GOVERNMENT-WIDE PERFORMANCE PLAN

BUDGET OF THE UNITED STATES GOVERNMENT

Fiscal Year 2000

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INTRODUCTION

> *We made a decision that was profoundly important, that the way Government works matters, that we could not maintain the confidence of the American people and we couldn't have ideas that delivered unless the Government was functioning in a sensible, modern and prudent way.*
>
> President Clinton
> December 1998

This year's budget contains the Nation's second comprehensive Government-wide Performance Plan, which has been excerpted here. The plan highlights three aspects of performance:

- Fiscal performance (see Section III, Chapter 1, "Sustaining Growth");
- Managing performance (see Section IV, "Improving Performance Through Better Management"); and
- Program performance (see Section VI, "Investing in the Common Good: Program Performance in Federal Functions").

Together these sections contain the measures and descriptions of program activity contemplated by the Government Performance and Results Act (GPRA).

The performance of Government programs is inextricably linked to the fiscal and economic environment and the management framework in which they operate. The President's commitment to not only balance the budget but to invest in the future while improving public management—to do more with less—has prompted the Administration to maintain or expand programs that demonstrate good performance.

Often performance is examined only across single organizational units, such as departments or agencies. In Section VI, the budget categorizes activities according to budget functions. The functional presentation reflects comprehensive coverage of the major accounts in the budget, grouping together similar programs to show the interrelationships between their goals. In preparing this year's budget, the Administration again relied heavily on key performance measures drawn from agency Annual Performance Plans. These more than 450 measures serve as a window into the agency 2000 plans, which will be sent to Congress following the transmittal of the budget. The goals are based on long-term goals and objectives set out in the agency Strategic Plans that were submitted to OMB and Congress in September 1997. The first agency annual performance reports on 1999 plans are due to the President and Congress in March 2000. By March 2001, agencies will report to the President and Congress on how well they met the performance goals in the 2000 plans.

The budget also includes a framework and plan for analysis of tax expenditures (Chapter 5, *Analytic Perspectives*), which aims to improve the assessment of how specific tax expenditures may affect the achievement of agency goals and objectives in the strategic and annual plans. The framework and analyses support the Government-wide Performance Plan. The analysis of the costs and benefits of regulations (Section VI, Chapter 33), which complements the Government-wide Performance Plan, are included in this excerpt. As with tax and spending policies, the Administration carefully designs and implements regulations to provide the most public benefit at the least cost.

To date, the Administration has created strategic and annual performance plans, where none existed before. More important, it has begun to change the nature of the conversation—both within the executive branch, as well as between the executive and legislative branch—from one centered on spending to one centered on results. Consequently, but not surprisingly, OMB made extensive use of performance information contained in the agencies' performance plans during the preparation of the budget. The Administration has made a good start using GPRA to improve program management and resource allocation. Nevertheless, much more work remains.

An obstacle that has been identified by many, including the Chief Financial Officers, is the current structure of budgetary accounts. We believe that a dialogue with the Appropriations Committees about the alignment of results with appropriations would make performance plans more useful in connecting resources to results.

The Administration has appreciated the interest of Congress in promoting the use of the strategic and annual performance plans in the appropriations process and in conducting authorization and oversight activities. We look forward to continuing to work with Congress and other stakeholders on expanding the usefulness of these tools to achieve better performance.

III. BUILDING ON OUR ECONOMIC PROSPERITY

1. SUSTAINING GROWTH

> *Six years ago, our economy lagged behind the rest of the world, so we changed course, with a new strategy for economic growth founded on fiscal discipline and lower interest rates. It has worked. It has helped to produce an American economic renaissance with low inflation, low unemployment, low welfare rolls, rising wages, the highest rate of home ownership in history, the first balanced budget since Neil Armstrong walked on the Moon, and the smallest Federal Government since John Glenn [first] orbited the Earth.*
>
> President Clinton
> October 1998

President Clinton took office in 1993 committed to a policy of fiscal discipline and economic expansion. By nearly every measure, his policy has been a remarkable success. But there is perhaps no better measure of that success than the impressive turnaround in the Federal budget deficit. At the start of his term, the President inherited a Federal budget deficit of $290 billion; six years later, with the President's strategy of fiscal discipline while investing in people, the budget produced a surplus of nearly $70 billion. This accomplishment resulted in the first surplus in a generation, and the largest deficit reduction since the years immediately after World War II, when massive war-time deficits were wiped out by vast contractions in defense spending and strong peace-time growth.

Last year, the Federal Government began to retire some of the Federal debt held by the public, reducing the accumulated total of deficits and the ongoing interest cost of financing them. Again, this is a milestone; not since 1969 did a year end with less debt held by the public than it began. The last budget of this century will preserve these historic achievements.

