than 2,000 colleges, universities and other research and education institutions for multiuser instrumentation, the development of new instrumentation and the improvement of research facilities at biological field stations and marine laboratories. NSF also invests in internet-based and other computer resources that advance research capabilities, allowing the U.S. to remain at the forefront of research.

Human Resources as Science Infrastructure

At NSF, research and science education go hand in hand. Over 100 U.S. Nobel laureates have had research funded by NSF and future Nobel laureates benefit from the many science education programs it sponsors. NSF provides educational support for almost 200,000 individuals, including teachers, students in primary and secondary schools, undergraduates, graduates and post-doctorates. NSF is a leader in reforming the science curriculum, and its innovative efforts are a key ingredient in the recipe for sustained progress in biomedical science.

NSF support for science education programs is also critical for the general citizenry. Only a scientifically knowledgeable public will understand the social and cultural changes resulting from advances in science and technology. NSF continues its commitment to bring the best in science education to the general public, reaching over 150 million people through its programs.

RECOMMENDATIONS

FASEB supports a significant increase in the NSF budget to allow this agency to provide greater support for the fundamental research and interdisciplinary workforce training that has been its hallmark. Such an investment will allow larger and longer grants resulting in increased productivity and reduced administrative expenses. In addition, more proposals should be funded.

To address these pressing needs, provide access to major research instrumentation and continue to educate Americans in the crucial fields of science, engineering and mathematics, we recommend that the NSF budget be increased by $718 million (15 percent) in fiscal year 2003.

FASEB recommends a return to the commitment to double the NSF budget, in 5 years and therefore FASEB recommends that the NSF budget for fiscal year 2003 be increased by at least 15 percent, to $5.5 billion.

PREPARED STATEMENT OF THE FLEET RESERVE ASSOCIATION (FRA)

Madame Chairman: The Fleet Reserve Association (FRA) is grateful to have been invited to submit a statement on its request for funding the Department of Veterans Affairs for fiscal year 2003. On behalf of more than 140,000 shipmates, I extend gratitude for the concern and active interest generated by the Subcommittee in protecting, improving, and enhancing benefits that are richly deserved by our Nation's veterans.

FRA was established in 1924 and its name is derived from the Navy's program for personnel transferring to the Fleet Reserve or Fleet Marine Reserve for the Marine Corps after 20 or more years of active duty but not 30 years to fully retire. During the required period of service in the Fleet Reserve, assigned personnel earn retainer pay and are subject to recall by the Secretary of the Navy.

FRA is the oldest and largest professional military enlisted association exclusively serving and representing men and women of the three Sea Services. It continues to seek protection and equity for those who serve in or have retired from the United States Navy, Marine Corps, and Coast Guard, plus those veterans requesting assistance. The Association has been active over the past 78 years in pursuing Congressional and the respective Administration's support for enlisted quality of life and veterans' programs for Sea Services' personnel. FRA is also the leading enlisted association in The Military Coalition, which is compromised of thirty-two military and veterans' organizations representing 5.5 million Active Duty, Reserve, Guard, Retired, and Veterans, their families and survivors.

LEGISLATIVE GOALS IN BRIEF

FRA's membership has an average age of 68 years, all veterans of as many as three wars, mostly retired and from the Sea Services. They have tasked the Association to seek Congressional action to authorize and fund the following:

—Expand health care benefits for all veterans to include Medicare Subvention.
—Funds for the construction and leasing of additional nursing and long-term care facilities.
—Appropriate funds for the repeal of the statute requiring the repayment of separation pay if the service member becomes entitled to VA compensation.
—Enhance educational programs and provide voluntary open enrollment in the GI Bill for all current active duty military personnel, including military personnel who never enrolled in VEAP or MGIB.

DEPARTMENT OF VETERANS AFFAIRS FISCAL YEAR 2003 BUDGET

Fiscal Year 2003 Budget

FRA continues its quest for a DVA budget that will provide adequate funding to care for the Nation's veterans, their families and survivors. Although the fiscal year 2003 budget is the largest increase ever for the DVA, FRA has listed the following veterans' programs it believes should be authorized and funded in full. The Association urges their consideration and adoption to assure America's veterans they will be fully compensated for their sacrifices while in the uniform of the Armed Forces of the United States, and that their families and survivors will be cared for as prescribed in the mission of the Department of Veterans Affairs.

VETERANS HEALTH ADMINISTRATION

Expand Access to Veterans Health Care

VA treatment facilities should be accessible to military retirees' use at no cost to the veteran. The Veterans Millennium Heath Care and Benefits Act (Public Law 106–117) Section 113 authorizes the Department of Defense (DOD) to reimburse the Department of Veterans Affairs (VA) for medical care provided to eligible military retirees. However, recent benefit changes under Public Law 106–398 with regard to TRICARE and Medicare eligible retirees have delayed retirees' who are enrolled as Priority Category 7 from utilizing the VA facilities without cost. This especially affects non-disabled military retirees under 65 years old, who do not have access to military treatment facilities (MTF).

Eligibility Reform and the Uniform Benefits Package are appealing concepts offering our veterans a comprehensive health care plan that provides the care they need. However, the annual enroll ment requirement is of concern in addition to the uncer-

tainty about what priority levels will be enrolled each year. FRA believes the Veterans Health Administration (VHA) medical treatment and care centers should be open to all veterans regardless of their ability to pay. The Association agrees there must be a system granting priority access for certain veterans; i.e., service-connected disabled at 30 percent or more; however, all veterans rated 20 percent or less, or non-rated, should be granted access on an equal basis first come, first served. FRA commends Secretary Principi for retaining Category 7 veterans in the VA Health system. Unfortunately, FRA strongly disagrees with the Department's proposal to change its policy to include a $1,500 yearly deductible for higher income, non-service-connected veterans. This would mandate forced choice between the VA and DOD Health systems. FRA opposes the forced choice proposal. Military retirees shouldn't have to choose, if they are eligible for both systems. The mission of these two systems is dissimilar in many ways, and focused on serving different populations with diverse needs.

The Association supports continued collaborative efforts between the DOD and VA, to enhance the Defense Health System and provide the necessary care for a very deserving population. The Conference Report for the National Defense Authorization Act for fiscal year 2002 (H.R. 2620), requests both the Secretaries of VA and DOD to submit to the Committees on Appropriations a credible plan to fully integrate facilities at three demonstration sites. FRA is opposed to a complete integration of these two Health systems, (per H.R. 2667). Before Congress considers this issue any further, it should wait until the President's Task Force to Improve Health Care for Our Nation's Veterans (PTF) issues its findings. {Please note that a copy of FRA's testimony to the PTF is available upon request.}

Medicare Subvention

FRA is concerned about dwindling access to health care. When military retirees made decisions to retire in certain areas of our country, they did so with the thought of being close to a military installation or military treatment facility. Now because of BRAC actions, many of those military installations and MTF's are no longer available.

In recent years, the House and Senate have passed VA Subvention in separate sessions of Congress, but have not been able to agree on a plan to test the use of Medicare funds in VA facilities. Medicare Subvention could prove beneficial to the government and stakeholders. For veterans, VA Subvention would mean improved access to care, as nearly 60 percent of enrolled veterans are Medicare eligible. These beneficiaries have paid into Medicare throughout their working lives. One important question that needs to be evaluated is whether the VA can deliver Medicare-sponsored services more efficiently than Medicare in the private sector.

FRA recommends a demonstration project for the VA to test the feasibility of establishing Medicare Subvention programs within its health care facilities. FRA believes that VA Subvention could enhance older veterans' access to VA health care and determine whether government resources can be used more efficiently to pay for the care of growing numbers of older Medicare-eligible veterans. FRA also believes with Medicare Subvention, the VA can withdrawal its proposal for a $1,500 deductible for Category 7 veterans a proposal the Association strongly opposes.

Nursing Homes, Long Term Care, and other Health Care Programs

FRA believes Public Law 106–117, Section 101, The Veterans Millennium Health Care Act makes great strides in providing the long-term care our veterans deserve. However, this program is only authorized for a period of 4 years, and only for veterans who need care for a service-connected disability, and/or those with service-connected disability ratings of 70 percent or more. The Association urges the extension of this program and expansion to include veterans with service-connected disability ratings of 50 percent or more.

Veterans of World War II and Korea are in their 60s or older, as are some Viet Nam veterans, and many require a greater level of long-term care. As our veterans are aging, more will become dependent upon the VA to provide the necessary care in nursing homes, domiciles, state home facilities, and its underused hospital beds.

The methodology used in collecting funds for the Millennium Act and then transferring the money over to the Treasury is flawed. VA's rationale for this practice is to allow more discretionary VA spending under the current caps set in the Balanced Budget Act. This is slight of hand rather than a reliable business practice and FRA firmly believes any money collected from veterans for veteran's health care should remain within the VHA.

Tobacco-related Illnesses

In 1998, Congress changed the law prohibiting service-connection for disabilities related to smoking. Many veterans began using tobacco during their military serv-

ice. It was a way of life and information on health risks associated with tobacco use and nicotine addiction was nonexistent. In earlier years it could be said that the Armed Services facilitated smoking by including cigarettes in meal rations, and selling cigarettes at discounted prices in military exchanges. FRA recommends that the Subcommittee urge the oversight panel to repeal the 1998 decision not to review tobacco-related claims and, if adopted, to provide the necessary appropriations.

Medical and Prosthetic Research

VA is widely recognized for its effective research program. FRA continues to support adequate funding for medical research and for the needs of the disabled veteran. In particular, FRA supports the fiscal year 2002 Senate Appropriations Committee report language that states, "Prostate cancer research has not kept pace with scientific opportunities and the proportion of the male population who are afflicted with the disease." FRA urges Congress to fund new research opportunities through inter-institutional collaboration.

TRICARE

The VA's role as a TRICARE network provider is a potential source for increased access to quality health care for all DOD beneficiaries. If VA's capacity allows, and its core mission is not compromised, then the VA should play a vital role in offering primary and specialized care to TRICARE beneficiaries as a network provider.

In a June 1995 Memorandum of Understanding, TRICARE contractors were authorized to include VA medical centers (VAMCs) in provider networks and, therefore, TRICARE contrac tors were encouraged to use VA facilities. Due to persistent billing and reimbursement problems, VA's potential as a network provider has not been fully realized. Despite 80 percent of VAMC's currently being considered TRICARE network providers, three-quarters of the activity occurs in only 26 facilities and the total level-of-effort was miniscule according to the GAO (May 2000).

Current TRICARE contracts will begin to expire over the next few years, and FRA is pleased that the VA is represented in the new contract development. TRICARE Management Activity (TMA) has acknowledged the importance of considering the VA in the next generation of contracts. In light of the growth of VA's Community Based Outpatient Clinics (CBOCs), the VA could be a service delivery alternative for TRICARE beneficiaries where capacity exists.

The Association supports greater utilization of VA networks in partnership with TRICARE. Although many VA providers are also TRICARE network providers, actual usage has been marginal. Some reasons why this partnership has not been fully realized include:

—VA providers are not qualified in specialties most in demand by DOD beneficiaries. I.e. pediatrics and obstetrics and gynecology.
—VA providers often cannot meet TRICARE Prime access standards.
—Business practices in the areas of claims processing, IM/IT systems' incompatibility, conflicts over pricing of services, various administrative limitations and a lack of aligned incentives impede use of VA providers by TRICARE Managed Care Support Contractors.

Expanding the use of VA providers as TRICARE-authorized providers to care for all TRICARE beneficiaries may improve active duty and retirees' access to care in areas where TRICARE Prime is not available.

VETERANS BENEFITS ADMINISTRATION

Separation Pays

Under current law, service members released from active duty who fail to qualify for veterans' disability payments and are not accepted by the National Guard or Reserve, never have to repay any portion of separation pay. If, however, qualified for either, it's time for payback. FRA can not understand why an individual awarded service-connected disability compensation should have to repay the Federal government for that privilege.

FRA is totally opposed to the repayment requirement. The Association recommends the Subcom mittee to seek repeal of the applicable provisions in Chapters 51 and 53, 38 USC, to terminate the requirement to repay the subject benefits and, if necessary, to provide the required funding.

Court-Ordered Division of Veterans Compensation

Service-connected disability payments are intended to financially assist a veteran whose disability may restrict his or her physical or mental capacity to earn a greater income from employment. FRA believes this payment is exclusively that of the veteran and should not be a point at issue in any States' Civil Actions. If a Civil Court finds the veteran must contribute financially to the support of his or her fam-

ily, let the court set the amount allowing the veteran to choose the method of contribution. If the veteran chooses to make payments from the VA compensation award, then so be it. The Federal government, however, should not be involved in enforcing collections ordered by the states. Let the states bear the costs of their own decisions. FRA recommends the Subcommittee seek the adoption of stronger language offsetting the provisions in 10 USC, now authorizing Federal enforcement of state court ordered divisions of veterans' compensation payments.

Montgomery GI Bill (GI Bill)

The Montgomery GI Bill is one of the major enticements for enlisting in the United States Armed Forces. FRA believes that continued improvements to the GI Bill are necessary in order to continuously attract new recruits per congressionally mandated recruitment levels each year.

The Association is grateful for the passage of Public Law 106–419 during the first session of the 107th Congress, which included the enhancement of MGIB benefits. However, FRA believes Congress should increase MGIB annually based on a benchmark of the current average cost of a 4-year state run college education.

Would be participants in the MGIB are not permitted to enroll into the new MGIB because they never enrolled in the VEAP program. During the VEAP era, that program was considered to be insufficient in providing adequate funding for a college education. Therefore, current active-duty military personnel that never enrolled in VEAP or MGIB should be given an opportunity to participate. FRA recommends that if authorized, the Subcommittee provide the necessary funding.

The Association continues to believe that veterans who take advantage of the GI bill will eventually return more money to the U.S. Treasury than was spent by the Federal government for their education. A concept once offered by the Treasury Department.

Disability Compensation Claims Processing

Among veterans, VA's inability to process claims in a timely, accurate fashion continues to be one of its most serious problems and a primary source of dissatisfaction with the Federal government.

The Veterans Benefits Administration (VBA) reports the average processing time for initial claims is 225 days. If that claim is appealed to the Board of Veterans Appeals (BVA), as many are, the average time for a decision is 620-plus days. Speed is an issue. More important is accuracy, a component of processing ignored for years and the cause of many delays in finalizing claims.

As then Chairmen of the VA Claims Processing Task Force, Daniel L. Cooper stated on 8 November 2001, "I must say that I think the VA has the necessary resources right now to do the job the Agency can't justify asking for more people right now." To improve quality, VBA must devote adequate resources for training personnel. It needs additional staff to conduct quality reviews of the work of each of its claims adjudicators in order to assess performance, impose accountability, and remedy deficiencies on the individual employee level. FRA believes the recommendations and changes proposed by the Task Force should be implemented and funded in order to improve the way VA does business.

NATIONAL CEMETERY ADMINISTRATION (NCA)

Cemetery Systems

The NCA has undergone many changes since its inception. Currently, the administration maintains more than 13,850 acres of developed and undeveloped land containing more than 2.3 million grave sites as well as 33 soldier's lots and monument sites. That equates to 120 cemeteries throughout 39 states, the District of Columbia, and Puerto Rico. One quarter of the nation's 26 million veterans alive today are over the age of 65. Rapidly aging veteran populations coupled with the death rate of World War I, World War II, and Korean veterans create resource chal lenges within the NCA. It was estimated that the number of deaths in 2001 were 674,400 veterans, and by 2006 that number will increase to 687,000 annually, or an average of 1,900 funerals a day. During this time period, the interment rate will continue to rise thereby placing even greater strain on NCA's workforce and equipment.

FRA is grateful to Congress for its increased funding for the new construction of future cemeter ies. The NCA is doing much to meet resource challenges and the demand for burial spaces for aging veterans. It could do more, but without sustained additional funding, the system will never meet the demand. FRA urges increased funding, so the NCA has exclusive rights for the purchase of land, preparation, construction and operation of new cemeteries, the maintenance of existing cemeteries, and the expansion of grants to states to construct and operate their own cemeteries.

As part of the Veterans Education and Benefits Act of 2001, the government also will provide grave markers for veterans whenever requested, even if there is another marker on the grave. However, as it stands the law only applies to new burials, FRA believes the grave marker rule should be amended and funds appropriated to include the thousands of families denied grave markers in the past decade.

OTHER RECOMMENDATIONS FOR CONSIDERATION

The following miscellaneous goals are offered for your support.

—Continue to monitor implementation and ensure adequate funding of military health care program enhancements.
—Amend SBP to increase the annuity to 55 percent and shift the paid up coverage effective date from 2008 to 2003.
—USFSPA Support legislation eliminating inequities in the Uniformed Services Former Spouses Protection Act (USFSPA).
—Increase military manpower commensurate with demanding operational commitments.
—Improve compensation for career noncommissioned and petty officers of the U.S. Armed Forces.
—Provide adequate funding for military commissaries and continue supporting its exchange systems.
—Support equity in cost-of-living adjustments for all beneficiaries.
—Protect personnel benefits for retirees and families residing at or near BRAC sites.
—Authorize and fund construction and maintenance of family and bachelor housing, child care centers, and MWR facilities.
—Support permanent change of station (PCS) process reform.
—Support full funding for the Impact Aid Program for schools enrolling children of military personnel.
—Ensure parity for Coast Guard personnel with DOD pay and benefits.
—Amend the tax code to exclude taxation on residential sales for active duty members returning from overseas assignments.
—Support enactment of a Flag desecration statute.

CONCLUSION

Madame Chairman. In closing, allow me to again express the sincere appreciation of the Association's membership for all that you, the Subcommittee, have done for our Nation's veterans over these many years.

FRA is grateful to address its recommendations for funding of the Department of Veterans Affairs. Granted, not all veterans' issues are cited in this statement; however, the Subcommittee does have the Association's support for the improvement or enhancement of any veterans programs not addressed herein.

PREPARED STATEMENT OF THE FRIENDS OF VA MEDICAL CARE AND HEALTH RESEARCH

The Friends of VA Medical Care and Health Research (FOVA), a coalition of 78 medical research, specialty, physician, academic, patient advocacy and industry organizations committed to quality care for veterans, is pleased to provide recommendations regarding fiscal year 2003 funding for the Department of Veterans Affairs (VA) medical and prosthetics research program. FOVA strongly encourages the Senate Subcommittee on Veterans, Housing and Urban Development to support VA research by recommending an fiscal year 2003 appropriation of at least $460 million.

FOVA's fiscal year 2003 recommendations build on the $20 million increase provided for the current year. The Administration's fiscal year 2003 budget request for a $38 million (10 percent) increase in research program dollars is notable for being the first time in many years that an administration has proposed funding sufficient to maintain VA's 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. We applaud the Administration and Department of Veterans Affairs Secretary Anthony J. Principi for recognizing the invaluable contribution VA research makes to delivering high quality care for veterans and toward improving the health of veterans and the nation.

Please note that the Administration's budget request for a $38 million increase for VA research includes a shift from OPM to VA of $15 million in accrued govern-

ment health and retirement benefit funds. Consequently, the Administration's budget proposes a $23 million (6 percent) increase in research program funds plus $15 million in federal employee benefit expenses previously paid by an OPM account, for a total increase of $38 million (10 percent) over current year funding of $371 million. FOVA strongly recommends that the entire $38 million increase be allocated to VA research's programmatic needs and that accrued benefits continue to be paid out of the OPM trust fund.

However, even a $38 million increase would not allow VA to address all of the opportunities it has to improve care for veterans, nor to meet the new challenges presented by the tragedies of September 11 and subsequent events. FOVA strongly encourages the VA–HUD Subcommittee to recommend an fiscal year 2003 appropriation of at least $460 million for the VA medical and prosthetics research program. This represents growth in program dollars of $89 million (24 percent).

Four core needs justify the FOVA recommendation of $460 million:

Investments in investigator-initiated research projects at the VA have led to an explosion of knowledge that promises to advance our knowledge of disease and unlock new strategies for prevention, treatment and cures. Attachment 1 is a list of just a few of VA's recent achievements and initiatives. However, many health challenges still confront the veteran community. Additional funding is needed to take advantage of the burgeoning scientific opportunities and to improve quality of life for our nation's veterans as well as the general public. FOVA urges the Committee to support additional funding for the following research priority areas identified by the VA for fiscal year 2003:

—*Quality of Care.*—Additional funding for the Quality Enhancement Research Initiative (QUERI) program would be used to fund centers in prostate cancer and dementia/Alzheimer's.

—*Special Populations.*—VA would expand research in quality of care, community access and restoration of function to achieve greater understanding of existing racial, ethnic and gender disparities in health care.

—*Diseases of the Brain.*—Additional studies are needed on the impact of different classes of psychiatric drugs on cognitive and behavioral function.

—*Treatment Strategies in Chronic Progressive Multiple Sclerosis.*—Recent studies have shown that immunotherapy of acute MS can reduce disability. More studies are needed to determine the optimal therapy for patients.

—*Micro Technology.*—In the area of low vision, work in retinal prostheses is an emerging science and may restore sight lost as a result of a variety of disorders including age-related macular degeneration and retinal pigmentosa.

—*Patient Outcomes in Rehabilitative Care.*—Specific areas of emphasis include long-term care strategies to enhance patients' independence and activities of daily life, consequences of community reintegration and the impact of assistive technology on quality and functionality of life.

—*Chronic Disease Management.*—VA is proposing two major initiatives in comparing clinical efficacy of (1) vascular surgery conducted on and off cardiopulmonary bypass machines, and (2) open versus endovascular surgery for abdominal aortic aneurysms.

The complexity of research combined with biomedical research inflation has increased the costs of research. The average cost of each VA research project is now $150,000, a 9 percent increase in just 2 years. As a result, VA requires an increase of at least $15 million just to maintain a stable number of programs.

In response to the events of September 11, VA seeks to establish a research portfolio to address the threats of bio-terrorism. This objective is consistent with VA's statutory obligation to provide medical back-up services in times of national emergencies. VA has an established history of research accomplishments in the areas of infectious diseases and immunology, including vaccine development. The laboratories of VA research scientists are disseminated nationwide, and are affiliated with top-flight universities. VA research provides a unique national resource that can be readily adapted and quickly mobilized in response to diverse biological threats.

To meet this emerging challenge, consistent with H.R. 3253, the National Medical Emergency Medical Preparedness Act of 2001, FOVA strongly supports VA's proposal to establish four new centers of research excellence focusing on fundamental issues critical for responding to chemical, biological and radiological threats to public safety. The targeted research portfolio would include pathogen detection, disease diagnosis and treatment, protection, and vaccine development. The mission of these centers would also encompass the evaluation and management of illnesses consequent to military service, especially in our current conflict.

VA's career development programs are a national resource for training the next generation of clinician scientists, those doctors who treat patients and address questions that have a direct impact on patient care. Additional funding is needed to ex-

pand this program in order to address the growing national shortage of clinician-investigators.

Separate from its recommendations for the VA research appropriation, FOVA strongly encourages the Committee to address the increasingly urgent need for improvements in VA's research facilities.

In 1997, NIH conducted site visits of six VA research facilities and concluded that, "VA has had increasing difficulty in providing sufficient resources via its congressional appropriation to satisfactorily fund the infrastructure necessary to support research at the VAMCs." It is FOVA's understanding that VA has made no significant, centrally administered investment in its existing research facilities since this finding. Ventilation, electrical supply and plumbing appear frequently on lists of needed upgrades along with space reconfiguration. Substandard facilities make VA a less attractive partner in research collaborations with affiliated universities; reduce VA's ability to leverage the R&D appropriation with other federal and private sector funding; and make it difficult to attract cutting edge researchers, both clinician investigators and laboratory scientists, to careers in VA. Facility R&D Committees regularly disapprove projects for funding consideration because the facility does not have the necessary infrastructure and has little prospect of acquiring it.

Under the current system, research must compete with other medical facility and clinical needs for basic infrastructure and physical plant support. Unfortunately, the minor construction appropriation is chronically inadequate to meet facility needs for clinical improvements much less research upgrades, and year after year the list of urgently needed research repairs and upgrades grows longer. VA has identified 18 sites in urgent need of minor construction funding to upgrade their research facilities. These sites plus the many facilities with smaller, but no less important needs, provide more than sufficient justification for an appropriation of $45 million specifically for research facility improvements.

FOVA recommends that a new funding mechanism, such as a minor construction appropriation specifically for research facilities, be developed to provide a permanent, steady stream of resources dedicated to upgrading and renovating existing research facilities. State-of-the-art research requires state-of-the-art facilities.

FOVA thanks the Committee for consideration of its views. For questions or additional information, please contact any member of the FOVA executive committee listed on this letterhead. Thank you for your consideration.

Organizations that have endorsed FOVA's fiscal year 2003 recommendations: Administrators of Internal Medicine; Alliance for Aging Research; Alzheimer's Association; American Academy of Child and Adolescent Psychiatry; American Academy of Neurology; American Academy of Opthalmology; American Academy of Orthopaedic Surgeons; American Association of Colleges of Osteopathic Medicine; American Association of Colleges of Pharmacy; American Association of Neurological Surgeons; American Association of Spinal Cord Injury Nurses; American Association of Spinal Cord Injury Psychologists and Social Workers; American College of Clinical Pharmacology; American College of Physicians-American Society of Internal Medicine; American College of Rheumatology; American Dental Education Association; American Federation for Medical Research; American Gastroenterological Association; American Geriatrics Society; American Gold Star Mothers of America; American Heart Association; American Lung Association; American Military Retirees Association; American Nurses Association; American Optometric Association; American Osteopathic Association; American Paraplegia Society; American Physiological Society; American Psychiatric Association; American Psychological Association; American Society for Pharmacology and Experimental Therapeutics; American Society of Hematology; American Society of Nephrology; American Thoracic Society; American War Mothers; Association for Assessment and Accreditation of Laboratory Animal Care International; Association for Research in Vision and Ophthalmology; Association of Academic Health Centers; Association of American Medical Colleges; Association of Pathology Chairs; Association of Professors of Medicine; Association of Program Directors in Internal Medicine; Association of Schools and Colleges of Optometry; Association of Subspecialty Professors; Association of VA Chiefs of Medicine; Blinded Veterans Association; Blue Star Mothers of America; Clerkship Directors in Internal Medicine; Coalition for American Trauma Care; Coalition for Heath Services Research; Congress of Neurological Surgeons; Digestive Disease National Coalition; Gerontological Society of America; Independence Technology, Inc.; Johnson & Johnson; Juvenile Diabetes Research Foundation International; Legion of Valor; Medicine-Pediatrics Program Directors Association; National Alliance for the Mentally Ill; National Association for Biomedical Research; National Association for the Advancement of Orthotics and Prosthetics; National Association for Uniformed Services; National Association of State Universities and Land Grant Colleges; National Association of VA Dermatologists; National Association of VA Physicians and Den-

tists; National Association of Veterans' Research and Education Foundations; National Mental Health Association; National Multiple Sclerosis Society; National Organization of Rare Disorders; Nurses Organization of Veterans Affairs; Paralyzed Veterans of America; Partnership Foundation for Optometric Education; Research Society on Alcoholism; Research!America; Society for Investigative Dermatology; Society for Neuroscience; Society of General Internal Medicine; Veterans Affairs Physician Assistant Association; and Veterans of the Vietnam War.

ATTACHMENT 1—VA RESEARCH—RECENT ACHIEVEMENTS AND INITIATIVES

Promise for TB Vaccine.—Researchers at the Portland VA have found a unique mechanism by which human T cells recognize cells infected with Mycobacterium tuberculosis, the bacteria that cause TB. They have found that the molecule HLA-E can present TB antigens to cytotoxic T cells. A further understanding of this mechanism may facilitate the development of an improved TB vaccine. Worldwide, over 2 million people die each year from TB. Advancement towards an effective TB vaccine has significant potential to improve both national and global health.

New Centers to Study Parkinson's Disease.—VA created six new centers specializing in research, education and clinical care for Parkinson's disease. The centers—in Houston, Philadelphia, Portland (Ore.), Richmond (Va.), San Francisco and West Los Angeles—will conduct research covering basic biomedicine, clinical trials, rehabilitation, and health services. In addition, each center will take part in a major VA clinical trial to assess the effectiveness of surgical implantation of deep brain stimulators to reduce symptoms. (Feb. 2001)

Key to Wasting Syndrome Discovered.—Researchers at the San Diego VA Medical Center have unraveled the biological chain of events that causes wasting syndrome in mice, and identified the same process in liver and tissue from cancer patients. Wasting syndrome or cachexia, affects about half of all cancer and HIV/AIDS patients, as well as those with bacterial and parasitic diseases, rheumatoid arthritis, and chronic diseases of the bowel, liver, lungs and heart. By noting the similarities between animal and human models, researchers hope to expedite the development of treatments to help patients. (Dec. 2001)

VA Evaluating Robotic Walker for Vision-Impaired.—VA researchers in Pittsburgh and Atlanta are testing a new high-tech walking frame designed to promote mobility and independence for the vision-impaired frail elderly. Using laser range finders, sonar sensors, steering motors and a motion controller, the Personal Adaptive Mobility Aid (PAM–AID) seeks to build the functionality of a guide dog into a robust walking frame. (Oct. 2001)

VA Establishes New HIV Research Center.—VA is the nation's largest single provider of health care to HIV-infected persons. A new Center of HIV Research Resources at the Palo Alto VA Health Care System seeks to improve health care for veterans by assessing research and clinical trials throughout VA and other agencies and determining their potential for further research and clinical application. (Oct. 2001)

Rehab Researchers Collaborate in Artificial Retina Trials.—VA researchers from the Rehabilitation Research and Development Service have recently collaborated with colleagues at the Louisiana State University Medical Center on studies to implant silicon-chip retinas in the eyes of patients blinded by retinal disease. About the size of a pinhead, the artificial silicon retinas are completely self-contained and require no wires or batteries. They contain 3,500 microscopic solar cells that generate electrical current in response to light. The implants stimulate healthy retinal cells underneath the retina in a pattern that resembles the light images focused on the chips. These images are then transmitted to the brain via the optic nerve. The implants are designed to treat retinitis pigmentosa and macular degeneration. (Sept. 2001)

New Blood Test Speeds Diagnosis of Heart Attacks.—Researchers at the San Diego VA Medical Center have developed a simple, inexpensive blood test to increase the speed at which heart attacks are diagnosed in hospital emergency rooms. The new blood tests can rule out a heart attack with 100 percent accuracy within 90 minutes by looking for three cardiac enzymes released by distressed heart tissue during an attack. Ruling out a heart attack by traditional methods usually takes 6 to 24 hours. As a result, critical care admissions dropped 40 percent and overall hospital admissions dropped 20 percent. (Sept. 2001)

Chronic Lymphocytic Leukemia May Be Underestimated.—VA researchers at the Central Arkansas Veterans Healthcare System have found that the true incidence of Chronic Lymphocytic Leukemia (CLL) is substantially higher than estimated from the tumor registry database. Researchers credited the VA's Computerized Patient Record System (CPRS) as making the study possible by allowing researchers

to review data from a large patient population without handling paper records. Revision in the data may show CLL to be the most common lymphoid malignancy in the United States. (Sept. 2001)

Friendly Virus May Slow Replication of HIV.—VA researchers at the University of Iowa have shown that a form of the hepatitis virus called GPV–C may prolong the life of patients with HIV by preventing the HIV from replicating. GPV–C does not appear to cause any symptoms and may provide future therapy options for HIV. Specifically, the VA team showed that infecting human blood cells with GPV–C in the laboratory slowed the rate at which HIV multiplies. (Sept. 2001)

Higher Estrogen Doses May Enhance Memory for Alzheimer's Patients.—VA researchers have found that higher doses of estrogen may enhance memory and attention for post-menopausal women with Alzheimer's Disease. Building on previous research showing the positive effects of estrogen administered by a skin patch, the researchers showed that a short-term administration of a higher dose of estrogen was found to significantly improve verbal and visual memory as well as attention in post-menopausal women. Although estrogen therapy does not show improved brain function for patients with mild to moderate Alzheimer's, it may slow the progression or prevent the disease. (Aug. 2001)

Diet and Exercise Reduce Risk and Delay Onset of Type 2 Diabetes.—As part of the Diabetes Prevention Program (DPP), researchers at the VA Puget Sound Health Care System and the University of Washington have collaborated in a major clinical trial that showed at least 10 million Americans can reduce their risk of contracting Type 2 diabetes with a regimen of diet and exercise. Funded by a wide group of federal agencies, private associations, pharmaceutical companies and product manufacturers, the DPP was ended a year early because the data had clearly answered the major research questions. (Aug. 2001)

VA Researcher Identifies Breast Cancer Gene.—A VA researcher at the San Francisco VA Medical Center and the University of California at San Francisco led a study that showed that women who have a specific sequence of a transforming growth-factor gene have a 60 percent lower risk of developing breast cancer. (June 2001)

Increased "Good" Cholesterol Reduces Rate of Strokes.—A VA Cooperative Study at 20 VA Medical Centers has found that treatment aimed at raising levels of high-density lipoproteins (HDL), commonly called "good" cholesterol, substantially reduces the incidence of strokes in some patients. Patients who received the drug Gemfibrozil had a 31 percent lower incidence of stroke. The result is part of a larger study aimed at showing that higher HDL levels reduce the risk of major cardiovascular events. (June 2001)

Brain Development Continues into Late 40's.—An inter-agency study led by a VA researcher at the Central Arkansas Veterans Healthcare System has shown that the brain continues to develop in late 40-year olds. This view contradicts the current view that brain maturation ends before age 20 and may shed light on brain ailments such as Alzheimer's Disease, schizophrenia and drug addiction. Using magnetic resonance imaging (MRI) to measure brain development, the study showed that so-called white matter—where memory, higher reasoning, and impulse functions take place—continues to develop until the age of 48, on average. (May 2001)

Reduced Opiate Treatment May Increase Efficacy of Chronic Pain Treatment.—Researchers at the Tampa VA Medical Center have found that patients taking opiates for chronic pain conditions reported no greater pain intensity than those not taking the drugs. Those receiving opiate treatment did report increased impairment. The program gradually phased out opiate use and those who remained off the drugs reported less pain and increased functionality and reduced depression. (May 2001)

New Technique to Evaluate Corneal Tissue for Implants.—Researchers at the Central Arkansas Veterans Healthcare System and the Jones Eye Institute at the University of Arkansas for Medical Sciences have developed a new technique to evaluate the surface of a cornea to determine suitability for transplantation. The new technique allows for evaluation of the entire surface of the cornea; current inspection is done visually or by methods that detect only large lesions. (May 2001)

Old Drug Resists Pull of Cocaine.—Researchers at the Philadelphia VA Medical Center and the University of Pennsylvania report that Propranolol, a drug currently used to treat high blood pressure, helps addicts remain in treatment when the withdrawal effects of cocaine are especially high and treatment dropout rates are otherwise high. The research suggests that the drug reduces withdrawal symptoms by lowering the anxiety causing effects of adrenaline. (April 2001)

New Method to Treat Osteoporosis, Grow Bone Tissue.—By using a synthetic form of estrogen that promotes bone growth without affecting the reproductive system, researchers at the Central Arkansas Veterans Healthcare System and the University of Arkansas for Medical Sciences may have discovered a new way to treat

osteoporosis. Existing estrogen replacement therapy for osteoporosis is associated with several side effects including uterine cancer. This conceptual breakthrough could lead to a new generation of drugs and hormone therapies. (March 2001)

Natural Recovery from Spinal Cord Injury Shown in Rats.—Researchers at the San Diego VA Medical Center have found that rats with spinal cord injuries develop some spontaneous re-growth of nerves leading to increased motor function. In rats where 97 percent of the spinal cord connections are severed, rats were able to regain function within four weeks of surgery. Further research in continuing to determine how this process of "sprouting" can be enhanced. (March 2001)

Flu Vaccines Could Save the Nation $1.3 Billion Annually.—Routine influenza vaccinations of all working adults could save the nation as much as $1.3 billion each year according to a study led by researchers at the Minneapolis VA Medical Center and the University of Minnesota Medical School. By examining both the direct and indirect costs associated with influenza, researchers estimated that health care costs could be reduced by an average of $13.66 per person vaccinated. (March 2001)

Implanted Electrodes Help Stroke Patients Walk.—Using a technique known as Functional Neuromuscular Stimulation (FNS), VA scientists implanted electrodes in the leg muscles of stroke patients and used sophisticated software to electrically stimulate the muscles over a 6-month course of treatment. The patients experienced significant improvements in gait and other abilities, with no adverse effects. The research was described in the Journal of Rehabilitation Research and Development and other journals. (Feb. 2001)

PREPARED STATEMENT OF THE GREAT LAKES INDIAN FISH & WILDLIFE COMMISSION

Environmental Protection Agency Appropriations.—GLIFWC seeks $310,000 from various EPA programs for its ceded territory treaty rights environmental protection program:

Ceded Territory/Crandon Mine Assessment Project.—$160,000 for hydrological modeling, contaminant transport analysis, baseline biomonitoring studies, and participation as a "cooperating agency" in the preparation of a Federal EIS by the Army Corps of Engineers for a proposed zinc and copper mine near Crandon, Wisconsin.

Lake Superior Bi-National Program, Great Lakes Strategy for 2002, and Lake Superior LaMP.—$80,000 for continued GLIFWC participation in the Bi-National Program, in the recently announced U.S. Policy Committee's Great Lakes Strategy for 2002 A Plan for the New Millennium, in the preparation and implementation of the Lake Superior LaMP, and in IJC, SOLEC and other Great Lakes forums.

Habitat and Human Health Research.—$70,000 for research projects on invasive species, including zebra mussels, on potentially contaminated whitefish and lake trout spawning grounds in Lake Superior, and on contaminant levels in Lake Superior lake trout.

EPA Budget Categories and Priorities.—Over the past 7 years, Congress and EPA have funded GLIFWC's treaty rights environmental protection program under a variety of budget categories, including: wetlands (Section 104(b)(3) funds), coastal environmental management (CEM), the Great Lakes National Program Office (GLNPO), the Office of Pollution Prevention and Toxics, and environmental justice grants.[1] The Clean Water Act (33 U.S.C. §1268) requires the EPA and GLNPO to integrate tribal agencies in the development and implementation of action plans to carry out the United States' responsibilities under the Great Lakes Water Quality Agreement. In addition, GLIFWC and its member tribes are among the partners that will be implementing the Great Lakes Strategy for 2002 A—Plan for the New Millennium.

Ceded Territory Treaty Rights and GLIFWC's Role.—GLIFWC was established in 1984 as a "tribal organization" within the meaning of the Indian Self-Determination Act (Public Law 93–638). It exercises authority delegated by its member tribes to implement Federal court orders and various interjurisdictional agreements related to their treaty rights. GLIFWC assists its member tribes in:

—securing and implementing treaty guaranteed rights to hunt, fish, and gather in Chippewa treaty ceded territories; and

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[1] The Administration casts its proposed fiscal year 2003 budget in terms of the EPA strategic plan's goals. For GLIFWC's ceded territory purposes, the relevant goals and related funding categories appear to be: Goal 2: Clean and Safe Water; Goal 4: Preventing Pollution and Reducing Risk in Communities, Homes, Workplaces and Ecosystems; Goal 6: Reduction of Global and Cross-Border Environmental Risks; Goal 7: Quality Environmental Information; and Goal 8: Sound Science, Improved Understanding of Environmental Risk and Greater Innovation to Address Environmental Problems.

—cooperatively managing and protecting ceded territory natural resources and their habitats.

For the past 15 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.

Under the direction of its member tribes, GLIFWC operates a ceded territory hunting, fishing, and gathering rights protection/implementation program through its staff of biologists, scientists, technicians, conservation enforcement officers, and public information specialists. Its activities include: natural resource population assessments and studies; harvest monitoring and reporting; enforcement of tribal conservation codes into tribal courts; funding for tribal courts and tribal registration/permit stations; development of natural resource management plans and tribal regulations; negotiation and implementation of agreements with State, Federal and local agencies; invasive species eradication and control projects; biological and scientific research; and development and dissemination of public information materials.

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 Programs Currently Funded by EPA.—GLIFWC currently administers EPA funding for a variety of ceded territory environmental protection programs and studies.

—*Study of Proposed Crandon Mine in Wisconsin.*—GLIFWC's work related to the proposed mine includes hydrological modeling, contaminant transport analysis, and baseline biomonitoring studies. In fiscal year 2002, GLIFWC will administer $68,700 in EPA wetlands (Section 104(b)(3)) funds to continue its technical studies and assessments.

—*Participation in the Lake Superior Bi-National Program.*—Since fiscal year 1996, EPA has provided CEM funds for a 1 FTE equivalent to facilitate GLIFWC's participation in the Bi-National Program to Restore and Protect Lake Superior, including preparation of the Lake Superior LaMP and participation in various International Joint Commission (IJC) and State of the Lake Ecosystem Conference (SOLEC) forums. In fiscal year 2002, GLIFWC will administer $76,800 in EPA CEM funds to facilitate participation in these forums as well as in the implementation of the Great Lakes Strategy for 2002 A Plan for the New Millennium.

—*Research and Special Projects.*—Since fiscal year 1997, EPA has provided a combination of CEM, GLNPO, and Environmental Justice funds for GLIFWC to conduct scientific research to produce data relevant to the Bi-National Program/Lake Superior LaMP and to human health. In fiscal year 2002, GLIFWC will administer $62,400 from EPA's Pollution Prevention and Toxics program to test several Lake Superior fish species for dioxin.

Fiscal year 2003 Funding Needs/Rationale.—GLIFWC would use fiscal year 2003 funds for these same purposes.

—*Work on the Proposed Crandon Mine.*—$160,000 for GLIFWC's review, analysis and GIS mapping related to the mine, particularly as to completion of an ongoing baseline biomonitoring project, participation as a "cooperating agency" in the preparation of the Federal EIS, and maintenance of hydrological and contaminant transport expertise.

—*Rationale.*—The mine will impact ceded territory natural resources that are subject to the tribes' treaty rights to hunt, fish, and gather. State and Federal permit processes are moving toward Environmental Impact Statements (EIS), with the State EIS expected within a year and the Federal EIS about 6 months later. GLIFWC needs to be ready to fully participate both in the State and Federal EIS processes and in the permit hearings that will follow. With the requested fiscal year 2003 funds, GLIFWC will:

—*Complete Baseline Biomonitoring Studies ($53,000).*—GLIFWC must complete the final year of its 3-year study to establish baseline data for contaminants found in surface water, plants and animals near the proposed mine

site. GLIFWC used EPA funds provided pursuant to Congress' fiscal year 2001 $168,000 Crandon mine appropriation and EPA wetlands (Section 104(b)(3)) funds to collect data in the study's first 2 years. It does not have funding for the third year.