The private sector of the economy has been the driving force behind this economic progress; but the President's commitment to fiscal restraint has helped create an environment where the private sector of the economy can flourish. During the President's first year in office, financial markets responded to the enactment of his deficit reduction plan by reducing long-term interest rates. Lower interest rates prompted more business investment, leading to faster economic growth, more job creation, and lower unemployment. Interest rates remained near or below the lowest levels of the preceding two decades. The economy continued to thrive, in part because moderate inflation accompanied rapid growth. Indeed, price inflation has dropped during President Clinton's term of office. The decline in the inflation rate, along with the falling unemployment rate, have produced the lowest "misery index" since the 1960s. (This index combines the unemployment and inflation rates.)

The Nation's economic growth continues its record-setting pace. At last year's close, current data indicated that the expansion had stretched to 93 months, breaking the record set in the 1980s for peace-time growth. Like most private-sector projections, the Administration's forecast anticipates that growth will continue, which would put this economy on track early in 2000 to surpass the two-century record for economic expansions set in the 1960s under Presidents Kennedy, Johnson, and Nixon.

Economic Growth and Fiscal Discipline Benefit the American People

From the very start, President Clinton's economic program has been focused on changes that will benefit the American people—their well-being, their economic security, and their prospects for the future. The success of this strategy is clear:

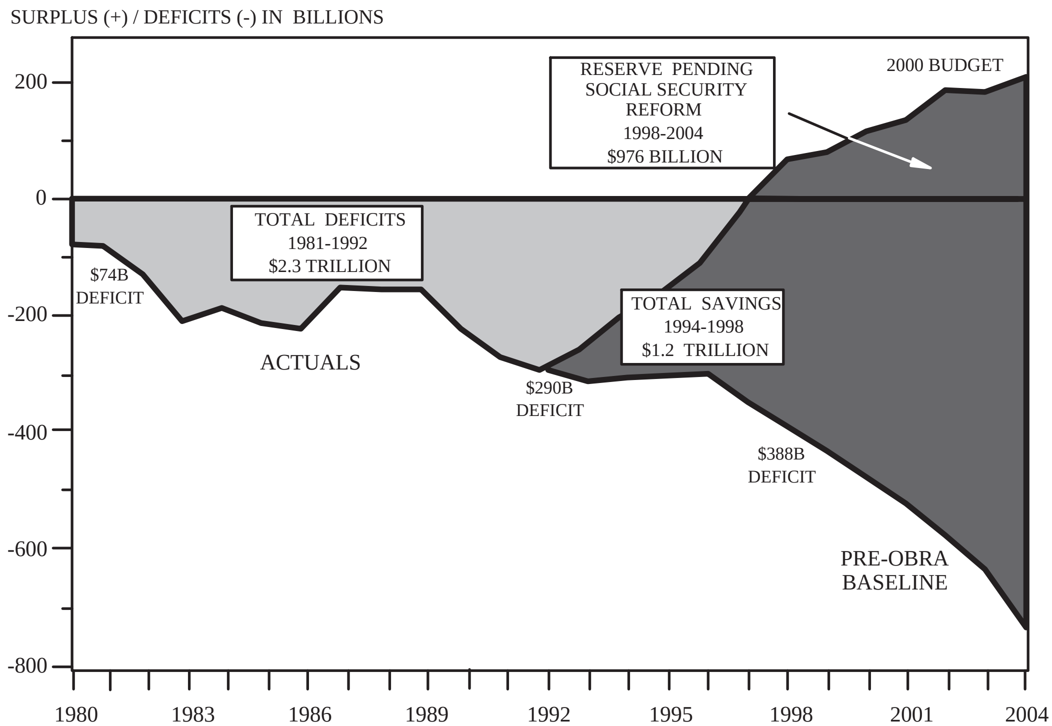
- The economy has created more than 17 million jobs since 1993, nearly all of them in the private sector. Most of them are in the high growth, higher-wage sectors of the economy.
- The unemployment rate is at its lowest in 29 years; the unemployment rates for African Americans and Hispanics are the lowest in the more than quarter-century history of those statistics.
- Work has begun to pay more, reversing a two-decade trend of declining real wages. Instead, inflation-adjusted wages have grown sharply, boosting household incomes throughout the economy. Americans at the lower end of the income scale, those in the poorest 20 percent of households, have seen their incomes (as measured in inflation-adjusted terms) rise in the past four years, after nearly two decades of stagnation and decline.
- Four million people have left the welfare roles in the past six years. Welfare recipients account for the lowest percentage of the U.S. population in 29 years, as more Americans having learned to be self-reliant and productive have entered the work force. A strong economy and plentiful job opportunities have helped make this transformation possible.
- The number of poor people in America has declined by nearly four million from 1993 to 1997. There are 1.6 million fewer poor children in America. The poverty rate has declined sharply as well—from 15.1 percent to 13.3 percent. And crime rates are at the lowest level in 25 years; scholars have argued that a strong economy provides lawful opportunities that are superior to crime, and, therefore, reduces the incidence of crime.
- A record number of Americans now own their own homes, due in large measure to conditions brought about by lower interest rates. More than seven million more families have bought homes since 1992. And 18 million homeowners have taken advantage of the low interest rates to refinance their homes, enjoying a virtual tax cut that saves them hundreds of dollars on their monthly mortgage payments.