—*Serve as a "Cooperating Agency" in the Federal EIS Process ($67,000).*—GLIFWC is participating as a "cooperating agency" from the ceded territory perspective for its member tribes in the preparation of the Federal EIS under § 404 of the Clean Water Act. As such, GLIFWC has the opportunity to develop and present independent analyses of a variety of potential mine impacts for inclusion in the Federal draft EIS. This will require a substantial amount of staff time for computer modeling and analysis, preparation of written comments and assessments, and attendance at various meetings.

—*Maintain Hydrological and Contaminant Transport Expertise ($40,000).*—Through Congress' fiscal year 2001 Crandon Mine appropriations, GLIFWC received funds to enlist the help of outside experts in specific technical areas, including: (1) The hydrology of water flowing through the mine and methods (such as grouting) to slow down that flow; (2) The uncertainty associated with various impact predictions and monitoring programs proposed by the mining company; (3) Contaminant transport issues related to water flowing through the mine and potential contamination of the groundwater; and (4) Mercury contamination that may result from wetlands drying up. This initial funding is not sufficient to cover the costs of the much more in-depth analyses that will be necessary as the mine's design and engineering proposals are finalized and fully scrutinized during the EIS processes and permit hearings.

—*Participation in the Lake Superior Bi-National Program.*—$80,000 for continued funding of GLIFWC staff (1 FTE equivalent, and related travel and other expenses) who will participate in the Bi-National Program, in the preparation and implementation of the Lake Superior LaMP, in IJC and SOLEC forums, and in the implementation of the recently announced Great Lakes Strategy for 2002 A Plan for the New Millennium.

—*Rationale.*—GLIFWC has been actively involved in the Bi-National Program since 1993. However, it was not able to adequately participate until EPA first provided CEM funds for this purpose in fiscal year 1996. As a result, GLIFWC currently serves on the Bi-National Program's Task Force and Workgroup, and on the Workgroup's chemical, terrestrial and habitat committees. It is participating in the preparation of the LaMP 2002. It also helps to liaison with other relevant Great Lakes institutions, such as the Great Lakes Fishery Commission, on issues of mutual concern between environmental and natural resource managers.

As for IJC forums, GLIFWC staff regularly attend the biennial IJC meetings and provide periodic comments when issues arise in the interim, such as on the matter of Great Lakes water diversions. As for SOLEC, GLIFWC staff addressed the 2000 plenary session on the topic of wild rice and organized a breakout session on wild rice.

This funding is necessary for GLIFWC to live up to its partnership responsibilities under the Great Lakes Strategy for 2002 A Plan for the New Millennium.

—*Continuing Research and Special Projects.*—$70,000 for Lake Superior habitat and human health research projects related to the Bi-National Program and the Great Lakes Strategy for 2002 A Plan for the New Millennium.

—*Rationale.*—GLIFWC has undertaken a number of studies over the years related to the Lake Superior ecosystem. For example, with GLNPO and CEM funds, GLIFWC is preparing a report on the threat of wetland and terrestrial exotic plants to Lake Superior, has studied sturgeon in the Lake Superior basin, and has prepared GIS maps of fish spawning and nursery locations for both native and exotic species. In addition, as part of its ongoing natural resource contaminant/human health research, GLIFWC used Environmental Justice grants to update its fish consumption advisory database and to undertake wild rice contaminant research for heavy metals.

For fiscal year 2003, GLIFWC would explore EPA funding for four projects:

—Assess impacts from mining waste (stamp sands) dumped into Lake Superior during the late 1800s, map an important whitefish and lake trout spawning reef in Keweenaw Bay, and determine the distribution of stamp sands in relation to the spawning reef.

—Assess whether seed mixtures currently used in northern upland forest re-vegetation projects contain exotic invasive species, and identify and recommend native plant species that would be appropriate substitutes.

—Inventory zebra mussels in Chequamegon Bay and establish an interagency workgroup to inventory, monitor, and develop strategies to minimize the spread of zebra mussels in Lake Superior and inland waters.
—Assess mercury, PCB and organochlorine levels in lake trout harvested by tribes in the 1842 ceded territory waters of Lake Superior, and evaluate how the new data compares to the advisories currently being issued by the States of Wisconsin, Minnesota and Michigan.

PREPARED STATEMENT OF THE HUMANE SOCIETY OF THE UNITED STATES

On behalf of our 7 million members and constituents, The Humane Society of the United States (HSUS) appreciates the opportunity to submit testimony regarding fiscal year 2003 appropriations for the Environmental Protection Agency (EPA). We wish to thank the Subcommittee for directing the EPA to spend $4,000,000 for the research, development, and validation of non-animal, alternative chemical screening and prioritization methods. Prioritizing funding for non-animal test methods is a critical step, encouraging the EPA to promote and support these more humane, often faster, less expensive, and more scientifically sophisticated procedures. We wish to commend the Subcommittee for improving federal regulatory decision-making processes on chemical safety and for helping to reduce needless animal suffering. Our testimony for fiscal year 2003 focuses on the EPA's Office of Research and Development (ORD) and the agency's Endocrine Disruptor Screening Program (EDSP).

The EDSP is the largest of several chemical testing programs administered by the EPA. These programs will collectively subject millions of animals to suffering and death in painful toxicity tests. Indeed, the EDSP itself is perhaps the largest government-sponsored animal testing program in history. Yet without the Subcommittee's intervention, the EPA's ORD budget has no identifiable program to develop alternative tests that can replace, reduce, or refine existing animal-based tests. Eli Lilly and Company eliminated its cat test for glucagon, replacing it with an alternative test, and calculated that it was saving $1 million a year as a result of the new test. However, there may need to be some up-front investment—it cost Eli Lilly $2 million to develop and validate the alternative. We are still not seeing sufficient commitment from EPA to provide the initial investments needed to produce alternatives (or batteries of alternatives) to address issues such as the Endocrine Disruptors.

The EPA, moreover, is not taking full advantage of an existing interagency committee with expertise in assessing new testing methods to evaluate their acceptability for regulatory use. The Interagency Coordinating Committee on the Validation of Alternative Methods (ICCVAM) is the federal government's focal point for assessing the validation and regulatory acceptability of new test methods. The EPA is a participating member of ICCVAM and was very involved in developing and approving the ICCVAM structure. Yet the EPA is bypassing the ICCVAM's review mechanism for many of the new tests in its EDSP, instead relying on in-house assessments. This move has worried many animal protectionists as well as other stakeholders.

The HSUS respectfully urges this Subcommittee to request that the ORD establish a substantial program to research and develop alternative methods (as it already committed to do for the High Production Volume chemical testing program but has not yet pursued), and that the EPA take full advantage of ICCVAM's expertise in evaluating new testing methods of multi-agency interest.

RESEARCH AND DEVELOPMENT OF ALTERNATIVE TESTING METHODS AT EPA'S ORD

The ORD budget in recent years has been approximately $500 million. Within these appropriations, it has been nearly impossible to identify funding by the ORD for non-animal alternative testing methods to meet EPA's specific needs in new testing programs. We believe that innovative non-animal alternative testing technologies would benefit from research and development funding. Therefore, we respectfully request that at least $10 million either from the existing budget or over and above the President's budget request be appropriated for research, development and validation of non-animal, alternative testing methods. Given the potential long-term benefits of such investment in alternatives development, it is surprising to us that the EPA is not already actively pursuing this approach. Activities funded by these allotments should be designed in consultation with the Office of Pollution Prevention and Toxic Substances.

It would be appropriate for this funding to be targeted at testing methods with direct application to recent and new EPA testing programs, which include the

EDSP, High Production Volume (HPV) chemical testing program, and the Voluntary Children's Chemical Evaluation Program (VCCEP). For example, there is a specific rat neurological development test that is widely regarded as inadequate but is still being proposed as one of the battery of tests under the VCCEP.

The HSUS also asks that the Subcommittee require the EPA to submit a report to the Subcommittee by March 30, 2003 regarding expenditures and plans for additional expenditures for fiscal year 2003 funds under the EDSP.

The request for $10 million represents approximately 2 percent of ORD's total budget, a modest but nonetheless significant commitment by EPA to alternative test methods. The HSUS would like to emphasize that, in making this request, we believe this course of action would also be in the best interests of human and environmental safety.

THE ENDOCRINE DISRUPTOR SCREENING PROGRAM (EDSP)

Under the 1996 Food Quality Protection Act (FQPA) and the Safe Drinking Water Act Amendments, Congress mandated that EPA determine whether certain substances may have an effect in humans that is similar to an effect produced by a naturally occurring estrogen, or such other endocrine effects as EPA may designate. The congressional mandate came as a response to public concern that exposures to synthetic chemicals in the everyday environment may be adversely affecting the endocrine systems of wildlife and humans, thereby causing reproductive and developmental anomalies.

In response to Congress' mandate, the EPA formed the Endocrine Disruptor Screening and Testing Advisory Committee at the close of 1996. This entity devised the testing framework for the EDSP. Currently, the proposed EDSP testing scheme consists of a battery of 16 tests designed to assess the toxicity of up to 80,000 chemicals. These tests are largely animal-based. Some scientific estimates have projected that between 600,000 and 1.2 million animals will be killed for every 1,000 chemicals tested.

Animal protection organizations and members of the public have serious concerns about the process by which the proposed EDSP tests will be evaluated. The FQPA stated that all screens and tests used in the EDSP should be properly validated, to ensure the their relevance and reliability for assessing endocrine disruption. The proposed EDSP testing methods are all either new or revised for new endpoints, and therefore each should be evaluated for the EDSP as a matter of sound science. The natural entity to conduct this evaluation is the ICCVAM. Since its creation in 1994, the ICCVAM has benefited EPA and many other federal agencies, as well as research entities, by successfully evaluating the validity of new and revised testing methods (alternatives included) that have cross-agency relevance.

In December of 2000, Congress upgraded ICCVAM from an ad hoc committee to a standing body, thereby solidifying its crucial role. It is clear that ICCVAM can provide a standardized assessment of the validity and regulatory acceptability of all EDSP tests and screens. This would be particularly appropriate given the level of interest in these methods by other federal agencies such as the Food and Drug Administration and other national and international organizations, including the Organization for Economic Cooperation and Development.

However, EPA has developed a bifurcated validation plan for the EDSP that calls upon its own Science Advisory Board (SAB)/Science Advisory Panel (SAP) to review all the animal-based tests and screens, while asking the ICCVAM to review only the non-animal testing methods. This approach has many observers worried that the animal-based methods will be evaluated using lower standards than the non-animal methods. In addition to qualms voiced by animal protection advocates, the Advisory Committee on Alternative Toxicological Methods (ACATM) for the National Toxicology Program passed two unanimous resolutions questioning the EPA's plan and supporting the mission of ICCVAM. The Committee's primary concern is that both in vitro and in vivo methods be subjected to the same rigorous peer review and validation process to ensure the highest likelihood of acceptance by the regulatory agencies, the scientific community and the public.

The HSUS strongly urges the Subcommittee to call on the EPA to use ICCVAM's expertise to assess the validity and regulatory acceptability of all EDSP tests and screens, with appropriate fiscal support from the EPA. Furthermore, ICCVAM should collaborate with EPA's SAB/SAP to avoid any unnecessary delay in the program. Among other things, ICCVAM's review of the EDSP testing methods can serve to ensure that proper consideration is granted for the replacement, reduction, and refinement of the use of animals in these proposed tests and screens.

CONCLUSION

The HSUS respectfully requests that the VA–HUD Appropriations Subcommittee provide funding to the EPA with the direction that the ORD expand its research and development activities to include alternative methods. We also urge the Subcommittee to ensure that any new or revised testing methods with multi-agency or international interest be evaluated through the Congressionally-established ICCVAM for sound science and consistency with the replacement, reduction, or refinement of animal use.

PREPARED STATEMENT OF THE JOSLIN DIABETES CENTER

INTRODUCTION

Mr. Chairman, thank you for this opportunity to provide a status report on the Diabetes Project conducted jointly by the Joslin Diabetes Center in Boston, MA and the Department of Veterans Affairs (Medical Care account), for which you provided $5 million each in the fiscal year 2001 and the fiscal year 2002 Appropriations Acts.

Our request for fiscal year 2003 to continue this project with the VA is $5 million in the Medical Care account, of which the VA's costs represent approximately 50 percent.

I am Dr. Sven Bursell, Principal Investigator of the project and Associate Professor of Medicine at the Harvard Medical School.

BACKGROUND

Joslin Diabetes Center has been involved with the Department of Defense and the Department of Veterans Affairs in a pilot demonstration project for the advanced detection, prevention, and care of diabetes. The Joslin Vision Network (JVN) has been deployed in VA sites in VISN 21 in Hawaii (Honolulu, Hilo and Maui), VISN 1 in New England (Boston, Brockton in Massachusetts, and Togus, Maine) and VISN 19/20 (Seattle and Tricities in Washington, Anchorage in Alaska and Billings in Montana). The JVN employs telemedicine technology to image the retina, through an undilated pupil, of patients with diabetes, and produces a digital video image that is readable in multiple formats.

This project was funded initially through the Department of Defense Appropriations Act. The Department of Veterans Affairs medical staff was eager to expedite the deployment of this advanced diabetes technology beyond the limited resources available through participation in the DOD funded project. We petitioned this Subcommittee for additional resources to be made available to the VA for discretionary diabetes detection and care.

This Committee provided $2 million in fiscal year 2000 and $5 million each in fiscal year 2001 and fiscal year 2002 for expansion of this project within the VA. The VA has indicated a desire to continue expansion, citing the JVN as the model of the future telemedicine in a recent conference of the Association of Military Surgeons-General of the U.S. (AMSUS). We are seeking $5 million to continue this expansion, and are supported by the VA medical policy staff.

The leadership shown by this Subcommittee has enabled the VA to provide its patient population the best diabetes care, prevention, and detection in the world. We extend our sincere appreciation to you for your response to that request.

FISCAL YEAR 2002 ACTIVITIES

The policy and program officials of the VA have established the appropriate contracts and statements of work that resulted in consensus with respect to deployment of the Joslin Vision Network (JVN) technology to three sites: Anchorage, Alaska, TriCities, Washington, and Billings, Montana. A Reading Center will be created and utilized in Seattle, Washington. In addition, the refinement of JVN technology, both hardware and software, will move toward developing a scalable system that is capable of widespread deployment agency-wide. This system was completed and it is anticipated that this next generation of the system will be completely integrated into the VA's VISTA Medical Records System and the VA communications infrastructure.

Results from our various demonstration installations have shown that appropriate clinical resources can be efficiently allocated with respect to appropriate ophthalmology referral. For example, the installation in Togus Maine where there is no ophthalmology resources on site has shown that the use of the JVN system can effectively prioritize patients that need to be seen by the opthalmologist at the time when the ophthalmologist plans to visit that clinic. This site is imaging approxi-

mately 10 patients per day and they find the JVN program extremely resource efficient in providing the appropriate eye care to their patients.

The same experience was noted from the VA clinics in Hilo and Maui where the Optometrist from the Honolulu VA visits these island clinics once a month and was able to effectively focus his time on the patients that really needed his expertise for managing their diabetes eye complications.

An equally important concentration of resources in fiscal year 2001–2002 was focused on refining the technical core using outcomes based medical and case management scenarios to develop a diabetes healthcare model that is modular, customizable and that can be seamlessly integrated into the existing VA telemedicine systems. This is the stated goal of the medical leadership in the VA, DOD and HIS health care systems. The overarching vision for the VA/JVN project is a web-based comprehensive diabetes health care system that can be interactively used by both patients and providers, that incorporates diagnosis specific education and training modules for patients and providers and that incorporates software applications that allow outcome measures to be statistically assessed and individual treatment programs to be interactively adjusted based on these outcome measures. The JVN Eye Health care system exists as a component of a comprehensive diabetes management system, incorporating other clinical disciplines such as endocrinology, vascular surgery and internal medicine.

The effort for fiscal year 2002 will result in the development of modular applications associated with different aspects of total diabetes disease management such as clinical risk assessment, outcomes assessments, behavior modification in an interactive electronic environment, and education programs. These applications will be designed in collaboration with participating VA sites to provide an ultimate product that appropriately assesses the clinical diabetes risk and provides treatment plans and behavior modifications that are tailored to any particular patients needs. The programs will also be designed so that they can realize a significant cost and resource efficiency with respect to support and maintenance of the JVN component and the diabetes management programs that will facilitate an accelerated deployment in the future.

Technologically, we will be providing an application that automatically detects retinal pathology from the JVN images. Using this first step approach it is anticipated that we can reduce the load on the reading center by as much as 50 percent. This is achieved through the use of a computer application that scans the images and detects any abnormalities that may be associated with the development of diabetic retinopathy. In those cases where the computer detects pathology a reader will be notified to perform the appropriate reading for retinopathy assessment. In the case where the computer does not detect any pathology the patient can be assigned to a low risk priority where the computer findings can be rapidly confirmed by the reader and the patient asked to return for repeat JVN imaging in a year.

FISCAL YEAR 2003 REQUEST

For fiscal year 2003, we request that in the VA Medical Account $5 million be allocated to continue and expand this project. The positive response within the VA system indicates that with sufficient resources, the JVN technology would be deployed in a number of sites with the ultimate goal of incorporating the JVN technology throughout the VA Medical Care system. The VA Budget Request by the fiscal year 2004 cycle will include provisions for full deployment for the JVN throughout the VA Medical Care system. As the technology, systems and production of equipment are standardized to off the shelf specifications, the expense per site will decrease.

The specific goals for fiscal year 2003 include the following:

—Establish specific medical codes that will allow the VA to track performance with respect to these JVN examinations and to ensure that it conforms with VA performance criteria in multiple remote VA outpatient settings;

—Improve adherence to scientifically proven standards of diabetes eye care and diabetes care;

—Improve/promote access to diabetes eye care;

—Increase number/percentage of patients with Diabetes Mellitus obtaining eye care;

—Provide education patients and providers in the clinical setting.

The use of the JVN equipment and expansion of screening opportunities are a continuing major focus for fiscal year 2003 activities. The actual number of sites deployed to will be determined on the locales with the greatest need for diabetes care in conjunction with the telecommunications infrastructure at the identified sites and

the ease and costs associated with interfacing the JVN technology into the existing infrastructure.

We have expended considerable effort in migrating the JVN demonstration technology platform into an application that is totally compliant with existing medical informatics infrastructures and the existing VISTA infrastructure of the VA system. This will encompass the integration of hardware and software in close collaboration with available resources from the VA VISTA program that will allow a highly scaleable transparent integration of the JVN Diabetes Eye Health Care system into the existing health informatics infrastructures of the VA system.

For the fiscal year 2002–2003 project phase, we have established the following tasks, targets, and activities:

—Deployment of a viable, sustainable, and refined operating JVN Diabetes Eye Health Care model and Comprehensive Diabetes Management program.

—Develop a modularized medical outcomes based telemedicine diabetes management program in continued collaboration with the VA with outcome measures incorporated into software based on clinical results and research experiences of the fiscal year 2001 efforts.

—Develop curriculum based patient and provider educational modules.

—Integrate internet based portals that are accessed by patients for reporting of glucose values and receiving feedback with respect to goals for self management of their diabetes and adjustments of their treatment plans based on these goals. These portals will also provide regular education modules for the patients that are customized to their particular needs and clinical diabetes risk assessment.

CONCLUSION

We request continuation and maintenance of this Committee's policy of support for the improvement of the diabetes care in the VA medical system. Through funding of

This $5 million request, the benefits by the close of fiscal year 2003 will include:

—Deployment of JVN detection and care at 5 different VA centers where each center will provide services for 6 different remote sites for a total 35 sites;

—JVN accessibility to increase VA capability to achieve patient compliance to eye examinations to at least 95 percent of the diabetic patient population in any area being serviced. From an estimate of the VA diabetic patient population we would estimate that the JVN would be accessing an estimated patient population of 196,000, or an estimated 11 percent of the total VA Diabetic population after completing anticipated 2002 deployments.

—The model for VA's deployment of the JVN as a diabetes detection and Disease management platform for expansion to availability for the entire VA Patient population.

Thank you for this opportunity to present this request for $5 million for fiscal year 2003 and status report for fiscal year 2002 on a medical technology breakthrough for the patients and health care system within the Department of Veterans Affairs.

PREPARED STATEMENT OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

The Metropolitan Water District of Southern California (MWD) is pleased to submit comments for the record regarding programs contained in the U.S. Environmental Protection Agency's (EPA) fiscal year 2003 budget for your Subcommittee's hearing.

MWD is responsible for meeting the supplemental water requirements of 17 million people living in the Southern California coastal plain and the economy which supports them. Our sources of water supply are the Colorado River and surface waters from Northern California. Of particular interest to MWD and our 26 member agencies are those federal programs that provide assistance and facilitate partnerships for addressing critical water resources issues.

One of the most challenging water resource issues in Southern California is ensuring adequate supply of high quality water. To increase our ability to achieve these goals, we strongly urge that you designate $2 million of funding appropriated for State and Tribal Assistance Grants (STAG) to ensure the continuation of the Desalination Research and Innovation Partnership (DRIP). DRIP is a major applied research program which seeks to develop and demonstrate next-generation desalination and disinfection technologies to economically treat large volumes of water for potable and non-potable uses.

MWD also asks that you support adequate funding for another STAG program, the Drinking Water State Revolving Fund (DWSRF). The President's budget request of $850.0 million falls short of the $1 billion authorized by Congress in the 1996 Amendments to the Safe Drinking Water Act. We urge that you support funding at the authorized level. Water supplies, treatment facilities, and distribution systems also require adequate protection from terrorist activities. We strongly urge you to support the President's request of $5.0 million for homeland security for public water systems.