Conservative Forecasts: Continued Growth

Continuing its practice of using conservative economic assumptions, the Administration projects that growth will moderate somewhat in 1999, but it will continue at an average pace of two percent per year for the next three years. Last year's unemployment, the lowest in three decades, is likely to rise somewhat, and inflation may increase slightly as well. Still, the Administration believes that the economy can continue to outperform this conservative forecast, as it has for the past six years, if policy remains sound. The expansion is expected to continue, which should sustain many of the economic gains of the last few years. Ultimately, the Administration expects the economy to return to higher but sustainable growth early in the next century, accompanied by low levels of inflation and unemployment.

The longer-term economic and budget outlook is also more favorable than it has been for many years. With prudent fiscal policy, the budget could remain in surplus for many decades. Still, there will be challenges that threaten budgetary stability in the 21st Century. In less than 10 years, the large generation of people born between 1946 and 1964—the "baby-boomers"—will begin to become eligible for retirement with Social Security benefits. A confluence of additional demographic factors will compound the retirement of the baby-boom generation to put intense pressure on the Federal budget through Social Security and the Federal health programs—Medicare and Medicaid. These demographic changes only increase the uncertainty in all long-range economic and budgetary forecasts. Reforms will be needed to preserve the affected programs; and budgetary restraint will be needed to preserve the fiscal soundness that this Administration

Chart 1-1. THE BUDGET IS IN SURPLUS AFTER YEARS OF DEFICITS



has achieved in the past six years. These issues are what prompted the President to declare last year that the surplus must be preserved until the long-term problems of Social Security are resolved.

Budgetary Performance

Twelve years of spiraling budget deficits before President Clinton assumed office increased the public debt by $2.3 trillion. In dollar terms, this was the largest buildup of Federal debt in the Nation's history. Moreover, if President Clinton had not acted, the buildup in debt threatened to reach nearly $7 trillion, or nearly 70 percent of GDP, by 2002. The President set out first and foremost to cut the massive deficit. To that end, the President proposed, and Congress enacted, the Omnibus Budget Reconciliation Act (OBRA) of August 1993, as a solid first step toward fiscal responsibility. At the time, the Administration expected OBRA to reduce the deficit significantly; but budget improvement has far exceeded expectations. Since OBRA was passed, total deficit reduction has been more than twice what was originally projected.

To finish the job, the President worked with Congress to enact the historic and bipartisan Balanced Budget Act (BBA) in mid-1997, with the goal of reaching balance in 2002. The policy of fiscal discipline produced significant results much sooner than expected, as the budget came into balance and then surplus in 1998, four years ahead of projections. The cumulative results of OBRA and the BBA are truly monumental. To appreciate their scope, one need only to recall expectations at the time. The latest projections show total deficit reduction from 1993 to 2003 reaching $4.4 trillion—a sum that exceeds the total amount borrowed from the public by the Government from 1981 to 1992.

The Administration's Deficit Reduction Far Exceeded Projections: Upon OBRA's enactment, the Administration projected that it would reduce the accumulated deficits from 1994 to 1998 by $505 billion. Clearly, it has exceeded that goal. In fact, last year's surplus combined with the reduced deficits of previous years account for deficit reduction of $1.2 trillion since 1993—more than twice the projected savings when OBRA was enacted (see Chart 1–1).

The Administration has begun to Reverse the Debt Buildup of the 1980s. The Government must finance any deficit it runs by borrowing from the public, thereby accumulating its publicly held debt. As a share of Gross Domestic Product (GDP), Federal debt held by the public reached a post-World War II peak of 109 percent in 1946. Because the economy grew faster than the debt for the next few decades, the debt gradually fell to about 25 percent of GDP in the 1970s. But the exploding deficits of the 1980s sent it back up. In dollar terms, publicly held Federal debt quadrupled, rising from $710 billion at the end of 1980 to $3.0 trillion by the end of 1992. Debt peaked at 50 percent of GDP in 1993, but since then, thanks to the Administration's policy of deficit reduction, the ratio of publicly held debt to GDP has steadily declined. The surplus of 1998 will cut into the dollar amount of the debt held by the public, driving down the ratio of debt to GDP even faster.

Had this Administration done nothing, the debt was projected by both OMB and the Congressional Budget Office (CBO) to approach $7 trillion, or 75 percent of GDP, by 2002. Instead, in 1998, the ratio of publicly held debt to GDP fell about 16 percentage points below projections made before the Administration began pursuing its concerted policy of deficit reduction (see Chart 1–2).

The On-Budget Deficit has Fallen: The unified budget, the measure most commonly used when tallying deficits and surpluses, includes all Government receipts and spending, including Social Security's contributions from workers and their employers and Social Security benefits paid to retirees. Because contributions in recent years have been greater than the Social Security benefits paid out, the trust fund has accumulated a surplus. Under the accounting method of unified budgeting, that surplus is counted and helps to bring down the deficit.

Still, the on-budget (non-Social Security trust fund budget) balance has also followed the remarkable deficit reduction trends of the past six years (see Chart 1–3). The

Chart 1-2. DEBT HELD BY THE PUBLIC HAS BEEN BROUGHT UNDER CONTROL

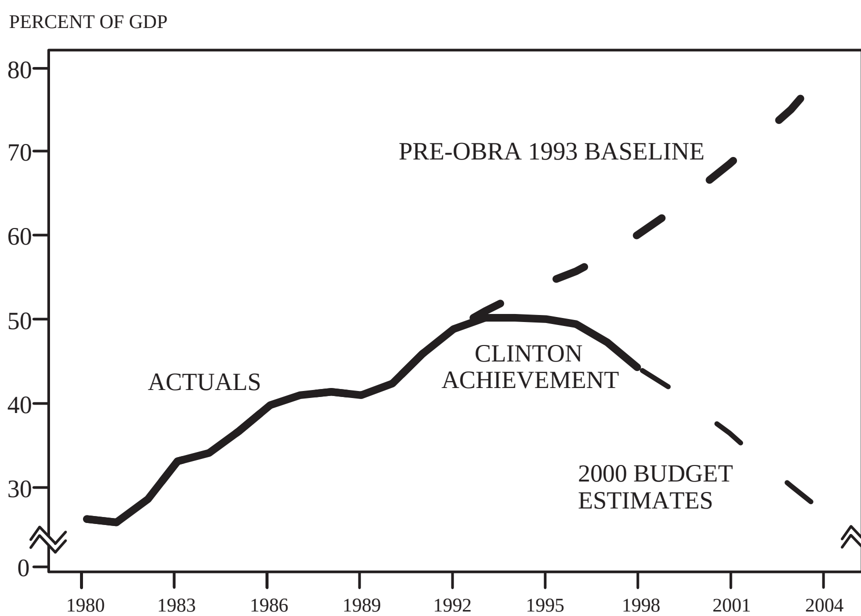


Chart 1-3. THE DEFICIT HAS BEEN REDUCED, COUNTING SOCIAL SECURITY OR NOT

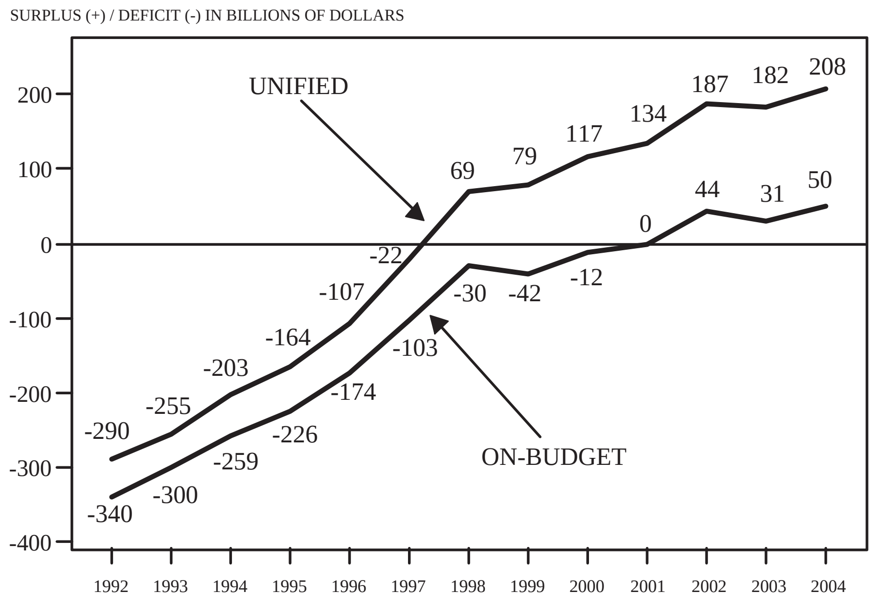
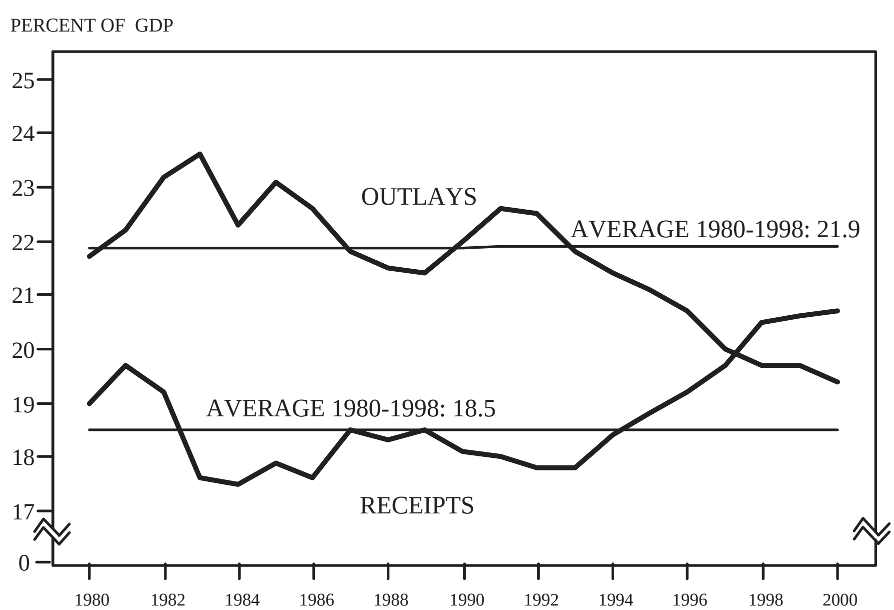