We further ask that you fully support the $49.5 million request for safe drinking water research in the President's budget. Lastly, we ask that you designate $7 million for the American Water Works Association Research Foundation (AWWARF) for research and studies, including those related to the protection of drinking water supplies from terrorist acts. These and several other requests to support funding are discussed in more detail below.

State and Tribal Assistance Grants (STAG)

Desalination Research and Innovation Partnership (DRIP) Funding.—Water quantity and quality are priority issues in Southern California where approximately half of the water used is imported. Much of our imported supply is from the Colorado River, a source that is high in salinity (i.e., mineral content). Although not a health concern, high salinity can cause scaling and corrosion of plumbing fixtures, adversely affect salt-sensitive agricultural crops, and limit the ability to recycle water. Local groundwater supplies cannot always be utilized, in part because of high salinity.

Several years ago, MWD and its partners embarked on a public-private partnership (DRIP) to develop innovative technologies for cost-effectively reducing salinity in Colorado River and other non-traditional sources such as brackish groundwater, municipal wastewater and agricultural drainage water. The program was subsequently expanded to evaluate new technologies for the inactivation of pathogens resistant to commonly used disinfectants. In its first 5 years, DRIP has investigated pretreatment to optimize the performance of reverse osmosis for reducing salinity in Colorado River water and municipal wastewater, the use of ultra-low pressure membrane technologies to improve the economics of salinity removal from a variety of water sources, brine minimization and disposal strategies, and the effectiveness of ultraviolet light as a disinfectant for resistant pathogens like Cryptosporidium. In part because of these early successes and to address the statewide concern with high salinity, the partnership now includes water utilities from Northern California. MWD asks that you identify $2 million of the STAG appropriation to support the continuation of DRIP. This funding will leverage the financial commitments made by the DRIP partners and support near-term activities aimed at demonstrating large-scale desalination and ultra-violet light technologies for Colorado River water and municipal wastewater, increasing the amount of water recovered from RO processes, and improving methods for concentrating brine.

Drinking Water State Revolving Fund.—STAG funding is also critical for the DWSRF. In California, water suppliers have identified drinking water infrastructure projects totaling in excess of $17.5 billion that could benefit from low-cost DWSRF financing. This amount likely understates the true needs since these estimates do not take into account the infrastructure costs of complying with a maximum contaminant standard nor the costs of other drinking water standards likely to be promulgated over the next several years. Low-cost financing for projects which ensure safe drinking water supplies is critical for protecting the health of the more than 240 million Americans served by public water systems, and MWD strongly urges that you provide $1 billion, the amount authorized by Congress for fiscal year 2003. This amount, while greater than the amount requested in the President's budget, is still only a small fraction of the funding needed by drinking water suppliers to meet existing Safe Drinking Water Act requirements.

Clean Water State Revolving Fund.—Significant investments are needed to repair and replace aging municipal wastewater infrastructure and combined sewer systems. Low-cost financing is necessary to support substantial municipal water quality infrastructure needs over the next 20 years. The President has requested $850.0 million for fiscal year 2003 for the CWSRF to support these activities, many of which are vital for ensuring protection of drinking water sources. MWD asks that you support funding at least at the level in the President's budget.

Non-point Source Grants.—Another critical source of funding for source water protection projects is grants under the Clean Water Act's Section 319 Non-point Source Program (NPS). The President has requested $180.4 million for NPS grants for fiscal year 2003 and MWD requests your support at the level in the President's budg-

et. Non-point source pollution is the primary cause of impairment of our nation's waterways.

Homeland Security

We are pleased that the President's budget provides for funding to protect public water systems from terrorist attacks through support of a public-private partnership to safeguard the nation's water supplies and wastewater systems. We urge you to support funding at least at the $5 million level requested in the President's budget.

Safe Drinking Water Research

Scientifically sound research provides the underpinnings for effective drinking water quality programs. EPA's fiscal year 2003 budget, under its strategic goal of clean and safe water, includes $49.5 million for safe drinking water research. Of particular interest to Metropolitan is EPA's research on emerging pathogens, including the development of dose-response relationships and evaluation of cost-effective treatment technologies for removal and inactivation. Several pathogens are on the Contaminant Candidate List (CCL), and further research is needed to support decisions of whether or not to proceed with the rulemaking process. We ask that you fully support the President's request of $49.5 million.

Drinking Water—Public Water Systems Supervision Program Grants

EPA's 2003 budget allocates $93.1 million for Public Water Systems Supervision Program grants. This funding is necessary for states with primary enforcement responsibilities to carry out their duties, including implementation of the 1996 SDWA regulations, and we ask that you support this funding level.

Designation of Funding for AWWARF

EPA has an opportunity to leverage its research budget through designating part of EPA's appropriation for AWWARF. Any EPA funding will be matched up to 100 percent from AWWARF and participating public water suppliers. We ask that you designate $7 million for AWWARF for research, including research that will lead to better protection of public drinking water supplies from acts of terrorism.

We look forward to working with you and your Subcommittee. Please contact Brad Hiltscher, MWD's Legislative Representative in Washington, D.C. at (202) 296–3551, if we can answer any questions or provide additional information.

PREPARED STATEMENT OF THE NATIONAL COUNCIL FOR SCIENCE AND THE ENVIRONMENT

SUMMARY

The National Council for Science and the Environment (NCSE) strongly supports bipartisan efforts to double the budget of the National Science Foundation (NSF). To that end, we encourage Congress to appropriate at least $5.5 billion for NSF in fiscal year 2003, an increase of $718 million or 15 percent relative to the fiscal year 2002 level.

We encourage Congress to strongly support full and effective implementation of the National Science Board (NSB) report, Environmental Science and Engineering for the 21st Century: The Role of the National Science Foundation, within the context of efforts to double the budget of the NSF. The NSB report calls for significant improvements in the way that NSF supports environmental research, assessment and education, and proposes that the Foundation invest an additional $1 billion per year in these areas, to be phased in over five years. NSF has begun to implement the NSB report and deserves full support from Congress. We also emphasize the need for increased funding for NSF's priority area on Biocomplexity and the Environment. In addition, we recommend full funding for two large projects the National Ecological Observatory Network (NEON) and EarthScope which are included in NSF's budget request for Major Research Equipment and Facilities Construction. These projects would create unprecedented opportunities for environmental research.

We urge Congress to restore full funding for the Environmental Protection Agency's (EPA) Science to Achieve Results (STAR) graduate fellowship program. EPA's budget request for fiscal year 2003 would eliminate funding for new STAR fellowships.

INTRODUCTION

The National Council for Science and the Environment thanks the Senate Appropriations Subcommittee on VA, HUD and Independent Agencies for the opportunity

to provide testimony on the National Science Foundation's budget request for fiscal year 2003.

NCSE is a nonprofit, nonpartisan organization that has been working since 1990 to improve the scientific basis for environmental decisionmaking. Our work is endorsed by nearly 500 organizations, ranging from the U.S. Chamber of Commerce to the Sierra Club, including the National Association of Attorneys General, National Association of Counties, some 300 colleges and universities, and more than 80 scientific and professional societies. As a neutral science-based organization, NCSE promotes science and its relationship with decisionmaking but does not take positions on environmental issues themselves.

We greatly appreciate the Subcommittee's sustained support for the National Science Foundation. We are especially grateful for the Subcommittee's support over the past six years for NCSE's efforts to encourage the NSF to expand scientific activities that can help to improve environmental decisionmaking.

FEDERAL INVESTMENTS IN ENVIRONMENTAL R&D

Federal investments in R&D and science education are essential to the future well-being and prosperity of the nation and deserve the highest priority of the Congress. The long-term prosperity of the nation and the maintenance of our quality of life depend on a steady and growing commitment of Federal resources to science and technology.

Environmental R&D is a critical component of the nation's R&D portfolio. Based on NCSE's Handbook of Federal Funding for Environmental R&D, we estimate that Federal funding for environmental R&D in fiscal year 2002 is approximately $7.5 billion, an increase of $315 million or 4.4 percent relative to fiscal year 2001 (Table 1). Federal funding for environmental R&D grew at less than one-third the rate of total R&D, which increased by 13.5 percent to $103.7 billion in fiscal year 2002.

Appended to our testimony is a letter signed by more than 120 university and college presidents, as well as business, scientific and environmental leaders calling for significantly increased funding for scientific programs about the environment at the National Science Foundation, EPA, NASA, and other Federal agencies. We encourage Congress to support this initiative.

TABLE 1.—ENVIRONMENTAL R&D BY FEDERAL AGENCY

Agency	Environmental R&D (millions of dollars)				Change from fiscal year 2001 (percent)	
	Fiscal year 2000 actual	Fiscal year 2001 estimate	Fiscal year 2002 request	Fiscal year 2002 enacted	Fiscal year 2002 request	Fiscal year 2002 enacted
National Aeronautics and Space Admin.	$1,690	$1,716	$1,515	$1,573	−11.7	−8.3
Department of Energy	1,502	1,774	1,398	1,862	−21.2	5.0
National Science Foundation [1]	671	752	829	829	10.2	10.2
Environmental Protection Agency	558	609	569	702	−6.5	15.4
Department of Defense	399	450	382	410	−15.1	−9.0
Department of Commerce—NOAA	643	726	772	836	6.4	15.3
Department of the Interior	618	631	593	673	−6.1	6.5
U.S. Department of Agriculture	370	410	411	451	0.2	9.9
National Institutes of Health	60	63	70	81	11.7	28.4
Department of Transportation	37	41	61	71	47.0	72.2
Smithsonian Institution	14	14	14	14	1.4	1.4
Corps of Engineers	11	10	11	11	1.4	1.4
Total	6,573	7,197	6,624	7,512	−8.0	4.4

[1] NSF Environmental R&D provided by NSF.

Source: AAAS/NCSE estimates of environmental R&D based on enacted appropriations bills, OMB R&D data, Budget of the United States Government, agency budget documents, and information from agencies.

NATIONAL SCIENCE FOUNDATION BUDGET REQUEST FOR FISCAL YEAR 2003

The National Council for Science and the Environment strongly supports bipartisan efforts to double the budget of the National Science Foundation. We commend the Chair and Ranking Minority Member of the Subcommittee for their leadership. We encourage Congress to appropriate at least $5.508 billion for NSF in fiscal year 2003, an increase of $718 million or 15 percent relative to the fiscal year 2002 level. This level of support is recommended by the Coalition for National Science Funding,

which includes NCSE and 70 other scientific organizations and academic institutions.

Biocomplexity in the Environment Priority Area.—NCSE is particularly supportive of NSF's priority area on Biocomplexity in the Environment. This initiative provides a focal point for investigators from different disciplines to work together to understand complex environmental systems, including the roles of humans in shaping these systems. The resolution of many important environmental and societal problems is lagging, in part, because of insufficient scientific understanding of complex issues that span the boundaries of traditional scientific disciplines.

NSF is already a leading Federal sponsor of peer-reviewed research regarding the environment, with a portfolio exceeding $700 million. Most of this investment is directed at scientific advances within particular disciplines. An interdisciplinary approach is needed to build on this base to truly understand the environment and the relationships between people and the environment. The Biocomplexity in Environment priority area is an important step towards a comprehensive understanding.

NSF proposes to increase funding for its priority area on Biocomplexity in the Environment by 35.6 percent to $79 million. This priority area would be expanded to include research in two new areas this year microbial genome sequencing and ecology of infectious diseases to help develop strategies to assess and manage the risks of infectious diseases, invasive species, and biological weapons. We urge Congress to support this critical initiative and to consider funding it at a level of $136 million, as proposed in fiscal year 2000 budget request for NSF.

Major Research Equipment.—The NSF budget request includes initial funding for two large projects, the National Ecological Observatory Network (NEON) and EarthScope, under its account for Major Research Equipment and Facilities Construction (MRE). These projects would provide major new opportunities for environmental research.

—*National Ecological Observatory Network.*—NEON would be a continental scale research instrument consisting of 10 geographically distributed observatories, networked via state-of-the-art communications, for integrated studies to obtain a predictive understanding of the nation's environments. In addition, NEON would serve as a "biological early detection system" that is designed to provide an invaluable resource and a front line of homeland defense both for its scientific potential and for enabling rapid detection of chemical and biological terrorist threats. NSF is requesting $12 million in initial funding for this project for proof of concept prototyping and for construction and networking of two initial sites.

—*EarthScope.*—EarthScope would be a distributed, multi-purpose geophysical instrument array that is designed to make major advances in our knowledge and understanding of the structure and dynamics of the North American continent. Three components of the project would be the United States Seismic Array (USArray), the San Andreas Fault Observatory at Depth, and the Plate Boundary Observatory. NSF is requesting $35 million for initial funding of this project.

Both NEON and EarthScope were included in NSF's budget request for fiscal year 2001 but funding for the projects was not included in the enacted appropriations bill. NSF's budget request for fiscal year 2002 did not contain any new starts for the MRE account. We urge Congress to provide full funding for NEON and EarthScope.

NATIONAL SCIENCE BOARD REPORT ON ENVIRONMENTAL SCIENCE AND ENGINEERING

The National Council for Science and the Environment is the primary proponent of an effort to expand, improve and enhance the relevancy of the scientific efforts of the National Science Foundation regarding the environment. We believe that NSF as an independent, non- regulatory science-funding agency is an important source of credible scientific knowledge about the environment.

NCSE's efforts have had considerable support from Congress. The House Appropriations Committee report accompany the fiscal year 1998 appropriations bill directed NSF to study how it would establish and operate a National Institute for the Environment that, "provides a major role for stakeholders in defining questions needing scientific attention and which funds ongoing knowledge assessments, extramural research, on-line information dissemination, and education and training through a competitive peer reviewed process."

The National Science Board responded to Congress by unanimously approving a report, Environmental Science and Engineering for the 21st Century: The Role of the National Science Foundation, on February 2, 2000. The NSB report sets out a bold, ambitious set of recommendations that could dramatically improve the sci-

entific basis for environmental decisionmaking. The first keystone recommendation is as follows:

"Environmental research, education, and scientific assessment should be one of NSF's highest priorities. The current environmental portfolio represents an expenditure of approximately $600 million per year. In view of the overwhelming importance of, and exciting opportunities for, progress in the environmental arena, and because existing resources are fully and appropriately utilized, new funding will be required. We recommend that support for environmental research, education, and scientific assessment at NSF be increased by an additional $1 billion, phased in over the next 5 years, to reach an annual expenditure of approximately $1.6 billion."

The National Council for Science and the Environment encourages Congress to support full and effective implementation of the National Science Board's report, Environmental Science and Engineering for the 21st Century: The Role of the National Science Foundation, within the context of a doubling of the budget for the NSF.

NSF has begun to implement the recommendations of the NSB. It has appointed an environmental coordinator and created a new position in the Office of the Director. NSF has formed an Advisory Committee on Environmental Research and Education. It has established a priority area on Biocomplexity and the Environment that provides new opportunities for multidisciplinary research on the interactivity of biota and the environment.

The NSB recommendations are consistent with the direction provided by the Appropriations Committee. Full implementation of the NSB report will require strong support from Congress and a significant increase in funding for NSF's portfolio of environmental science, engineering and education.

EPA'S STAR PROGRAM

NCSE urges Congress to restore full funding for the Environmental Protection Agency's Science to Achieve Results (STAR) graduate fellowship program. EPA's budget request for fiscal year 2003 budget request for EPA would eliminate funding for new STAR fellowships. This is the only Federally supported fellowship program specifically aimed at graduate students in the environmental sciences and policy areas. From 1995 to 2001, EPA funded over 800 STAR fellows at 168 colleges and universities, including 28 STAR fellows in Maryland and 8 STAR fellows in Missouri. The STAR program is highly competitive, with a success rate of only 10 percent. Like the environmental programs at NSF, the STAR fellowship program suffers from a serious imbalance between resources and highly qualified applicants. Investment in environmental scientists, engineers, policymakers and professionals is essential for the nation to reap the benefits of scientific advances.

HOMELAND SECURITY AND ENVIRONMENTAL R&D

Environmental R&D is a critical component of homeland security. For example, understanding the dispersal of toxic substances in water and air is directly relevant to counterterrorism. NSF has supported research in these areas for many years. NSF is requesting funding for new environmental projects that could strengthen homeland security. For example, NSF Director Rita Colwell said that NSF's proposed National Ecological Observatory Network (NEON) could detect abrupt changes or long-term trends in the environment and could also serve as "an early warning and detection system for a wide array of chemical and biological warfare agents." We encourage Congress to explore the role of environmental R&D in homeland security and counterterrorism and to recommend actions that would improve the nation's capacity in this area. Thank you very much for your interest in improving the scientific basis for environmental decisionmaking.

ATTACHMENT

Letter calling for significant funding increases for environmental science, engineering, and education programs signed by more than 120 national leaders of academic, scientific, environmental, and business organizations.

NATIONAL COUNCIL FOR SCIENCE & THE ENVIRONMENT,
Washington, DC, March 8, 2001.

President GEORGE W. BUSH
The White House, 1600 Pennsylvania Avenue NW, Washington, DC 20500.

DEAR PRESIDENT BUSH: During your recent election campaign, you talked about the importance of basing environmental decisions on science. We, as a diverse coalition of academic, business, environmental, governmental and community leaders,

working with the National Council for Science and the Environment agree with you in this regard.

We are writing to urge you to implement your campaign commitment by making investment in science for environmental decisionmaking a priority in your administration. In particular, we are asking you to provide significantly increased funding for scientific programs to:

—Assess what is known about the environment;
—Better understand the environment;
—Provide scientific information about the environment; and
—Support science-based education about the environment.

These programs include:

—National Science Foundation's biocomplexity in the environment initiative and portfolio of environmental science, engineering and education programs
—U.S. Geological Survey's biological, geological, hydrological, and mapping divisions
—U.S. Environmental Protection Agency's Office of Research and Development, especially the Science To Achieve Results (STAR) research and fellowship programs
—National Oceanographic and Atmospheric Administration
—U.S. Department of Agriculture's environmental research programs through CSREES and the Agricultural Research Service, particularly the Natural Resource Initiative
—U.S. Forest Service forestry research
—Department of Energy's environmental science programs
—National Aeronautics and Space Administration earth exploration programs.
—National Institute of Environmental Health Sciences

We hope that your initial budget will support science as an investment that will lead to a stronger economy, healthy people, and a healthy environment.

Sincerely,

PETER D. SAUNDRY, PH.D.,
Executive Director, National Council for Science & the Environment.

PREPARED STATEMENT OF THE NATIONAL EMERGENCY MANAGEMENT ASSOCIATION

INTRODUCTION

Thank you Chair Mikulski, Ranking Member Bond, and distinguished members of the Committee for allowing me the opportunity to provide you with testimony on the Federal Emergency Management Agency (FEMA) fiscal year 2003 budget. I am Dale Shipley, the Director of the Ohio Emergency Management Agency and I am here today representing the National Emergency Management Association (NEMA). Currently, I am the Chairman of the NEMA Legislative Committee and I come before you today to represent the state emergency management directors in the 50 states and the U.S. territories who are its core members. NEMA's members are responsible to their governors for emergency preparedness, mitigation, response and recovery activities.

The FEMA budget provides critical support to State and local emergency management programs through actual dollars, grants, and program support. This year, NEMA would like to address three main issues with the proposed Federal budget for FEMA.

—The first is our concern for the lack of attention to building emergency management capabilities through the Emergency Management Performance Grant (EMPG) program and our request for supplemental assistance;
—The second is our support for the First Responder Grant program and the intention to coordinate these grants through the States; and
—The third is our concern about the proposal to fold the Hazard Mitigation Grant Program (HMGP) into the pre-disaster competitive mitigation grant program.

SUPPLEMENTAL APPROPRIATIONS AND EMPG

The existing national emergency increases demands on State and local governments to provide heightened preparedness and response for domestic terrorism and has stretched or exhausted emergency management functions in local jurisdictions. While States had been contributing significantly more towards emergency management over the last decade, the national emergency declaration and State and local budget demands and deficits make that continued effort impossible.

Emergency management is heartened by the proposal to make $3.5 billion available to the nation's first responders, but we cannot wait until Fall to address these

immediate needs. Building a statewide emergency management capability is key to ensuring national preparedness. Resources for personnel both at the State and local level to manage the programs are critical to completing the preparedness mission.

NEMA and emergency management directors from the States and territories respectfully request that Congress provide additional funding for State and local emergency management programs through FEMA in the Spring fiscal year 2002 supplemental appropriations bill. We ask that $200 million be added to the Emergency Management Performance Grant Program (EMPG) in the FEMA budget to address unmet needs and to assist in capacity building.

A recent NEMA survey revealed total program support needs in the amount of $2.1 billion. The $200 million urgent request specifically represents a $117 million EMPG shortfall and $83 million to address facilities and communications needs. NEMA's Report on Local Emergency Management Program Capability Requirements and Shortfalls details the survey results identifying shortfalls in emergency management. The $117 million shortfall identified represents data from 38 States. It will likely increase as the remaining State data is received.

The current Emergency Management Performance Grant system of funding State/territory and local governments has its history dating to World War II Civil Defense programs and through the Cold War years. As the threat was perceived we funded Civil Defense and Disaster Services programs to the level needed to meet the threat. As the Cold War diminished and the threat was perceived as lessening, the funding system was kept in place, but the funding levels did not keep pace with expanding programs and capability requirements.

Now the nation is faced with a new threat of terrorism and the necessity for increased planning and coordination with public health, law enforcement, agriculture and other State and local organizations plus significant grants management responsibilities with all response organizations cannot be accomplished effectively with current capabilities. An additional $200 million in funding for EMPG in the Spring supplemental appropriations package would essentially be a down payment for addressing emergency management needs.