Chart 1-4. THE BUDGET WAS BALANCED BY BOTH CUTS IN SPENDING AND INCREASES IN RECEIPTS



deficit has fallen from $340.5 billion (a post-World War II record) or 5.5 percent of GDP in 1992, to $30 billion in 1998. Thus, although the Social Security surplus helps reduce the overall unified budget deficit, the on-budget deficit has fallen by $310 billion since 1992, and this improvement accounts for 86 percent of the reduction in the unified deficit.

The Government's Claim on the Economy has been Reduced: In the previous two Administrations, Federal spending was higher as a share of the economy than at any point since the end of World War II, reaching 22.5 percent of GDP in 1992. The defense buildup in the early part of the 1980s, higher Federal interest payments because of increased borrowing from the public, and large increases in the cost of Federal health programs outpaced any efforts to reduce spending during the two previous Administrations. However, this trend has been reversed under President Clinton, who, at the same time, has been able to provide key investments in education, the environment, and more. During the last five years, the ratio of Federal spending to GDP has steadily declined, and in 1998 it was only 19.7 percent, a smaller percentage of the economy than at any time in almost a quarter century (see Chart 1–4).

Economic Growth has Spurred Higher-Than-Expected Federal Receipts: A healthy economy and a booming stock market led last year to a surge of Federal receipts. In the past five years, receipts have been higher and spending lower than projected, leading to more deficit reduction than projected. Last year's unexpectedly strong growth in receipts helped bring the budget into surplus well before expected.

The United States is among World Leaders in Budgetary Performance: In the 1980s, the United States drew criticism for its large budget deficits. Other countries blamed U.S. deficits for driving up interest rates and threatening global economic growth. This Administration, now embarked on an era of surplus, can point proudly to its fiscal policy as a model. The United States is a leader among the G-7 nations; only Canada also runs a surplus (see Chart 1–5). The reason for this outstanding U.S. performance is not high taxes, but low public spending. The share of GDP devoted to taxes is lower in the United States than in any other leading country. And while the United States supports a much larger defense establishment than the other G-7 countries, it is nonetheless able to hold its public spending down to a low share of GDP.

Economic Performance

The Administration's strategy of reducing the deficit while investing in people unleashed the power of the private sector. Shrinking deficits, and now a balanced budget, have freed capital for private investment, encouraging businesses to borrow for improvements and expansion, and encouraging Americans to refinance their homes or buy homes for the first time. Fiscal responsibility has promoted business and investor confidence and enabled the Federal Reserve to maintain low interest rates that, in turn, have helped maintain and strengthen the economic expansion. The surge in business investment shows that these policies are working, and with the budget now balanced and producing a surplus, prospects for continued economic progress are excellent.

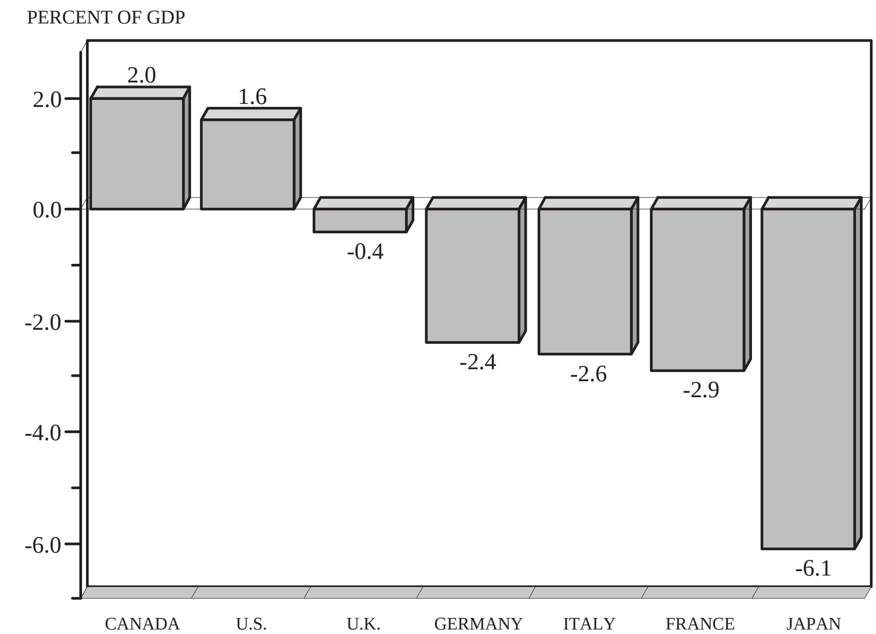
The Expansion Sets a New Record: In December of 1998, current data indicate that the economic expansion entered its 93rd month, setting a new record as the longest in peacetime. And next year, with most experts and the Administration projecting continued growth, the economy will set an all-time record as the longest expansion ever measured.

The Administration's Fiscal Policy has Resulted in a Sound Expansion: Unsustainable Federal deficits, in part, stimulated both of the longer post-war expansions—the first in the 1960s, the second in the 1980s. The economy expanded because the Government expanded, dragging the private sector along.

In these earlier expansions, the fiscal stimulus came at different times. In the 1960s, the deficit was quite restrained early in the decade, but grew sharply after 1965. In the early 1980s, the "structural deficit"[1]

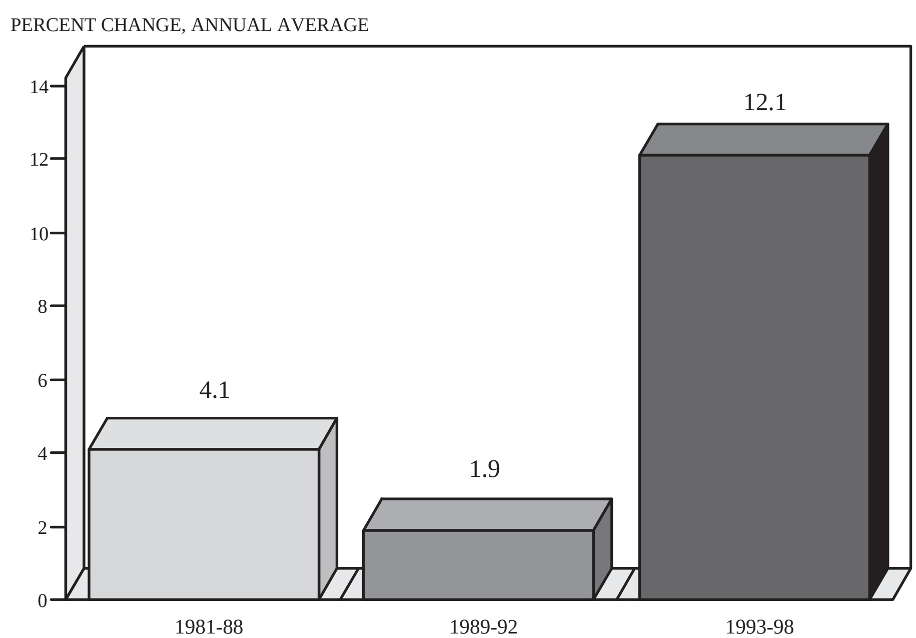
[1] The structural deficit is the deficit that remains after accounting for cyclical changes in the economy as well as purely temporary factors, such as the annual costs and receipts from resolving the thrift crisis.

Chart 1-5. ONLY THE UNITED STATES AND CANADA HAD GENERAL GOVERNMENT SURPLUSES IN 1998



Note: Source OECD Economic Outlook, December 1998

Chart 1-6. EQUIPMENT SPENDING HAS LED THIS EXPANSION



soared to almost five percent of GDP. That large deficit helped pull the economy out of the deep recession of 1981–1982, but the Government's subsequent failure to curb it held up interest rates, led to the financial problems that marked the end of the decade, and likely helped to bring on the recession of 1990–1991.

In contrast, during the current expansion, the reduction and subsequent elimination of the deficit has permitted private investment to propel the economy forward.

This Expansion has been Led by a Strong Private Sector: Since the start of 1993, when President Clinton took office, the economy has grown at an average rate of 3.3 percent per year—faster than under the two previous Administrations. Furthermore, recent growth has been driven by the increased demand for private goods and services. At the same time, the Federal Government's direct claim on GDP (mainly defense and other discretionary spending, excluding transfer payments) has actually shrunk over the past six years at an average rate of 2.2 percent per year. Meanwhile, almost 93 percent of the 17.7 million jobs created during this Administration have been in the private sector (and Federal Government employment has shrunk by 365,000; see Section IV, "Improving Performance Through Better Management").

Business Investment has Led this Expansion: Since the beginning of 1993, the share of the Nation's GDP dedicated to real fixed investment in business equipment has reached record levels. Equipment investment has grown at an annual rate of 12.1 percent, more than three times the annual rate of growth from 1980 through 1992 (see Chart 1–6).