The Emergency Management Performance Grant (EMPG) are "pass through" grants to State and local governments to provide a foundation for basic emergency capabilities. EMPG is intended to be a 50/50 matching contribution program for Federal and State Governments. Unfortunately, EMPG funds have been virtually the only area where FEMA has not received an increase in the past 8 years, thus eroding State and local emergency management capabilities. EMPG funding is the lifeblood for State and local governments to prepare for, respond to, recover from, and mitigate losses from future disasters.

FIRST RESPONDER GRANT PROGRAM

Long before September 11, 2001, NEMA had established itself as a leader in providing input to Congress and Federal agencies on issues of domestic preparedness. States have been in the forefront of preparing for and responding to all types of disasters, both natural and man-made. We take an all-hazards approach to disaster preparedness and have integrated our domestic preparedness efforts into the proven systems we already use for dealing with both man-made and natural disasters. We also recognize clearly the value of prevention and mitigation in minimizing the consequences of disasters and we incorporate those considerations in all our efforts.

NEMA supports Federal efforts to increase emergency management capacity building at the State, territory, and local level for personnel, planning, training, equipment, coordination, and exercising. A significant Federal commitment must be made to give State, territorial, and local governments the tools to ensure adequate preparedness. While States have significantly increased their commitment to emergency management over the last decade, States are struggling with budgetary issues and the increased investments necessary to meet new demands.

There are five issues that we would like to bring to your attention as you address the proposed First Responder Grant program:

—All efforts need to be coordinated through the States;
—State and local governments need funding to be flexible enough for personnel to manage the program;
—Standards must be developed to ensure interoperability of equipment, communications, and training;
—Mutual aid both intrastate and interstate—is a key component to capacity building; and
—State and local government must be fully, directly and continuously involved and consulted in the development of the National Domestic Preparedness Strategy.

State Coordination

All efforts to increase emergency management capacity building must be coordinated through the States to ensure harmonization with the State emergency operations plan, ensure equitable distribution of resources, and to synthesize resources for intra-state and inter-state mutual aid. Also, the Stafford Act, which governs the way disaster assistance is allocated, successfully uses States and Governors as the managers of Federal disaster relief funds for local governments which are overtaxed and need assistance when disasters occur. States understand the need to get funding to the first responders and have long coordinated statewide and regionally to ensure adequate State assistance to local governments for emergency preparedness and response. There is no question that most of the $3.5 billion proposed first responder grant funds need to get to police, fire fighters, emergency medical workers, and other front-line local responders after all, disasters are local in nature. The health community must not be forgotten and must be integrated into all planning, training, and exercising under the State emergency operations plan. We can effectively ensure this by working through the States to build on the needs identified in the plans that FEMA, the Department of Justice, and other agencies have required statewide.

Further, because this is a national emergency and States and local governments are in difficult fiscal situations, we must we wary of programs that would require significant matches. In fact, for local governments to meet the match would be even more difficult given their fiscal constraints. If a significant match is required, the application of this initiative will only go to those agencies and governments that can fiscally afford the match and not necessarily where the need is greatest. If a match is necessary, we would suggest that the match be non-fiscal or in the form of a deliverable as opposed to soft or hard dollars.

Flexibility for Personnel to Manage the Program

State emergency managers need to have a commitment for sustained Federal resources and the flexibility to insure the hiring and training of sufficient professional personnel to manage the expanding antiterrorism programs. We are concerned that an influx of funding programs from the Federal Government could detract from the "all hazards" approach and we will have to turn our focus away from natural disaster preparedness and response and thereby actually reduce overall preparedness and efficiency. Building a statewide emergency management capability is key to ensuring preparedness across the board. Flexibility to use some of the first responder grants for personnel both at the State and local level to manage the programs is critical to completing the preparedness mission.

NEMA has long advocated an increase in the only flexible source of federal emergency management funding, the Emergency Management Performance Grant (EMPG). EMPG is the only line item in the FEMA budget that has not received an increase in the last decade, yet it is the only consistent source of Federal funding for State and local capacity building. As an existing funding stream, EMPG could be used to hire State and local staff to manage critical programs and build the incremental emergency management capacity to prepare for the first responder grants and the coordination that will be required to effectively execute the program. State and local government emergency management is already over-stressed and working to capacity.

Standards

Standards must be developed to ensure interoperability of equipment, communications, and training across state, regional, and local jurisdictions. In terms of establishing voluntary minimum standards for the terrorism preparedness programs of State and local governments, NEMA offers itself as a resource in this area. Our organization, along with other stakeholder groups such as the Federal Emergency Management Agency, the International Association of Emergency Managers, National Governors' Association, National League of Cities, International Association of Fire Chiefs, and others, has developed and is implementing an Emergency Management Accreditation Program (EMAP). EMAP is a voluntary standards and accreditation program for State and local emergency management that is based on NFPA (National Fire Protection Association) 1600 Standard for Disaster/Emergency Management and Business Continuity Operations (an ANSI or American National Standards Institute approved standard) and FEMA's Capability Assessment of Readiness (CAR). Consequence management preparedness, response and recovery standards are being developed in conjunction with those for the traditional emergency management functions. NEMA suggests that these standards already being collaboratively developed through EMAP be considered in the development of minimum standards for training, exercises and equipment. Additionally, EMAP accept-

ance would provide the natural mechanism for Federal and State agencies to meet the requirements of the Government Performance Results Act (GPRA). EMAP has already completed a pilot phase in North Carolina and North Dakota and will begin receiving State program applications in April. Pilot assessment of county and city programs will begin this Spring. Mutual Aid Mutual aid is one key to capacity building. A proven system we need to take advantage of for all domestic preparedness planning is the Emergency Management Assistance Compact (EMAC). EMAC is an interstate mutual aid agreement that allows States to assist one another in responding to all kinds of natural and man-made disasters. EMAC offers a quick and easy way for States to send personnel and equipment to help disaster relief efforts in other States. There are times when State and local resources are overwhelmed and Federal assistance is inadequate, inappropriate, too far away or unavailable. Out-of-state aid through EMAC helps fill such shortfalls. There are 46 States and two territories that are members of EMAC and other States and territories are planning to join. In response to the September 11 tragedy, emergency managers from several States provided technical assistance and personnel support to New York through EMAC. A system like this enables experts and specialized equipment to be used across jurisdictions and regions based on the nature of a particular event. NEMA and FEMA are currently working together to standardize resource typing. By having commonly understood descriptions of resource packages, impacted jurisdictions will know just what they are going to get when they request each standard package.

National Domestic Preparedness Strategy

NEMA has long requested for Congress to put in place an inclusive national framework for developing a National Domestic Preparedness Strategy and a single point of contact within the Federal Government that is accountable to Congress to coordinate the Federal efforts in implementation of that strategy. Please also note that we espouse a collaboratively developed national strategy, not just a Federal one. We now look forward to working with the Office of Homeland Security towards the development and implementation of that strategy. In addition to NEMA's "Ten Principles for a National Domestic Preparedness Strategy" adopted in 2000, we also developed a White Paper on Domestic Preparedness in the aftermath of 9/11 that is also supported by the Adjutants General Association of the U.S., the Council of State Governments, International Association of Emergency Managers, and the National Guard Association of the U.S. A copy of this White Paper is attached, along with NEMA's "Ten Principles".

In any way possible, the Federal Government needs to coordinate efforts for domestic preparedness and avoid duplication of efforts and programs. The Office of Homeland Security assured that State emergency managers and first responders from the State and local level will be invited to participate in development of the national preparedness strategy.

HAZARD MITIGATION GRANT PROGRAM & PREDISASTER MITIGATION

The Administration's budget proposal includes a request to create a new pre-disaster mitigation program that will combine the predisaster mitigation program authorized by the Disaster Mitigation Act of 2000 and the post-disaster Hazard Mitigation Grant Program (HMGP). While Federal costs towards disasters remain a concern, significant commitments must be made towards both pre-disaster and post-disaster mitigation in order to lower overall disaster costs in the long run.

Replacing the HMGP program, which may provide up to 20 percent of total disaster costs towards post-disaster mitigation grants, would prevent the lessons learned from disasters from being immediately incorporated into mitigation projects to prevent losses of life and destruction of property.

The HMGP was authorized under Section 404 of the Stafford Act, and administered by FEMA. The program provides grants to States and local governments to implement comprehensive and long-term hazard mitigation measures after a major disaster. Examples of risk reduction measures include: acquisition, relocation or elevation of flood damaged homes and businesses; relocation and fortification of critical public infrastructure; rebuilding at a higher building code level, for purchasing repetitive loss properties, and for the development of local mitigation plans, projects and strategies to make communities more disaster resistant and resilient. The months immediately following disasters provide unique opportunities to efficiently incorporate risk reduction measures in a very cost-effective manner, in many cases lowering the overall cost of the project by leveraging other funding sources including insurance settlements.

The HMGP has proven to be a highly effective tool in steering communities toward risk reduction measures, in many cases breaking repetitive loss cycles that

have cost other Federal disaster relief programs multiple times. Cost-benefit analysis is currently a requirement for predisaster mitigation programs.

In a purely competitive grant program, lower income communities, often those most at risk to natural disaster will not effectively compete with more prosperous cities. Also, disasters graphically and vividly expose the need for and value of mitigation projects. We must not lose these opportunities to initiate projects to enhance our communities and reduce future disaster costs. Damage caused by disasters would go largely unrepaired thereby further impacting the economic and social recovery of particular areas. There are not enough mitigation dollars available to address all of the vulnerabilities that exist in this country.

Making mitigation funds available only in a predisaster competitive environment will set this country's mitigation efforts back by removing the prime motivation factor, the disaster itself, as the motivation. The proposal is not a cost-savings initiative, as disaster costs to the Federal Government would be expected to significantly increase. HMGP could be modified to include performance measures, but HMGP should not be rolled into the predisaster mitigation program.

Probably the best recent example of post-disaster hazard mitigation in the recent years is the $836 million appropriated by the North Carolina General Assembly after Hurricane Floyd. This funding was nearly equal to the entire Federal contribution. Without State level funding to provide all the non-Federal cost share for programs, and the financing of innovative risk reduction programs to compliment Federal programs, mitigation techniques would never have been incorporated into the rebuilding process. In excess of $200 million in State funds was committee to relocate over four thousand families, dozens of businesses and agricultural operations from the floodplain, thus guaranteeing they will not be devastated by future floods. In addition, North Carolina and other States are now undertaking the task of updating Flood Insurance Rate Maps, a traditional Federal responsibility and expense, to ensure communities have the best available information on where flood hazards exist.

By the same token, predisaster mitigation is also a key component to effective disaster mitigation. Over the last 5 years, predisaster mitigation programs and initiatives have proven their value in not only saving lives and property in recent disasters, but also in many cases have negated the need for any emergency response and recovery. Pre-disaster mitigation is essential, but we need to ensure that pre-disaster mitigation corresponds with the Disaster Mitigation Act of 2000 that was passed overwhelmingly by the House and Senate and signed into law. NEMA worked with Congress to draft the Disaster Mitigation Act of 2000 (DMA2K), which authorized predisaster mitigation; works with small impoverished communities to lessen their vulnerability to natural disasters; established a National Pre-disaster Mitigation Fund in the Treasury of the United States; and provided for the development of multi-hazard advisory maps. It took many years for Congress to agree on language to amend the Stafford Act and we are so grateful that the Disaster Mitigation Act was signed into law. As FEMA implements DMA2K, we must not lose the opportunity to prevent the loss of life and destruction of property prior to disasters.

NEMA calls on Congress to maximize the benefits of both HMGP and predisaster mitigation, while including provisions for increased accountability. NEMA supports increasing funding for predisaster mitigation, but maintains that HMGP should be retained as a separate and funded post-disaster program.

OTHER ISSUES

Congress should support funding for modernization of floodplain mapping, since many of the flood plain maps are 15–30 years old and considered out of date. Any updates to flood maps should be made with the coordination of State and local governments. Flood maps play a key role in disaster reduction, mitigation, and community planning and development activities. Many of the flood maps in place do not reflect recent development, and may contain inaccurate information about the floodplains as a result. FEMA has estimated the cost of a comprehensive multi-year map modernization plan at $750 million over a 7-year period. Congress has recognized the need to update the floodplain maps in the fiscal year 2002 budget and the commitment should continued in fiscal year 2003 and beyond to insure currency in our mapping. NEMA supports the proposed $300 million for flood mapping modernization included in the President's Budget

NEMA is currently looking closely at the proposal in the Administration's budget that would end State taxation of insurance premiums to the National Flood Insurance Program. Current estimates from FEMA anticipate that eliminating the tax would reduce State revenue nationwide by $29 million. We would like to reserve the right to report back to you with information on how this proposal may impact the

States as you consider the FEMA appropriations bill in the coming months, but we see no rationale for the Federal Government to eliminate this tax revenue to States.

CONCLUSION

While emergency management has been the driving force in our nation's preparedness, we must not forget the lessons learned on September 11, 2001 that translate into the need for increased preparedness and response capabilities. If in fact we want to truly commit our nation to preparedness, we must tale advantage of the memories still fresh in our mind of both man-made and natural disasters. Retaining the "all-hazards" approach will prevent our nation from losing focus on the daily perils that we face and translate into double value in preparedness.

Whether it is a hurricane in Florida, earthquakes in the pacific northwest, or tornadoes in Maryland, States need a Federal commitment to recognize that each State and local government has unique disaster preparedness and response needs that require flexible, predictable, and adequate funding assistance that is coordinated with the State emergency management plan.

While we cannot completely prevent events and natural disasters from occurring we can be prepared for them and help our communities minimize the impact of lives lost and destruction of our critical infrastructure. I ask that you please consider our recommendations as you consider difficult budget decisions this year.

I thank you for the opportunity to testify on behalf of NEMA and welcome any questions that you might have. Only through a partnership of Federal, State, and local governments, can our country prepare and respond to emergencies and disasters. Thank you for your consideration.

WHITE PAPER ON DOMESTIC PREPAREDNESS—OCTOBER 1, 2001

Background

Emergency management as a discipline has been shaped by historical events, both nationally and internationally. During World War II, it became apparent for the first time that our nation was susceptible to enemy attack. As a result, the first organization and function of what is called Civil Defense was established. The majority of civil preparedness and disaster response capability at the local level had its foundation in the Civil Defense program. Federal financial assistance to State and local jurisdictions for civil defense programs was begun in 1958 and provided Federal matching funds (50/50) for personnel and administrative expenditures for civil defense preparedness. Attack preparedness was mandated as a joint Federal-State-local responsibility. This funding base provided the very foundation upon which civil preparedness (what we now refer to as emergency management) was built.

The recent terrorist attacks demonstrate the fact that the nation needs to develop a capability reminiscent of the past when there existed a robust State and local emergency management and response capability. A strengthened national program incorporating today's all hazards approach to emergency preparedness is imperative. Congress, Federal agencies, governors, State and local emergency management directors, other local officials and all disciplines of emergency responders must work together to develop a strategy for standardized, bottom-up national capabilities to effectively respond to catastrophic disaster situations.

In addition to the States Principles for a National Domestic Preparedness Strategy, adopted in February 2000, NEMA thinks it critical that the following enhancements be incorporated into a nationwide strategy for catastrophic disaster preparedness. Items are listed by category and not necessarily by priority.

Emergency Preparedness and Response

Congress should provide to the States immediate Federal funding for full-time catastrophic disaster coordinators in moderate and high-risk local jurisdictions of the United States, including the 120 largest cities where training and equipment was provided under the Nunn-Lugar-Domenici domestic preparedness programs. These personnel will have responsibility for developing and maintaining terrorism consequences plans, procedures, exercises, and resources. For those states with appropriate jurisdictional staffing levels already in place, the flexibility to utilize Federal funds to enhance the overall emergency preparedness program based on identified priorities is critical. Measures should be implemented to ensure this funding does not supplant existing State and local emergency management funding commitments.

States need financial assistance to improve catastrophic response and Continuity of Operations Plans (COOP) and Continuity of Government (COG) for States. FEMA should be provided additional funding to develop, construct and/or retrofit Federal/State/local command and control centers (Emergency Operating Centers) for NBC

events. These coordination centers must exist at each level of government. Alternate EOC locations must be available should the primary center be damaged or destroyed by the event.

Interstate and intrastate mutual aid assistance must be recognized and supported by the Federal Government as an expedient, cost-effective approach to disaster response and recovery. The Emergency Management Assistance Compact (EMAC) has been adopted by 41 States and two territories with additional States planning to join. EMAC is an interstate mutual aid agreement ratified by Congress, passed by state legislatures and signed into law by governors, and is well coordinated with the Federal Response Plan. Other States utilize the existing Interstate Civil Defense and Disaster Compact as well as regional compacts that are similarly coordinated with existing plans. These complementary operational systems should be linked as the framework and procedures for all response and recovery activities.

The Emergency Management Accreditation Program (EMAP) should be implemented and recognized by Federal agencies as a strategic tool to build greater multi-discipline/all-hazards capabilities at the state and local level, including domestic terrorism. EMAP is a voluntary, national standards and accreditation program for state and local emergency management programs. The initiative is being developed in partnership by NEMA, FEMA and the International Association of Emergency Managers and is currently in the pilot phase.

FEMA, State and local emergency managers must implement renewed emphasis on family and community preparedness to ensure Americans have necessary skills to survive a catastrophic disaster.

A standardized national donations management protocol is needed to address the outpouring of food, clothing, supplies, and other items that are commonly sent to impacted states and localities following a disaster. If not handled properly, large amounts of unnecessary or inappropriate donations can add another level of complication to the disaster itself. We believe the shoring up of State and local emergency management agencies will provide the necessary organization to improve this system; however, additional planning and an information management capability are desperately needed.

Health and Medical

The medical surge capacity must be strengthened. The emergency management, medical and public health professions must work with lawmakers to ensure each region of our nation has a certain minimum surge capacity to deal with mass casualty events. Hospitals should agree to provide defined and standardized levels of resources, capabilities and assistance to handle mass casualties, especially those contaminated by chemical/biological agents. Funding for equipment and supplies to accomplish this mission should be provided to develop this additional capability, in exchange for their agreeing to participate as a local receiving hospital and as part of the U.S. Public Health Service's National Disaster Medical System (NDMS). Funding for the health care system for emergency planning and extraordinary operation response costs that are not available from any other means must be provided by the Federal Government. Additionally, the Federal government needs to provide the equipment and supplies to accomplish this mission and develop this additional capability; also, states need assistance to complete the National Pharmaceutical Stockpile distribution response plan.

State-Local Disaster Medical Assistance Teams should be developed across the country with standardized equipment, personnel and training. These teams would serve as the first line of response to support impacted communities within impacted states, and could be required to respond outside the state as a mutual aid resource upon request. Self-contained capability to respond outside their jurisdiction should be provided by military Reserve Component assets available in each state.

The current sixty U.S. Public Health Service NDMS Disaster Medical Assistance Teams (DMAT) should be uniformly enhanced for Weapons of Mass Destruction (WMD) response, including focus on personnel protection and training for WMD. Currently only four of the teams have been upgraded and equipped to serve as National Medical Response Teams (NMRTS).

Additional WMD Recommendations

The Department of Justice should immediately release the fiscal year 2000 and fiscal year 2001 equipment funds in order to begin implementation of these recommendations, and then require a basic statewide strategy in order to receive fiscal year 2002 funds; and further, provide funding to states to administer the equipment program. Also, allow greater flexibility with the approved equipment list in order to accomplish any of these recommendations. Specifically, this should include the use of funds for the purchase of necessary equipment for hospitals and the health

care industry, regardless of the private sector ownership of these critical first receiver response system components. In addition, Congress should increase funding to DOJ to provide detection, personnel protection and decontamination equipment for the nation's emergency response agencies. Lastly, Federal training and maintenance money must be included in any national terrorism response program.

Congress and the Department of Defense should authorize homeland defense as a key Federal defense mission tasking for the National Guard. By providing this authorization and removing restrictive language and funding on utilization of National Guard assets and personnel, the civil-military integrated response will be dramatically improved. In addition, Congress should provide funding to DOD for full-time staffing of state joint civil-military emergency operations centers. Further, Congress should provide funding to National Guard Bureau to complete fielding of National Guard Civil Support Teams in additional states and territories.

State-Local Urban Search and Rescue capabilities should be developed across the country with standardized equipment, personnel and training. These teams would serve as the first line of response to support impacted communities within impacted states, and may be required to respond outside the state as a mutual aid resource upon request. Self-contained capability to respond outside their jurisdiction should be provided by National Guard assets available in each state. Further, standardization of the national USAR format and approach should be accomplished in such a way that there is a gradation in the USAR response teams to enhance overall national capability.

The Department of Defense should undertake a review of the distribution of aviation assets to the National Guard in each state, territory and District of Columbia.

National interagency and intergovernmental information management protocols are needed to support information sharing (ie. Damage/Situation Reports, Warning/Intelligence Reports, Resource Coordination). Further, an unclassified version of INTELINK needs to be developed for use by the greater emergency response community.

Better Federal interagency coordination is needed to assist states in identifying and accessing the full range of Federal resources and assistance available to them. Currently, states are left on their own to identify individual agency programs and then contact each agency to determine programs and resources available.

Security clearances must be more standardized and reciprocal between agencies and levels of government. Use of a compartmented, need-to-know system would greatly facilitate secure sharing of critical intelligence. Additionally, a critical need exists to enhance the ability of local and state officials to receive Federal security clearances more expediently.