Investment growth is important for two reasons:

- Investment adds to the economy's productive capacity, and a larger economy generates more income leading to higher average living standards. The recent burst of investment has helped lay the economic foundation for continued growth in the next century.
- New equipment contains advanced technology, making workers who use the equipment more productive. Higher productivity permits larger wage increases without threatening higher inflation.

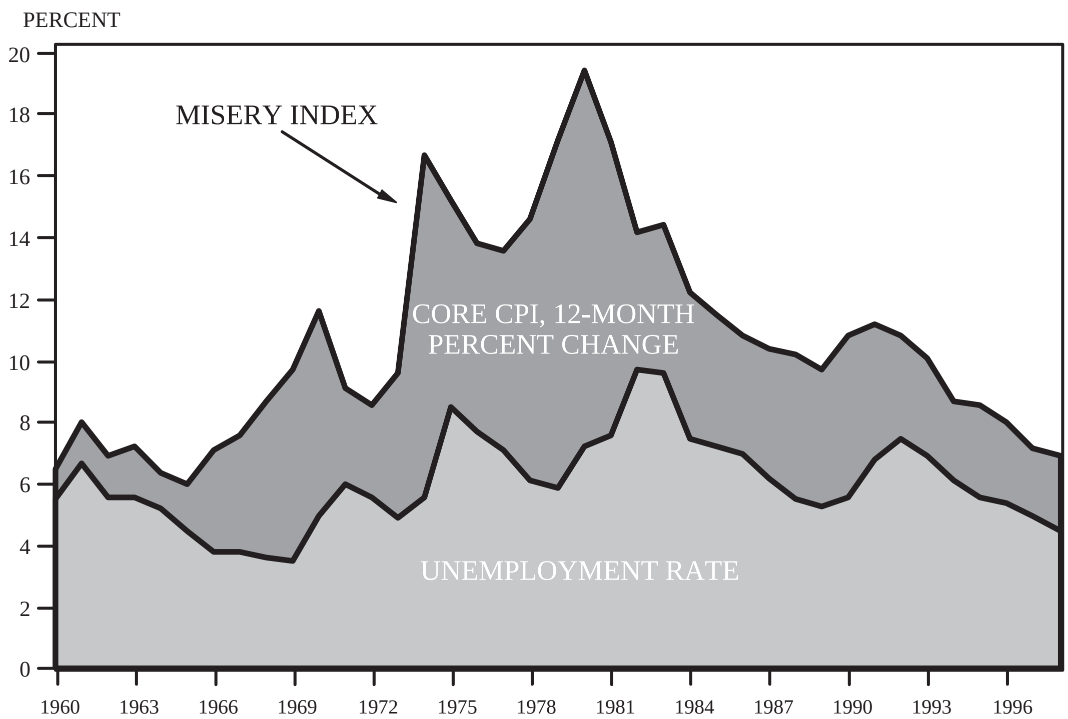
The Misery Index is at the Lowest Levels in 30 Years: In the current expansion, both unemployment and inflation have continued to fall even with the expansion in its eighth year. Last year, unemployment fell to its lowest annual average since 1969, while inflation at 2.4 percent (as measured by the core CPI, excluding the volatile food and energy prices), was virtually unchanged from its 1997 low of 2.2 percent. In fact, core inflation has not been lower since 1966. And the misery index—the sum of the inflation rate and the unemployment rate—is lower than at any time since the 1960s (see Chart 1–7).

Unemployment Rates and Interest Rates are Both Low: Never in the recent past has the combination of interest rates and unemployment been as low as in the past six years. Generally, since President Clinton took office, interest rates have remained near or below the lowest levels of the 1970s and 1980s, with the 10-year Treasury bond rate dropping in October of last year to its lowest level since 1965. It is noteworthy that interest rates have maintained their low level at a time of sustained economic growth and low unemployment, when interest rates might be expected to rise. This dampened unemployment rate signals a robust level of demand in the economy. Relatively low interest rates, along with robust demand, mark the success of the Administration's fiscal policy in the following ways: it reduces the drain on savings, thereby freeing resources for investment, while creating an environment where a prudent monetary policy holds down inflation.

The Near-Term Economic Outlook

The Administration expects the economy to continue to grow in 1999, while inflation will remain low. However, growth is expected to moderate from its recent pace of 3.7 percent per year for the past three years, which is much faster than the economy has been able to sustain in recent decades without higher inflation. The Administration projects a diminished but healthy rate of growth, accompanied by low unemployment and inflation.