FEMA's fire grant program should be expanded and modified to strengthen regional and national, not just local, fire protection capabilities to respond to catastrophic disasters. State level involvement in the program would allow increased coordination and prioritization of resource needs within each state. A comprehensive national strategy would ensure best use of available funding provided to local fire departments to enhance regional and national response capabilities.

The National Warning System (NAWAS), maintained by FEMA, has been downsized in recent years. This system was designed to provide rapid communications and warning capabilities between Federal, State and local emergency management agencies. The Congress should provide funding to rapidly upgrade and expand a sustainable national intergovernmental communication and warning system.

FEMA, in collaboration with state, local, private and other Federal agency emergency response partners, should rapidly develop a standardized emergency responder identification and accounting system to improve personnel credentialing and accountability at scenes of catastrophic disasters.

The Environmental Protection Agency should be provided funding to develop additional guidance on shelter in-place strategies for nuclear/biological/chemical (NBC) events, especially in urban centers.

There is a need for technology transfer from the Federal Government and its contractors to state and local governments to support an automated decision support system. Several Federal agencies have data that is unclassified that could be used for planning, response and recovery activities. These Federally developed systems would contribute immensely to accomplishing many of the recommendations set forth in this paper and do so in a cost effective manner.

RESOLUTION ON STATES PRINCIPLES FOR A NATIONAL DOMESTIC PREPAREDNESS STRATEGY

WHEREAS, The National Emergency Management Association (NEMA), represents the state emergency management directors in the 50 states, territories and

District of Columbia who are responsible to their governors for preparing for, responding to and recovering from natural and manmade disasters, as well as consequence management for incidents of domestic terrorism; and

WHEREAS, NEMA believes the following principles provide the necessary framework for a National Domestic Preparedness Strategy:

1. The United States needs to have a viable national vision to guide the development of a clear, comprehensive and integrated national domestic preparedness strategy to prepare for and manage the consequences of terrorism—one that utilizes the nation's existing all hazards emergency management and response system. The strategy must clearly define federal, state and local government roles and responsibilities and articulate a clear direction for federal priorities and programs to support state and local responders. The strategy must be developed in coordination with state and local entities, include measurable performance objectives, and address sustainable infrastructure.

2. There must be increased and productive coordination of all federal domestic preparedness programs and resources and improved interface with governors and states. A single, visible point of coordination is essential at the federal level with the appropriate degree of authority to ensure that all federal agency resources, programs, and policies are consistent with and supportive of the national strategy. A mechanism must be provided to this coordination point in order to influence federal agency budgets and program authorizations to ensure consistency with the national strategy. This entity must be codified in authorizing legislation rather than the current practice of appropriations language, and the entity must be appropriately resourced to fulfill its mission.

3. All federal resources, programs, and activities must be coordinated through the nation's governors and their state emergency management agencies to ensure a comprehensive state-wide domestic preparedness strategy that reflects the unique characteristics and needs of each individual state.

4. Government at all levels must ensure that the protection of civil liberties and states' rights remain the highest priority within the context of national security as the United States prepares for and addresses the consequences of terrorism.

5. There are at least fifteen different Congressional committees with jurisdiction over components of the domestic preparedness issue. There should be a special committee on domestic preparedness to better ensure the coordination of federal programs, coordination of funding, avoid duplication of programs, and to provide centralized, coordinated oversight.

6. Credible, timely threat information is needed by state and local governments that is based upon solid research, analysis, and sound science rather than worst-case scenarios.

7. The issue of increased tactical and strategic capabilities for communication and information sharing between and among all levels and disciplines of government is essential to effective domestic preparedness. Information sharing by law enforcement must be addressed to allow emergency responders at the state and local level the ability to deter, interdict or respond to a potential terrorist incident.

8. The nation's public health and medical system capabilities, including that of private hospitals, must be substantially enhanced and fully integrated into the domestic preparedness program with increased and improved coordination between emergency management, law enforcement and the fire community.

9. National standards should be developed for responders at all levels of government, particularly in the areas of planning, training, equipment and communications, in order to ensure common approaches between communities and states. In addition, a standardized approach to preparing for and respond to terrorist events, including cyber terrorism, is critical to local, state and the federal government's ability to work effectively as a team and therefore NEMA recommends that all states and all federal agencies adopt the incident command/management system as a way to ensure an integrated and coordinated local, state and Federal response.

10. The National Emergency Management Association offers to partner with Congress and the federal government to develop the national domestic preparedness strategy—one that can be implemented effectively by all levels of government. NEMA has the ability to facilitate the input of all state and local responder groups into the development of such a strategy.

NOW THEREFORE BE IT RESOLVED, that NEMA encourages Congress and the federal government to adopt these ten principles in developing a National Domestic Preparedness Strategy.

MOVED: Keven Leuer (MN)

SECOND: Ed Gleason (WI)

DISPOSITION: Passed unamiously

Authenticated: Myra Thompson Lee, NEMA Secretary NEMA 2000 Annual Conference, August 20–25, 2002, Palm Beach, Florida

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PREPARED STATEMENT OF THE PEOPLE FOR THE ETHICAL TREATMENT OF ANIMALS (PETA)

Chairwoman Mikulski and Members of the Subcommittee: People for the Ethical Treatment of Animals (PETA) is the world's largest animal rights organization, with more than 750,000 members and supporters. We greatly appreciate this opportunity to submit testimony regarding fiscal year 2003 appropriations for the Environmental Protection Agency (EPA).

My testimony will focus on the EPA's use of animals in chemical testing programs. We are grateful to the Subcommittee for providing the first-ever appropriation for the development of non-animal test methods by the EPA in fiscal year 2002. We cannot overstress the importance of this initiative, as the EPA requires more chemical toxicity tests on animals than any other federal agency. Each year thousands of animals are subjected to painful procedures in which pesticides and industrial chemicals are forced into their lungs, throats, or stomachs. These animals include pigs, dogs, rabbits, rats, guinea pigs, hamsters, mice, birds, turtles, frogs, and fish.

Frequently, non-animal test methods are more economical, more reliable, and more relevant to human health than animal tests. They are obviously more humane. Despite its rhetoric to the contrary, the EPA has steadfastly refused to spend funds on the development of methods that could replace the animal tests it currently requires. In the international arena, the United States (as represented by the EPA) has been a main obstacle to the acceptance of alternative methods by the Organization for Economic Cooperation and Development.

In one example of needless animal testing, the EPA spent more than $400,000 to fund studies in which pigs were fed toxins in an attempt to estimate human exposures to arsenic and lead from the soil of sites of former mines, mills, and smelter waste facilities. Non-animal test methods utilize a simulated gastrointestinal tract in which contaminated soils are "incubated" in acidic solutions that mimic gastrointestinal fluids. The fraction of the metals that dissolve represents the fraction capable of causing toxicity. These approaches to the assessment of metal bioavailability have been available and in widespread use since 1994, and can be conducted for a small fraction of the cost of animal tests. Yet the EPA chooses to use animals.

The EPA's Office of Pesticide Programs requires at least 14 individual tests for pesticide active ingredients, some of which kill thousands of animals at a time. The EPA's high production volume (HPV) chemical testing program will kill more than 1 million animals. And the agency's proposed Endocrine Disruptor Screening Program (EDSP) is the largest animal-testing plan in U.S. history. Tens of thousands of chemicals are slated to be included in the EDSP, and scientific estimates are that between 600,000 and 1.2 million animals will be killed for every 1,000 chemicals tested.

These programs require a variety of animal tests including assays for genetic toxicity, acute toxicity, reproductive toxicity, and hormone "disruption." Amazingly, not one of these tests has ever been formally validated for its relevance to human health effects.

There is tremendous potential for non-animal methods to replace animal tests in these programs. Several non-animal test methods have recently been formally validated as total replacements for animal studies, including four skin corrosion assays, in vitro tests for skin penetration and phototoxicity, and three in vitro/ex vivo tests for embryotoxicity. Basic genetic toxicity can also be studied entirely without the use of animals. Three methods in particular (the Bacterial Reverse Mutation Test, In Vitro Cell Gene Mutation Test and In Vitro Chromosomal Aberration Test) have been accepted by government regulators worldwide as valid alternatives to using animals.

There is also a great deal of work under way to develop and validate non-animal methods for assessing other health effects. For example, acute toxicity can be studied using cell culture systems, since the actions of toxic chemicals are often focused at the cellular level. For example, a series of four cell culture tests can predict toxicity in humans with nearly 85 percent accuracy (compared to an at best 65 percent in acute toxicity studies using animals). This method should, within several years, be able to replace the horrendously cruel use of animals in acute lethal poisoning testing.

Reproductive toxicity studies, which are required under all of the EPA's animal-testing programs, can kill anywhere from 800 to several thousand animals per test. Computer models are currently the most promising prospects for replacing animals in these studies. For example, the MULTICASE expert system, which is currently undergoing development and prevalidation by the Food and Drug Administration (FDA), reduces a compound to all possible 2- to 10-atom fragments and identifies "structural alerts" associated with chemical reactivity. The model then applies a weight-of-evidence approach to evaluate the toxic potency of structural alerts, both individually and collectively, to determine the likelihood of toxic effects in a living system. The results of FDA prevalidation studies have been promising, but additional development, in collaboration with the EPA, will be needed before this model is likely to achieve widespread regulatory acceptance.

For estrogen, androgen, and thyroid hormones, receptor binding and transcriptional activation assays are rapid, non-animal methods of detecting and measuring chemical interactions with cellular receptors. Many endocrine-disrupting chemicals function by binding to hormone receptor sites on cells, often out-competing the body's naturally-occurring hormones for access to these receptor sites. Receptor binding assays model this activity in vitro. Transcriptional activation assays measure the presence of "gene products," which are created as a result of receptor binding. Both types of assays are rapid, inexpensive and highly effective in detecting chemicals that mimic estrogen and androgens and interact with their receptors in the cell. In fact, one receptor binding assay was found to be five orders of magnitude more sensitive than the uterotrophic animal test currently proposed by the EPA.

High throughput screens (HTPS) are automated systems capable of rapid screening of thousands of chemicals. One particularly promising example of an HTPS model is the CALUX (Chemically Activated Luciferase Expression) assay. This method is based on a genetically engineered cell line that responds to specific compounds by producing a chemical called firefly luciferase. For example, when a target chemical enters the cell, it binds to the cellular receptor, which turns on the luciferase, lighting up like a firefly. This assay is currently being adapted to screen for androgen and thyroid active hormones in addition to estrogenic chemicals.

A HTPS could screen out many chemicals from further testing in the EDSP. Without it, millions of animals will be killed to test chemicals that would have been eliminated early on in the program. Congress appropriated $4 million in fiscal year 1999 to develop and implement the EDSP, including a HTPS. After spending only $70,000 and conducting one feasibility study, the EPA is not applying the balance of the funds to develop a HTPS. The EPA appears to have abandoned further development of a HTPS, despite the ongoing progress being made on this technology by researchers in Japan. Although the EPA claims it will use structure activity relationship (SAR) modeling in place of a HTPS, the agency fails to recognize that SAR models rely on data generated by a HTPS.

Another area of research that the EPA ignores is the very valuable discipline of epidemiology. Epidemiological studies do not involve experiments or tests on people. They are observational studies of people who have been (or are likely to have been) exposed to an agent to see if they March 22, 2002 People for the Ethical Treatment of Animals Page 4 have differential rates of a given outcome than people who have not been exposed to the agent. There are generally two types of studies: (1) prospective—when researchers know a population has been exposed, and then they follow the population over time to see whether the rates of an adverse outcome happen in the population that has been exposed more than it happens to a population that has not been exposed; and (2) retrospective—if researchers have a suspicion of the kind of health problem associated with exposure to a particular agent, they find a population with that problem, and compare its rate of exposure to that agent with that of a population that does not have the problem.

Epidemiological studies are the premiere method of gathering medical information. It is through epidemiological studies that we have learned most of what we know about public health—that smoking causes cancer (contrary to many conclusions from animal experiments), that cholesterol causes heart disease, that fruits and vegetables prevent disease, that obesity leads to diabetes, that lead paint leads to developmental problems in children, and that chromium in water causes cancer, to cite just a few examples.

The irony is that animal experimentation often impedes the ready acceptance of evidence found through epidemiology. The chemical industry has long approved of the EPA's near-exclusive reliance on animal testing, since the results of these tests are always subject to interpretation. The controversy over arsenic is a perfect example of how animal studies delayed regulation of a dangerous chemical. For years, epidemiological studies have shown that arsenic in drinking water causes cancer in humans. Yet the EPA dragged its feet for more than 20 years while thousands of

animals were killed in tests that attempted to reproduce the effects already seen in humans.

As a case in point, take the fact that the EPA paid the National Institute of Environmental Health Sciences (NIEHS) $400,000 to immobilize rats in small bottle-like devices and conduct inhalation studies with mercury vapor. Scientists have known the hazards of mercury for decades and have seen reproductive effects illustrated in epidemiological studies of dental hygienists exposed to mercury in fillings.

Yet the EPA spent our tax dollars unsuccessfully attempting to duplicate these effects that have already been seen in epidemiological studies of humans by forcing rats into contraptions that resemble medieval torture devices. As stated in the researchers' own words in a feature article in NIEHS' publication Environmental Health Perspectives (April 2000):

Says NIEHS toxicologist Dan Morgan, "The first mercury study we did was in response to studies . . . that showed that female dental hygienists, who are exposed to mercury quite often in preparing fillings, had more problems conceiving than women who were not exposed. So in order to study the mechanism of this effect, we tried to duplicate the results in animals." Of the results, Morgan says, "We weren't able to reproduce any of those effects in our animal model." (our emphasis)

What possible purpose did this experiment and gross waste of funds serve?

In addition to the ethical and scientific problems associated with animal tests, another issue is whether or not they are being appropriately validated. At present, none of the animal tests planned for the EDSP are being validated for their relevance to human health effects. Therefore, the resulting data will not prompt any meaningful regulatory action to protect human health. The same is true with respect to "ecotoxicity" tests, which examine chemical effects in one species of wildlife and extrapolate these observations to hundreds, or perhaps thousands, of other species. Many scientists now agree that such broad and sweeping generalizations are simply not credible or valid scientifically (i.e. what is true in Mallard ducks may not be relevant to other species of ducks, let alone to songbirds or birds of prey).

It is also important to recognize that Congress' intent for the EDSP, as articulated in the Food Quality Protection Act (FQPA), was for the EPA to examine chemical effects on human health, not ecotoxicity. Therefore, the EPA's inclusion of ecotoxicity effects in the EDSP represents both an unnecessary and useless massive amount of additional animal testing. Moreover, it is simply unrealistic to believe that the detection of adverse health effects in wildlife will lead to the regulation of a chemical where adverse health effects in humans have not. Given the profound scientific and practical limitations associated with ecotoxicity studies, and the lack of a Congressional mandate for their inclusion in the EDSP, it is inappropriate for the EPA to continue its development of such studies at this point in time.

The EPA does not plan to require the rigorous validation of the animal tests that is required of all non-animal tests. Indeed, the agency awarded a $34 million contract to a laboratory for the development and validation of tests for the EDSP from a proposal in which validation experience was barely even mentioned.

The Advisory Committee on Alternative Toxicological Methods (ACATM) for the National Toxicology Program (NTP) has expressed "grave concern" over the EPA's double standard in validation and has twice unanimously recommended that all proposed test methods for the EDSP be validated through the Interagency Coordinating Committee on the Validation of Alternative Methods (ICCVAM).[1] However, the EPA rejected this recommendation. Although it does indeed require the validation of all non-animal tests to be assessed through ICCVAM with very rigorous and thorough standards, the EPA follows a dangerous double standard by not requiring this same validation assessment of the animal tests. Allowing quicker and less rigorous validation procedures for animal tests not only creates a bias against non-animal tests, it compromises the reliability of the resulting data as well.

We were pleased to see that last year's appropriations for the EPA included a $4 million earmark in the Science and Technology account for the research, development, and validation of non-animal, alternative chemical screening and prioritization methods. We respectfully make the following requests for the EPA's fiscal year 2003 appropriations:

—that $10 million in the Office of Research and Development budget be allocated for the research, development, and validation of non-animal screens and tests;

[1] National Toxicology Program Advisory Committee on Alternative Toxicological Methods, resolution passed unanimously at its meeting on 28 November 2000.

—that the EPA be required to report to Congress on how the above funds are utilized;[2]
—that no funds for the EDSP be used for animal tests until the development of a HTPS has been completed, and no funds be used to conduct animal testing on a chemical until that chemical has been analyzed by a HTPS;
—that because the current state of the science precludes "appropriate validation," as required by the FQPA, for ecotoxicity tests (which are not covered by the FQPA), no funds be used for ecotoxicity test development at this point in time;
—that the EPA provide to Congress an analysis of the cost requirements for the epidemiological studies recommended as part of the EDSP by the National Academy of Sciences in its 1999 report "Hormonally Active Agents in the Environment" along with an explanation as to why the EPA decided on an animal-testing program instead of epidemiological studies;
—that the EPA provide the necessary funds to ICCVAM for the validation assessment of all screens and tests proposed for the EDSP.

These steps will promote the sound scientific practices needed for the tangible protection of human health and the environment, as well as a significant reduction in the use of animals. Thank you for your consideration of our request.

PREPARED STATEMENT OF THE SOCIETY FOR NEUROSCIENCE

Mr. Chairman and members of the Committee, I am Dr. Fred H. Gage, the president of the Society for Neuroscience and a professor at the Salk Institute for Biological Studies, a private, non-profit research organization located in La Jolla, California. I am here today to testify on behalf of the Society for Neuroscience, the largest scientific organization in the world dedicated to the study of the brain and nervous system. Neuroscience forms the fundamental basis of the medical specialties of psychiatry, neurology, neurosurgery, and an important portion of many other medical specialties.

The Society for Neuroscience is comprised of more than 29,000 basic and clinical researchers affiliated with universities, hospitals and scientific institutions throughout North America and in other countries. The Society's primary goal is to promote the exchange of information among researchers. We are also devoted to education about the latest advances in brain research and the need to make neuroscience research a funding priority.

Mr. Chairman, the Society appreciates this opportunity to testify and to discuss some of the important VA and NSF-sponsored research being conducted in the field of neuroscience. We thank the members of this Subcommittee for their dedication to biomedical research at the National Science Foundation (NSF) and the Veterans Administration (VA).

The Society for Neuroscience requests increased research funding for the National Science Foundation and for the Department of Veterans Affairs to facilitate the progress of research already being conducted at these institutions.

National Science Foundation

As the Committee is aware, the President's fiscal year 2003 budget request for the National Science Foundation is $5.036 billion. This is an increase of $240 million, or 5 percent, over the fiscal year 2002 request. As our nation progresses, a more solid foundation of science will be necessary to support growing technological advances including those integral to conducting biomedical research. The Society for Neuroscience endorses the Coalition for National Science Funding's (CNSF) request for an increase of $718 million, or 15 percent, above the fiscal year 2002 level. This would bring the agency's budget to $5.508 billion.

Interdisciplinary research funded by NSF complements research currently conducted by other federal agencies. The nature of interdisciplinary scientific research has allowed investigators from each of the separate scientific disciplines to benefit and expand upon research conducted by colleagues in other fields. NSF-supported research embodies a collaborative enterprise and the results have provided immense benefits in our search for treatments and cures to deadly diseases.

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[2] This reporting mechanism is critical due to the fact that the EPA has repeatedly ignored requests from the animal protection community regarding expenditures for non-animal methods. A coalition of animal protection groups is identifying and prioritizing the non-animal tests that are close to being ready for use and which desperately need funding and other resources. We hope the Subcommittee will encourage the EPA to meet with us to discuss the manner in which funds can best be put to use to effect the most rapid and substantial reduction possible in animal suffering and death at the EPA.

NSF-supported neuroscience research has played a major role in improving our understanding of neurological and mental disorders. NSF funds hundreds of studies in the area of basic neuroscience, and these studies have contributed immensely to our knowledge of the brain and central nervous system. The cross-disciplinary approach employed by NSF is particularly beneficial to research on the brain and central nervous system. New engineering advances, for example, have led to new and more powerful imaging technologies, which have greatly aided researchers in their study of the brain.

In the wake of the tragic events of September 11th, our nation has become more aware of potential lapses in national security; such concerns affect our mental well-being. In addition to research conducted on bioterrorism, NSF can enhance support for research on the psychological effects in the aftermath of terrorist attacks, anthrax threats and living with terrorism.

As the Committee is aware, nearly all NSF-appropriated funds are received through competitively awarded grants, with only 5 percent going to salaries and expenses. NSF is unique in its ability to channel the majority of its funding to the specific goal of acquiring knowledge and conducting research. To promote this worthy endeavor, the Society supports an increase in NSF grant size and duration. The average 2000 NSF award was $93,000 and lasted for just under 3 years, whereas the average 2000 NIH award was $283,000 and lasted for just over 4 years. By increasing the award duration, valuable time is spent conducting actual research rather than submitting proposals. Lapse time in research is reduced and a trained and knowledgeable staff can be more easily retained. In addition, less NSF staff time is dedicated to reviewing and approving research which has already been deemed valuable.

We are pleased with the NSF request for $37 million to increase graduate student stipends from $21,500 per year in fiscal year 2002 to $25,000 in fiscal year 2003. We believe this is critical to ensuring that the best students continue with graduate and postgraduate study in the scientific fields. The Society for Neuroscience supports continued funding for Nanoscale Science and Engineering. In its third year of funding, this priority area holds great promise of discovery for the future of neuroscience as well as other scientific endeavors.

Department of Veterans Affairs

As you know, the Veterans Administration (VA) is the nation's largest direct provider of healthcare services and the nation's most clinically focused setting for medical and prosthetics research. As a result of the VA's ability to integrate clinical and basic research application by research physicians, the nation's medical research enterprise benefits our nation's veterans with rapid transfer of new medical knowledge.

The President's budget request for VA health research is $409 million. This recommendation includes a $23 million increase in actual research funding from the fiscal year 2002 level of $371 million. The Society for Neuroscience supports the Friends of VA (FOVA) and the Independent Budget for the Veteran's Administration request $460 million for the Medical and Prosthetic Research account for fiscal year 2003. This increase is necessary to offset the higher costs of administration resulting from inflation and wage increases.

In order to continue to provide our nation's veterans with the best possible care, the VA needs to attract highly qualified researchers and clinicians. The VA Research and Development program, one of the nation's premier research endeavors, was established to improve health care for veterans and focus research on injuries and illnesses specifically relevant to veterans. In keeping with progress on other medical research initiatives through the National Institutes of Health, the Society believes research focused specifically on improving the health and quality of life for our nation's veterans is a worthwhile investment.

The VA has delineated several areas of research which are funding priorities for fiscal year 2003. Included in this list is the Quality Enhancement Research Initiative (QUERI) program, a portion of which would be used to fund centers in dementia/Alzheimer's and diseases of the brain, where the VA has indicated additional studies are needed on the impact of different classes of psychiatric drugs on cognitive and behavioral function.

The Quality Enhancement Research Initiative (QUERI) was launched in 1998 by the Office of Research and Development to create and implement a national system to translate research discoveries, and innovations of known effective and efficient diagnostic and treatment strategies into high-quality patient care and system-wide improvements. QUERI is a multidisciplinary, data driven, outcomes-based quality improvement program that promotes the use of evidence in the provision of outpatient, inpatient, and long term care.

QUERI is based on a strategic framework that supports a comprehensive process for translating research evidence into action. The QUERI process includes the following six steps:

—Identify high-risk/high volume diseases or problems
—Identify best practices
—Define existing practice patterns and outcomes across VA and current variation from best practices
—Identify and implement interventions to promote best practices
—Document that best practices improve outcomes
—Document that outcomes are associated with improved health related quality of life

Conclusion

Mr. Chairman, the National Science Foundation and the VA medical system serve a critically important role by providing our nation's researchers the opportunity to learn more about the diseases and conditions that affect our quality of life. With advanced research performed collaboratively with NSF or with the VA, all Americans stand to benefit. We would encourage the committee to include increased funding within NSF and VA research programs among the Subcommittee's highest priorities. We thank you for your interest and consideration.

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 both the U.S. Environmental Protection Agency (EPA) and the Federal Emergency Management Agency (FEMA).

ENVIRONMENTAL PROTECTION AGENCY

State Pollution Control Grants (Section 106)

Funding for Section 106 State Pollution Control Grants would decline by $12.1 million under the Administration's fiscal year 2003 budget request. This cut would translate into a loss of $1.482 million to State water quality programs in the five Upper Mississippi River Basin States. The Federal Section 106 funds, in combination with the States' matching dollars, support the core State water quality programs, including water quality assessment and monitoring, surface and ground water standards, point source permitting, and training and public information. Adequate funds are particularly critical to supporting the States' development and implementation of total maximum daily loads (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. At a minimum, UMRBA supports maintaining Section 106 funding at the fiscal year 2002 level of $192.5 million. To the extent possible, funding should be enhanced to $200 million.

Clean Water State Revolving Funds

The UMRBA is deeply concerned about the lack of support in the Administration's fiscal year 2003 budget proposal for the Clean Water State Revolving Fund (CWSRF), which helps address wastewater infrastructure needs. The CWSRF has made tremendous contributions to improving the nation's water quality. In fiscal year 2002, the five Upper Mississippi River Basin States received a total of $177 million in CWSRF funding. However, the CWSRF is proposed to be cut by 10.2 percent in fiscal year 2003, funding it at $1.212 billion, rather than at its authorized historical level of $1.35 billion. Given the flexibility to redirect wastewater funds to the Drinking Water State Revolving Fund (DWSRF), even less than $1.212 billion might well be available for the wastewater SRFs. While the flexibility to shift among these programs can help the States address their most pressing needs, it is no substitute for adequate funding. Estimates of the nation's wastewater infrastructure needs certainly vary, as evidenced in the Congressional deliberations on new water infrastructure financing legislation (H.R. 3930 and S. 1961). However, there is absolutely no doubt there are substantial unmet needs. The high demand for these funds underscores the need to reauthorize CWSRF funding and increase annual Federal appropriations to $2 billion.

State Nonpoint Source Grants (Section 319)

The Administration has requested $238.5 million for the Section 319 State nonpoint source (NPS) grant program, a modest increase of $1 million above fiscal year 2001 and 02 funding levels. Nonpoint sources are one of the major causes of water pollution in the Upper Mississippi River Basin, which drains the nation's agricultural heartland. Adequate funding for Section 319 and complementary efforts, including the USDA's conservation programs, is essential to meeting the region's major water quality challenges. While the UMRBA is pleased that the Administration is seeking a slight increase in Section 319 funding, it should be recognized that continued progress in addressing nonpoint pollution will require significantly increased resources.

Watershed Initiative

The Administration has proposed $20 million in fiscal year 2003 for a new targeted Watershed Initiative. While the details of how the program will be implemented are not yet available, the intent is to provide grants to approximately 20 local watershed efforts on a competitive basis. Although UMRBA supports funding for watershed planning and management, it should not come at the expense of well-established programs such as Section 106 and Section 319. Redirecting this funding to existing State grant programs would also obviate the need to establish new bureaucratic mechanisms within EPA to administer this new grant program. The fiscal year 2003 budget identifies $1 million and 10 additional FTEs to simply administer the new program. These resources could be much more productively employed in existing programs.

Environmental Monitoring and Assessment (EMAP)

EPA's fiscal year 2003 budget includes $38.26 million for its Environmental Monitoring and Assessment Program (EMAP). Of this amount, $4.875 million is proposed as a new initiative to extend the EMAP approach to large rivers in the Mississippi River Basin (Central Basin). Initially, under such an initiative, the scientific principles developed by EMAP for regional scale assessment and monitoring will be applied to the Missouri and Upper Mississippi Rivers. These rivers are challenged by long term loadings of nutrients, 2 sediments, and toxic chemicals, as well as extensive habitat alternatives. The Central Basin EMAP initiative is intended to fill the scientific gaps (indicators, sampling design, and sampling methodology) that currently limit our ability to assess baseline conditions and measure the performance of environmental protection activities. The resulting advancements in monitoring technology and approaches could be potentially useful in guiding the development of TMDLs on major rivers such as the Missouri and Mississippi Rivers. UMRBA thus supports proposed funding of $4.875 million for the Central Basin EMAP.

Hypoxia Action Plan

The UMRBA is disappointed that the Administration's fiscal year 2003 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.

FEDERAL EMERGENCY MANAGEMENT AGENCY

Mitigation—Of particular interest to UMRBA is funding for mitigation of future flood hazards. Mitigation, which is the on-going effort to reduce or eliminate the impact of disasters like floods, can include measures such as relocating homes or community facilities off the floodplain, elevating structures, and practicing sound land use planning. Mitigation planning and implementation measures are essential to reducing the nation's future disaster assistance costs. Given the importance of mitigation, UMRBA supports the new Pre-Disaster Mitigation grant program proposed by FEMA and funded at $300 million in the President's proposed fiscal year 2003 budget. Such a program would significantly enhance communities' ability to prevent future damages, particularly in areas that have not experienced a major disaster and thus have not had access to postdisaster mitigation assistance through the Disaster Relief Fund. In addition, pre-disaster mitigation assistance is an effective means of

meeting the on-going need in—all communities to plan for future floods and reduce their vulnerability before the next flood disaster.

Unfortunately, the Administration's proposal for a new Pre-Disaster Mitigation Program is based on the premise that the existing post-disaster Hazard Mitigation Grant Program (HMGP) will be eliminated. The HMGP has been a particularly popular and enormously helpful program. Authorized under Section 404 of the Stafford Act, the HMGP provides grants to States and local governments to implement long-term hazard mitigation measures after a major disaster declaration. Because grant funds are made available during the immediate recovery from a disaster, it offers a particularly attractive option for communities that may not otherwise consider mitigation. It is critical to maintain this post-disaster option, in addition to creating a new pre-disaster mitigation option. Local communities need both. In addition, by retaining the HMGP, mitigation assistance specifically for flood damages would continue to be available to communities that experience disastrous flooding. In contrast, flood mitigation projects under FEMA's new pre-disaster program will need to compete for funding with mitigation projects for a wide variety of other potential disasters, thus diminishing the likelihood that flood mitigation needs will be met.

Therefore, UMRBA supports funding of $300 million for a new Pre-Disaster Mitigation Program and urges Congress to reject the Administration's proposal to eliminate the postdisaster HMGP.

Flood Map Modernization—UMRBA enthusiastically supports the Administration's proposal to provide $300 million to modernize and digitize flood maps. Among other things, flood maps are used to determine risk-based NFIP premium rates and develop disaster response plans for Federal, State, and local emergency management personnel. However, most flood maps are over 15 years old and axe rapidly becoming obsolete. Many flood maps are outdated by the effects of land use changes in the watersheds. When out-dated maps underestimate flood depths, it can often lead to floodplain development in high risk areas. It is therefore important that flood maps be updated on an ongoing basis and in a timely way.

The Corps of Engineers is currently conducting a Flow Frequency Study that will update the discharge frequency relationships and water surface profiles of approximately 2,000 river miles of the Upper Mississippi, Lower Missouri, and Illinois Rivers. This data will have a variety of uses, including updating Flood Insurance Rate Maps (FIRMs) used by hundreds of flood prone communities along these rivers. The Corps and FEMA have estimated that 4,237 map panels in the 130 counties along these rivers will need to be revised at a cost of approximately $30 million. Using data from the Corps study will be a far more cost-effective way to update FIRMs than having FEMA independently study flood hazards and update the maps. UMRBA therefore urges Congress to designate funding specifically for the Upper Mississippi flood mapping project and direct FEMA and the Corps to coordinate their efforts to advance FIRM updates.

PREPARED STATEMENT OF THE UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

On behalf of the University Corporation for Atmospheric Research (UCAR) and the university community involved in weather and climate research and related education, training and support activities, I submit this written testimony for the record of the U.S. Senate Committee on Appropriations, Subcommittee on VA, HUD and Independent Agencies for the fiscal year 2003 budget.

UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

UCAR is a consortium of 66 universities that manages and operates the National Center for Atmospheric Research (NCAR) and additional research, education, training, and research applications programs in the atmospheric and related sciences. The UCAR mission is to support, enhance, and extend the research and education capabilities of the university community, nationally and internationally; to understand the behavior of the atmosphere and related systems and the global environment; and to foster the transfer of knowledge and technology for the betterment of life on earth. In addition to its member universities, UCAR has formal relationships with approximately 100 additional undergraduate and graduate schools including several historically black and minority-serving institutions, and 40 international universities and laboratories. UCAR is supported by the National Science Foundation (NSF) and other federal agencies including the National Aeronautics and Space Administration (NASA).

INTRODUCTION

Recent events that have shaken our nation's physical and economic well-being, point unequivocally to the fact that we must depend now, more than at any time in the country's history, on investments in science and technology. In his remarks at his confirmation hearing, Dr. John Marburger, the President's Science Advisor, stated that, "More than any other nation, we have used science and technology wisely to create peace, advance democracy, and provide for the well-being of our citizens Economists tell us that fully half of our economic growth in the last half-century has come from technological innovation and the science that supported it. . . The Federal role is crucial If we sustain our investments in basic research, we can ensure that the United States remains at the forefront of scientific capability, thereby enhancing our ability to shape and improve the world's future." The science agencies funded by the VA, HUD and Independent Agencies budget have an enormous role to play in shaping that future. I would like to comment on the budget requests for two of those agencies, NSF and NASA.

NATIONAL SCIENCE FOUNDATION (NSF)

The President's fiscal year 2003 Budget Request of $5.02 billion for NSF, a 4.9 percent increase from fiscal year 2002, includes $76.0 million in transfers from other agencies. Subtracting those transfers, the real increase for NSF is $155.0 million, or 3.4 percent over fiscal year 2002. When inflation is taken into consideration, this is essentially a flat budget. Yet the President's NSF Budget Request states that the established priorities, "take into account both growing needs and expanding opportunities for high-impact investments to strengthen world leadership in science, engineering and technology. They aim to keep the nation's science and engineering enterprise healthy, dynamic and relevant." Last year, 54 U.S. Senators signed a "Dear Colleague" letter to the Senate leadership supporting doubling the NSF budget over 5 years. If that formula is followed, then addressing the priorities that have been established by the Administration could be within reach. If the numbers in the Budget Request prevail, then we will fail to address those priorities, as critical as they are to the current and future health and security of our nation. The productivity of the U.S. science and engineering enterprise, and to some extent, the technology used for national security applications, depend on NSF support of fundamental research. I agree with the call from the American Association of Universities (AAU) and the Coalition for National Science Funding (CNSF) to appropriate for the agency a 15 percent increase thereby continuing the momentum of the NSF doubling effort begun in fiscal year 2001 and continued at a more constrained level in fiscal year 2002. However, I also understand that these are extraordinary times with extraordinary fiscal pressures. Therefore, I ask the Committee to continue in fiscal year 2003, to the extent possible, the effort to double the NSF budget by supporting at least a 10.0 percent increase for a total budget of at least $5.34 billion. (This figure includes the proposed transfers in addition to a real 10.0 percent increase over fiscal year 2002.)

This is an increase that the science community has the capacity to use immediately and well. A 10 percent increase can be productive in terms of the NSF grant size and duration. The average grant size has been falling in constant dollars over many years. According to the CNSF, "The average NSF grant in the year 2000 was for $93,000 and lasted for just under 3 years. By comparison, the average NIH grant in 2000 was for $283,000, and lasted for just over 4 years. Increasing the size and time period of grants will enable researchers to concentrate on discovery rather than paperwork." Each year, NSF receives approximately 30,000 proposals and has the resources to fund only one third of them. Nearly $2.0 billion worth of proposals rated very good to excellent through the merit review process go unfunded. Recent national competitions have produced success rates as low as 7.0 percent, not because of a paucity of excellent proposals, but because of lack of adequate funding. These low proposal success rates reflect a capacity for progress in this country that is not being realized.

Within the NSF, I would like to comment on the following specific initiatives and programs that are of great importance to the country's global scientific leadership and to the advancement of the atmospheric and related sciences:

Research and Related Activities (R&RA)

When the transfers mentioned above are subtracted from the fiscal year 2003 budget request for NSF's R&RA, the heart of this nation's non-medical basic research budget, the numbers are increased by only 3.0 percent over fiscal year 2002 levels. This amount, barely enough to cover inflation, is then reflected in the budgets of most of the NSF Research Directorates. The peer-reviewed work supported

by these directorates represents a major portion of the nation's scientific research achievement and technological advancement. I urge the Committee to allocate for Research and Related Activities an amount that reflects an overall increase of at least 10.0 percent for NSF as requested above.

Geosciences (GEO) Directorate.—The Budget Request for RRA's GEO Directorate shows a 13.0 percent increase over fiscal year 2002. When the proposed external agency transfers, all of which affect the GEO budget, are removed from the request, the apparent real increase for GEO is $4.0 million, or 0.65 percent much less than inflation. However, when fiscal year 2003 mandated programs (these include the proposed transfers and the Climate Change Research Initiative detailed below) are subtracted from the GEO total, the Directorate's funding is actually down by $22.0 million from the fiscal year 2002 Current Plan total. This represents a significant decrease for core research that is of direct importance to the physical safety of our citizens, our economic health, and global issues of national security relevance, such as climate change and the environmental health of the planet.

The GEO Directorate is this country's principal source of funding for university-based research in the atmospheric, earth and ocean sciences. As the Budget Request states, "GEO plays a critical role in addressing the nation's need to understand, predict and respond to environmental events and changes and to use the Earth's resources wisely." Through involvement in such interagency programs as the U.S. Weather Research Program (USWRP), the National Space Weather Program (NSWP), and the U.S. Global Change Research Program (USGCRP), GEO core research advances our ability to predict natural phenomena of economic and human significance such as severe storms, solar variability, and climate patterns and change that affect food production, potable water supplies, human migration, the survival of plant and animal species, and the security of coastal zones. The fiscal year 2003 Budget Request lists GEO involvement in a new program of the Administration, the Climate Change Research Initiative (CCRI—see below for more detail), at a total of $10.0 million. While the CCRI activities listed are of importance to climate research, there appears to be no new money in the request to cover this worthy, proposed work. The CCRI mandated research is therefore part of the $22.0 million total in Administration-requested programs that will negatively affect the funds available for the core GEO program.

Both the Federal government and the private sector estimate that over $2.0 trillion of the $10.0 trillion U.S. gross national product is affected annually by weather and climate. Given the current struggles within our energy sector and within the economy as a whole, this is an unfortunate time to decrease research efforts that could help to anticipate weather and climate variability more effectively. I urge the Committee to allocate for the GEO Directorate an amount that reflects an overall real increase of at least 10.0 percent for NSF as requested above. I further urge the Committee to take into consideration in final allocations, the impact of the proposed agency transfers on GEO. If the language of the final bill allocates any increased RRA funding to NSF scientific directorates in proportion to percentages in the original request, but fails to include the amount of the proposed transfers if they are not accomplished, then the academic community funded by the GEO Directorate will be at a great disadvantage since its requested real increase is the lowest of all the NSF directorates.

Atmospheric Sciences (ATM).—Within the GEO Directorate, the Division of Atmospheric Sciences supports research that contributes new understanding of the behavior of the Earth's atmosphere and its interactions with the sun. The fiscal year 2002 Current Plan total is $202.0 million. The Budget Request includes as ATM responsibilities two of the agency transfers. Once those are subtracted from the total request, ATM must still reduce its base by $7.4 million from fiscal year 2002 Current Plan numbers in order to accommodate additional requested mandates such as the new CCRI. Therefore, while it appears that ATM's Atmospheric Sciences Research Support line receives an 11.3 percent increase (once $8.56 million in agency transfers is subtracted), this amount is quickly eroded by the Administration's CCRI new initiative. ATM funds fuel a major percentage of the country's university research in weather, climate, and the solar-terrestrial system. The ATM programs highlighted in the fiscal year 2003 request include enhancing computer systems and numerical models; continuing to evolve our understanding of the processes that control the atmospheric distribution of carbon, water, and other nutrients; and continuing to develop an upper atmospheric radar system to mitigate society's vulnerability to space storms. I question whether these advances are possible in the face of no real funding increase.

Also funded within ATM, the world-class National Center for Atmospheric Research (NCAR) supports the country's entire atmospheric and related sciences community through observational and computer facilities, instrumented research air-

craft, and an extensive visiting scientist program. In fiscal year 2002, more than 1,500 researchers and students will use the NCAR facilities and approximately 150 visiting scientists will stay for extended periods. NCAR has just been given excellent marks in a rigorous peer review conducted by NSF with heavy involvement from the university community. The center's research spans areas that are of great significance to the safety of our citizens, the health of our economy, and the security of our communications infrastructure, yet, apparently in order to accommodate the Administration's mandated programs, the President's Budget Request for fiscal year 2003 decreases the NCAR budget by 3.9 percent based on Current Plan fiscal year 2002 amounts. This reduction, when combined with the effects of inflation, will significantly reduce the productive and highly valued programs of NCAR that support the national, university-based atmospheric sciences community.

I urge the Committee to allocate for ATM an amount that reflects a real overall increase of at least 10.0 percent for NSF as requested above, in order to enable the agency to adequately fund the university community involved in atmospheric sciences research and to provide a super-inflationary increase for the National Center for Atmospheric Research to preserve and enhance its highly valued, community-supporting programs. I further urge the Committee to take into consideration in final allocations, the effect of two proposed agency transfers on ATM. If the language of the final bill allocates any increased RRA funding to NSF scientific directorates and programs in proportion to percentages in the original request, but fails to include the amount of the proposed transfers if they are not accomplished, then the academic community funded by ATM, including NCAR, will be at a great disadvantage since its requested real increase is extremely low.

As a contribution within the GEO budget to the NSF Learning for the 21st Century overall NSF priority area, we appreciate the funding being allocated for innovative approaches to education including the continued development of the geosciences community's Digital Library for Earth Systems Science (DLESE). We would also like to call your attention to the UCAR program, Significant Opportunities in Atmospheric Research and Science (SOARS), which is funded directly by ATM within GEO. Recipient of a 2001 Presidential Award for Excellence in Science, Mathematics, and Engineering Mentoring, SOARS is having a positive impact on the number of ethnically diverse atmospheric sciences graduate students through its model mentoring approach and research orientation, and is an excellent example of NSF's efforts to produce a diverse, internationally competitive workforce to meet the challenges of this new century.

Major Research Equipment and Facilities Construction (MREFC) Programs

The Tools section of the NSF Budget Request states that, "NSF provides support for large, multi-user facilities which give researchers access to essential state-of-the-art facilities. Support for these unique national facilities is necessary to advance U.S. capabilities required for world-class research." Yet NSF's MREFC account, the major NSF resource for non-medical research facilities in this country, is decreased by 9.3 percent from the fiscal year 2002 actual level. I urge the Committee to examine the Major Research Equipment and Facilities Construction account cuts and to add funding for programs that have been planned carefully, that have been partially funded already, and that promise tremendous advances in this country's research capabilities.

Terascale Computing Systems.—The multi-agency terascale effort is a key component of this country's strategy to gain leading edge access to computing capabilities. For years, this country has lagged behind other developed nations in high-end computing, a situation that has adversely affected the atmospheric science community's ability to run the complex models necessary to understand and predict regional and global climate change. Advances that accompany the completion of the terascale effort will return significant scientific advancements in all fields. I urge the Committee to support the President's fiscal year 2003 request of $20.0 million for Terascale Computing Systems that will enable U.S. researchers to gain access to leading edge computing capabilities, and to support the budget request for NSF's Directorate for Computer and Information Science and Engineering (CISE) in its oversight of the terascale project through the Advanced Computational Infrastructure Subactivity.

High-performance Instrumented Airborne Platform for Environmental Research (HIAPER).—While we support the great advances in science and technology that all MREFC-funded programs represent, we are disappointed as a community to see that HIAPER is not included in the fiscal year 2003 Budget Request. Following approval of the program by the National Science Board, funding for this modern research aircraft was begun by Congress in fiscal year 2000 and continued in fiscal year 2001 and fiscal year 2002, for a total of $55.97 million of the $81.5 million

project total. We sincerely hope that funding is completed in fiscal year 2003 since NSF has just retired one other research aircraft and all delays in instrumenting the already procured Gulfstream airframe for HIAPER will result in higher completion costs. We look forward to HIAPER's vital contribution to our understanding of how severe weather and other weather and climate phenomena develop and impact the nation and the globe.

Earthscope.—This multi-purpose geophysical instrument array will allow scientists to make major advances in our knowledge and understanding of the structure and dynamics of the North American continent. The initial Earthscope activity, deployment of high-capability seismometers throughout the United States, will improve our resolution of the subsurface structure and lead to advances in understanding fault conditions and the rupture processes of earthquakes. I applaud the Administration's inclusion of Earthscope in the fiscal year 2003 MREFC request and urge the Committee to support this program.

Education and Human Resources (EHR)

Nothing is more important for the future of our nation than the education of next generations of leaders, of a work force skilled in uses of technology, and of citizens who can make informed decisions in our democratic society. I applaud the long overdue request for increased stipends (to $25,000 annually) to attract our best graduates for research and teaching fellowships and ask the Committee to make sure that this stipend increase is included in the final budget bill.

I support also the Administration's call to strengthen NSF's ability to leverage institutional partnerships for the systemic improvement of math and science education. However, I ask the Committee to ensure that EHR existing programs are complemented and strengthened, not compromised, by the expansion of the Math and Science Partnership program. This EHR program receives an additional $40.0 million in this year's request while all of EHR is increased by only $33.0 million, an obvious and significant $7.0 million gap.

While the 3.8 percent requested overall increase for EHR may not seem adequate to meet the country's needs, it is my belief that the NSF science directorates and the MREFC account are in far greater need of enhancements this year. Therefore, I urge the Committee to support the President's request of $908.0 million in fiscal year 2002 for Education and Human Resources, a 3.8 percent increase over fiscal year 2002.

National STEM Education Digital Library (NSDL).—The NSDL goal is to produce a digital library of high-quality educational materials at all levels in science, technology, engineering and mathematics (STEM,) that enables the development of virtual learning communities. This research, teaching and learning resource is being developed by a broad range of universities and UCAR in response to needs articulated by the academic community. NSDL presents a tremendous opportunity to improve access to superior instructional materials and advanced classroom technologies. The fiscal year 2003 NSDL request represents a cut of $960,000, or 2.0 percent below fiscal year 2002 levels. This decrease will cause a 10.0 percent reduction in collections supported. I urge the Committee to support the National STEM Digital Library (NSDL) by appropriating at least the President's fiscal year 2003 request of $23.6 million, and ask that the momentum to fund this important activity be resumed at a higher level in fiscal year 2004.

U.S. Global Change Research Program (USGCRP)

The President's request for USGCRP activities within NSF is $188.0 million for fiscal year 2003. This amount has been absolutely flat since fiscal year 2000 and therefore represents the continued erosion of NSF's contribution to this interagency program that addresses interactions among physical, biological, ecological, and human systems at various scales. Working with national and international research institutions, this program allows the atmospheric sciences community to improve prediction capabilities for climate fluctuations between excessively wet and dry periods, and for long-term climate change. This research is a critical investment for the future of this nation, its economy, and the health and safety of its citizens.

In fiscal year 2003, the Administration will institute the Climate Change Research Initiative (CCRI) as part of a new interagency effort. CCRI deliverables will be targeted at information of strategic use to policy-makers, such as advanced understanding of the carbon cycle, improved ability to manage risk associated with climate change, more and better measurements of greenhouse gases, and improvements of climate models. It is critical, for both financial and scientific reasons, that the CCRI build on the extensive knowledge already gained under USGCRP activities, and that Initiative and Program activities be coordinated and leveraged to the greatest extent possible. Therefore, I urge the Committee to support the establish-

ment of the Climate Change Research Initiative with new funding so that this initiative does not compromise existing core research programs, to enable to the fullest extent possible CCRI enhancement of and collaboration with USGCRP research, and to support the Initiative's and the Program's needed growth in years to come in order to provide continuous knowledge and guidance that contributes to the nation's security and well-being.

NSF Priority Areas

Information Technology Research (ITR).—The ongoing ITR investment is enabling the development of tools to strengthen all-pervasive information technology applications in science, commerce, education, and government. Advances include the creation of new integrative software for high-end computing, applications to provide security for cyberinfrastructure in the academic, government, and business communities; support for the creation of digital library collections; and the strengthening of large-scale computer networks. The initiative promises innovations that will provide efficiencies in the way university researchers process and access data, communicate with collaborators, and share research results. Given the enormous Earth systems and solar-terrestrial data sets that are critical to atmospheric sciences research, it is possible that the ITR computational effort could advance our field of science through innovative processing, archiving, and networking methods which we have not yet imagined. I urge the Committee to support the President's fiscal year 2003 request of $285.8 million, a 3 percent increase, for Information Technology Research, to increase funding, if possible, for this initiative that has direct applications to our national security and economic well-being, and to support the NSF in its role as leader of this multi-agency initiative.

Mathematical Sciences.—Mathematics is a basic and indispensable tool for many scientific fields including the atmospheric sciences; recent progress in climate science in particular has been made possible by new mathematical and statistical tools and applications. One of the great challenges to advancing climate change research, weather prediction, and the study of solar-terrestrial interactions is the incredible amount of data that must be captured, organized, and analyzed. I applaud the Mathematical Sciences focus on investigating the challenges posed by large data sets such as those generated by today's sophisticated sensors and satellite observations systems. I urge the Committee to support the Administration's scale-up efforts in Mathematical Sciences by allocating the $6.0 million request, a 100.3 percent increase, for Mathematical Sciences.

Social, Behavioral and Economic (SBE) Sciences.—This new priority area seems to take a creative approach toward achieving the goal of enabling this country to take greater advantage of technology while anticipating and preparing for the very real and significant accompanying challenges and consequences. As part of the Climate Change Research Initiative (CCRI) mentioned above, SBE priority area support is requested by the Administration for research on decision-making under uncertainty within the context of global change research. While much is known about climate change and its potential societal impacts, much is left to be discovered and much may remain unknowable given the great difficulties inherent in attempting to reproduce the entire Earth system in computer models. If the $10.0 million requested for this priority area is new money to be added to the SBE Directorate, then I urge the Committee to approve the request to establish the Social, Behavioral and Economic Sciences priority area.

Learning for the 21st Century.—In order to remain a global leader in most scientific fields and competitive in all areas, and to maintain national security at the highest possible level, this country must offer the opportunity for all of our citizens to increase their understanding of science, mathematics, and technology and to meet the challenges of the dramatic global transition to a technology-literate workforce. The goals of this initiative in fiscal year 2003 are to establish national centers to expand our understanding of the learning process and demonstrate effective workforce preparation strategies, and to explore the potential of information technology to strengthen links between formal and informal education across all levels. I urge the Committee to support the President's fiscal year 2003 request of $184.7 million, a 27.5 percent increase, for the Learning for the 21st Century initiative.

Biocomplexity in the Environment (BE).—This interdisciplinary initiative is rapidly advancing our ability to understand the complex systems that are structured or influenced by living organisms and the interactions within biological systems and physical processes. We are confident that BE efforts will lead eventually to better understanding of human impacts on the environment and enhanced predictability of environmental systems, including climate, that will assist environmental decision makers and contribute to society's ability to adapt to natural hazards. I urge the

Committee to support the President's fiscal year 2003 request of $79.2 million, a 36.3 percent increase, for Biocomplexity in the Environment.

Nanoscale Science and Engineering.—Nanotechnology promises to revolutionize our control of matter in areas such as information technology and to change the way in which most products are made. We look forward to the manner in which it may advance research in the field of the atmospheric sciences, particularly through possible major breakthroughs in the development of technology such as computers, radars, and satellites. I urge the Committee to support the President's fiscal year 2003 request of $221.2 million, an 11.3 percent increase, for Nanoscale Science and Engineering.

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION (NASA)

NASA supports science, technology, and exploration that enables us to better understand the origin and evolution of the universe, better comprehend Earth's climate and other environmental forces, study living and physical systems in the environment of space, and improve aviation safety and efficiency. The agency provides crucial support for research and education by awarding, through the competitive selection of merit-reviewed proposals, approximately $1.0 billion annually to colleges and universities across the country.

The Administration's fiscal year 2003 overall request for NASA is $15.1 billion, a 1.4 percent increase over fiscal year 2002 estimates. (This includes pension expenses that NASA now may have to incur.) This request reflects less, in real dollars, than the investment our country made in NASA's science 10 years ago. While I understand that significant budgetary issues exist, and that the nation's resources are stretched during these extraordinary times, I believe that NASA's current and potential contributions to the nation's security and scientific knowledge are so great that the agency should be given some budgetary flexibility and room for growth. I urge the Committee to support NASA with a modest 5.0 percent increase, or a total of $15.7 billion, for fiscal year 2003.

NASA's Science, Aeronautics and Technology (SAT) appropriation provides funding for all of the research and development activities of NASA including the application of technologies critical to the economic, scientific, and technical competitiveness of the nation. The Budget Request for SAT is $8.84 billion. This appears to be a 9.9 percent increase over fiscal year 2002, however approximately half of this amount consists of operations transfers formerly budgeted under the Human Space Flight account. Therefore, I urge the Committee to appropriate for the fiscal year 2003 Science, Aeronautics and Technology budget a real 5.0 percent increase, or a total of $9.28 billion, an amount that reflects an overall increase of 5.0 percent for NASA as requested above.

I would like to comment on the budgets of the following SAT programs that contribute to the health and well-being of the nation, in part through the achievements of the atmospheric and related sciences community:

Earth Science Enterprise (ESE)

The goal of the Earth Science Enterprise is to understand Earth's environmental system and its response to natural- and human-induced changes, thus enabling improved prediction of climate, weather, and natural hazards as well as responsible stewardship of the planet. NASA ESE missions play a pivotal role for the entire national environmental research community in providing critical data sets on key parameters that describe the Earth system and the human influences on that system. In the past 3 years, Earth Science has successfully launched 11 missions and six more are scheduled for launch this year. The fiscal year 2003 Budget Request proposes a total of $1.62 billion for Earth Science. This is a 0.17 percent increase over fiscal year 2002 that does not even cover inflation and essentially mirrors increases to this crucial NASA program in recent years. Therefore, I urge the Committee to support the Earth Science Enterprise at $1.75 billion, a 5.0 percent increase, in fiscal year 2003 so that NASA may have the flexibility to enhance ESE programs that are crucial to understanding our planet's environmental system.

ESE contains several programs that are of great benefit to society, and are of particular importance to the atmospheric sciences community, including the following:

Earth Observing System (EOS).—As part of NASA's contribution to the interagency U.S. Global Change Research Program (please see details below), the Earth Observing System (EOS) satellites have been deployed to collect data on the major interactions of the land, oceans, atmosphere, ice, and life that comprise the Earth system in order to answer questions about how the Earth is changing and what the consequences of those changes are for life. EOS data sets are used broadly by scientists and are crucial for research in a number of scientific fields. I urge the Committee to support the fiscal year 2003 request of $410.9 million, a 6.6 percent in-

crease over fiscal year 2002 levels, for the next phase of EOS programming that includes the following components:

—*EOS Data and Information System (EOSDIS).*—EOSDIS is operating the EOS satellites now in orbit and retrieving flight data and converting it into useful scientific information. Development of EOSDIS is nearly complete with remaining activities timed to support the upcoming launches of EOS missions through AURA in 2004, therefore the EOSDIS request is decreased appropriately from that of past years. I urge the Committee to support the President's request of $74.3 million for EOSDIS in fiscal year 2003.

—*AURA (Mission of the EOS Common Spacecraft).*—In the troposphere and lower stratosphere (altitudes up to 20 km), the four instruments of the AURA mission will measure ozone, aerosols, and several other key atmospheric constituents that play an important role in atmospheric chemistry, air quality, and climate. Scheduled to launch in January 2004, this mission will provide data to answer such critical questions as whether the Earth's ozone layer is recovering and whether air quality is deteriorating around the globe. These are issues that affect environmental policies and international agreements. I urge the Committee to support the fiscal year 2003 budget request of $85.3 million, a necessary 21.0 percent increase over fiscal year 2002 levels, for AURA instrument completion.

—*EOS Follow-On.*—As the first cycle of EOS missions comes to a close, EOS Follow-On missions are being planned to continue to meet the scientific needs of the NASA Earth science projects. This next generation of missions will provide new technology and space systems to continue global climate change observations, extend the global land cover change data set, and create improved observations of atmospheric phenomena such as global precipitation, ocean wind vectors, and aerosol levels. Much of the fiscal year 2003 EOS Follow-On requested increase is directed to the NPOESS Preparatory Project (NPP), which will fulfill NASA's commitment to obtain and make available a 15-year data record for fundamental global climate change observations. I urge the Committee to support the Administration's fiscal year 2003 request of $238.5 million, a 117 percent increase, for EOS Follow-On programs.

Space Science Enterprise

The extraordinary mission of the Space Science Enterprise to chart the evolution of the universe and understand its galaxies, stars, planetary bodies, and life; to discover planets around other stars; and to understand the behavior of the sun and its interaction with Earth, is of great interest to the public as well as the academic community. These challenges form the basis of the country's space science program over the next several decades. While Space Science appears to receive a 19.1 percent increase in the Budget Request, $200.0 million of the $547.0 million increase consists of the transfer from the Human Space Flight account of the operations for the Deep Space Network and the Mission Services for Space Science missions. This transfer results in no significant budgetary impacts. I urge the Committee to support the Administration's fiscal year 2003 request for the Space Science Enterprise of $3.4 billion, a 10.0 percent increase over fiscal year 2002 once transfers are subtracted.

Sun Earth Connections (SEC).—The SEC program within the Space Science Enterprise formulates missions to investigate the effects of solar phenomena on Earth and on the space environment. Its overall goal is to understand the changing sun and its effects on the Solar System, life, and society. I urge the Committee to support the Administration's request for growth within Sun Earth Connections by appropriating the request of $117.8 million, a 107.0 percent increase over fiscal year 2002 levels.

SEC contains several missions within its Solar Terrestrial Probes program that promise great benefit to society, and are of particular importance to our community, including the following:

—Thermosphere, Ionosphere, Mesosphere Energetics and Dynamics (TIMED), the first science mission of Solar Terrestrial Probes within SEC, was successfully launched last December. Data are being now collected for the first time on the composition of the Mesosphere and Lower Thermosphere/Ionosphere (MLTI) region of the Earth's atmosphere, the layer that is the fragile gateway between the Earth's environment and space. Through data analysis, TIMED will investigate the influences of the sun and humans on this region of the atmosphere (60–180 km altitude) in order to understand MLTI variability and the potential impact of these changes on satellite tracking, spacecraft lifetimes, degradation of spacecraft materials, and re-entry of piloted vehicles. I urge the Committee to support the fiscal year 2003 request of $3.1 million for continued TIMED operations as well as the $6.9 million request for TIMED mission data analysis.

—Solar-B, scheduled to launch in 2005, is a U.S./Japan collaboration to investigate the interaction between the Sun's magnetic field and its corona. The mission will provide space weather data to help understand events such as solar mass ejections that can endanger astronauts in orbit and impact Earth's atmosphere with enough force to cause expensive communications disruptions. Much of the instrument development phase of this mission is complete, therefore the fiscal year 2003 request shows a decline from fiscal year 2002. The amount requested may be adequate for the current program phase, but reviews are underway now to determine if the delay of another program (the Astro-E Mechanical Thermal Model) has adversely affected Solar-B. Given information available now, however, I urge the Committee to support the fiscal year 2003 request for $16.2 million for the continued NASA development of the Solar B mission's instrument subsystems.

Focused Technology Programs.—The Office of Space Science Technology Program has as its goal the development of new technologies to enable innovative and less expensive research and flight missions. The Focused Programs component enables the most effective alignment of technology development programs with future missions in order to ensure that proposed mission studies are realistic and can be implemented. Solar Probe, a mission that has the potential to unlock some of the mysteries of the energetic solar coronal material, is an example of the important future programs being evaluated by the Focused Technology Program. I am concerned that funding for the Office of Science Focused Technology Program is essentially flat and I urge the Committee to provide better support for this crucial, mission-oriented function.

Office of Aerospace Technology

Aviation Safety Program Weather Safety Technologies.—While the rate of commercial aviation accidents is very low worldwide, recent dramatic increases in air traffic (with the exception of the months following September 11) have resulted in an increase in the number of accidents. If the recent rate of increase were to stay constant over the next 15 years, the result will be an average of 50 catastrophic accidents per year—almost one per week. According to the National Transportation Safety Board, approximately 30 percent of all aviation accidents, and 37 percent of the fatal accidents, are weather related.

The goal of NASA's Aviation Safety Program (AvSP), within the Office of Aerospace Technology, is to develop and demonstrate technologies that contribute to a reduction in the aviation fatal accident rate by a factor of five (compared to the 1994 1996 average) by the year 2007 and by a factor of ten by the year 2022. The Aviation Safety Program encompasses three areas, one of which is Weather Safety Technologies. In partnership with the FAA, the Department of Defense and the aviation industry, this program develops and supports the implementation of technologies to reduce fatal aviation accidents and delays caused by weather hazards. I urge the Committee to uphold the goal of reduced aviation accidents and fatalities by supporting the fiscal year 2003 request for the Weather Safety Technologies program of $20.9 million, a 17.0 percent increase over fiscal year 2002 levels.

U.S. Global Change Research Program (USGCRP)

NASA is a major contributor to the interagency USGCRP. NASA research efforts in global change involve space-based, satellite studies of the Earth as an integrated system with remotely-sensed observations carried out as part of additional flight missions. With USGCRP efforts concentrated within the Earth Science Enterprise, NASA studies are expected to yield improved weather forecasts, tools for managing agriculture and forests, information for fishermen and local planners, and eventually, the ability to predict how the climate will change. This research is a critical investment for the future of this nation, its economy, and the health and safety of its citizens. I urge the Committee to support the President's request of $1.09 billion, a 2.0 percent increase over fiscal year 2002 levels, for NASA U.S. Global Change Research Program activities.

As stated above in the testimony presented for the NSF budget, the Administration will institute in fiscal year 2003 the Climate Change Research Initiative (CCRI) as part of a new interagency effort. The President's fiscal year 2003 request for CCRI activities within NASA is $3.0 million. As stated in the NSF testimony, it is critical for both financial and scientific reasons, that the CCRI build on the extensive knowledge already gained under USGCRP activities, and that Initiative and Program activities be coordinated and leveraged to the greatest extent possible. Therefore, I urge the Committee to support the establishment of the Climate Change Research Initiative with new funding, to enable to the fullest extent possible CCRI enhancement of and collaboration with USGCRP research, and to sup-

port the Initiative's and the Program's needed growth in years to come in order to provide continuous knowledge and guidance that contributes to the nation's security and well-being.

NASA Education Programs

Since the creation of NASA through the Space Act of 1958, the agency has made a substantial commitment to education at all levels. Because of NASA's inspiring mission, the agency's work is of great interest to people of all ages. NASA is in a unique position to recruit the education community to help leverage the agency's scientific achievements, to interest students and citizens in the scientific enterprise, and to motivate many to pursue scientific study and careers. NASA's comprehensive portfolio of education programs includes teacher/faculty preparation and enhancement, student support, educational technology, support of systemic improvement, curriculum support and dissemination, and research and development. I urge the Committee to support NASA's continuing contributions to this country's broad education interests by appropriating the education programs imbedded throughout the strategic enterprises and offices delineated in NASA's fiscal year 2003 Budget Request.

CONCLUSION

I ask that the Committee continue the commitment made last year to invest steadily in our country's future. During this extraordinary time in our history, we must continue to support science in order to reap the benefits that accrue from the best research the world has to offer. History has shown that these investments will pay tremendous dividends to the country in lives saved, technologies developed, the economic health of the nation expanded, national security enhanced, and American leadership sustained throughout the world.

On behalf of the UCAR community, I want to thank the Committee for the important work you do for U.S. scientific research, education, and training. We appreciate your attention to the recommendations of our community concerning the fiscal year 2003 budget of the National Science Foundation and the National Aeronautics and Space Administration.

LIST OF WITNESSES, COMMUNICATIONS, AND PREPARED STATEMENTS

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NATIONAL SCIENCE FOUNDATION

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