Chart 1-7. THE MISERY INDEX IS AT ITS LOWEST SINCE THE 1960s



Domestic Economic Strength at a Time of International Turmoil

Though the American economy remains strong, last year there were some troubling developments in the world economy. The dislocations in financial markets that began to spread in Thailand, Korea, Indonesia, and elsewhere in Asia in 1997 developed into a severe economic downturn; and Japan, which had not fully recovered from the collapse of the bubble economy in the early 1990s, has fallen back into recession. The effects spread to Russia and threatened Latin America; the decision of the Russian Government in August to delay repayment of some of its debt further roiled world financial markets. Concern spread to the United States last summer, but a combination of decisive action by the Federal Reserve and new resources provided to the International Monetary Fund (IMF) helped contain the spread of the crisis. Conditions have not returned to their status prior to the August upheaval, and risks remain, but in the United States, most companies in need of credit have been able to return to the capital markets, and stocks have recovered their lost value.

Despite the disruptions in financial markets, the U.S. economy slowed very little following the economic weakness in Asia and Russia in 1998. Growth through the first three quarters of the year held up extremely well, at a 3.7 percent annual rate—which exceeds the mainstream estimate of the economy's potential growth rate of about 2.4 percent. Despite a declining trade balance, strong consumer and investment demand combined to keep the economy healthy.

Though the economy has outperformed the mainstream forecast for the past six years, the Administration continues to use mainstream projections, in which the growth of domestic demand moderates in 1999. Consumer demand has been outpacing income growth, and cutting into personal saving. With the saving rate now near zero, it is likely that consumption spending will grow more slowly in the future. Business profits, which were rising strongly through 1997, have fallen over the past four quarters. Although profits are expected to stabilize, the abnormally rapid growth is not projected to return. Furthermore, business utilization of capital is currently estimated to be below its long-run average, suggesting less pressure to invest in additional capacity.

Highlights of the Economic Projections

The budget relies on conservative economic assumptions that are similar to those of private forecasters, as well as CBO. Currently, the consensus among these other forecasters is that the economy is due for some moderation in growth, and over the next few quarters the growth rate could average about 2.0 percent, as the unemployment rate retreats somewhat from its current three-decade low. Eventually, however, the economy should rebound and return to rates of growth nearer to potential, estimated by mainstream forecasters at around 2.4 percent per year. The Administration believes that if the Nation maintains the sound economic policies of the past six years, with budgets in surplus for the foreseeable future, economic performance could be even better than this. Recent experience suggests that sound policy decisions are rewarded with superior economic performance. Under this Administration, the economy has consistently outperformed the consensus forecast. However, in making budget projections, experience shows that it is prudent to follow conservative assumptions.

Real GDP: Real GDP growth is expected to average 2.0 percent on a fourth-quarter-over-fourth-quarter basis for the next three years. It is highly unlikely that growth will be this smooth over this period, but the Administration believes that growth over the next three years will average this rate. For 2002–2007, the Administration's estimate of potential growth is 2.4 percent. Beginning in 2008, the rate of growth is expected to slow gradually as the retirement of the baby-boomers begins to cut into the growth in the labor supply.

Unemployment: The unemployment rate is projected to rise gradually to 5.3 percent. This is a mainstream estimate of the threshold level below which inflation would be expected to accelerate. Once the unemployment rate reaches this level, it is expected to stabilize there.

Inflation: After rising by 1.6 percent in 1998, the CPI is expected to pick up at a rate of 2.3 percent in 1999, and to maintain this rate for the rest of the projection period. Special factors have been holding down consumer price inflation recently, including falling prices for oil and other imported goods. The world economic crisis has reduced prices in world markets which has redounded to the benefit of American consumers, and American businesses that use foreign goods and services as inputs. The chain-weighted price index for GDP is also expected to increase somewhat faster than 1998's low rate. After rising 0.9 percent in 1998, it is projected to increase 1.9 percent in 1999, and 2.1 percent in 2000 and thereafter.

Interest Rates: Interest rates on Treasury debt last year fell to extremely low levels, under five percent, due to the financial crisis. As financial markets stabilize, and as special factors reducing inflation dissipate, interest rates should increase somewhat. In the Administration projections, the 91-day Treasury bill rate is 4.2 percent next year, and it rises to 4.4 percent by 2002 and thereafter. The yield on 10-year notes is projected to rise gradually from 4.9 percent next year to 5.4 percent in 2003 and afterwards.

The medium-term projections shown in Table 1–1 are intended to represent average behavior for the economy, not a precise year-to-year forecast. In some years, growth could be faster than assumed; in other years, it could be slower. Similarly, inflation, unemployment, and interest rates could fluctuate around the values assumed. But the assumptions are expected to hold on average, and thus to provide a prudent basis for projecting the budget.

Table 1–1. ECONOMIC ASSUMPTIONS [1]

(Calendar years; dollar amounts in billions)

	Actual 1997	Projections						
		1998	1999	2000	2001	2002	2003	2004
Gross Domestic Product (GDP):								
Levels, dollar amounts in billions:								
Current dollars	8,111	8,497	8,833	9,199	9,582	10,004	10,456	10,930
Real, chained (1992) dollars	7,270	7,539	7,717	7,872	8,029	8,208	8,404	8,606
Chained price index (1992 = 100), annual average	111.6	112.7	114.4	116.8	119.3	121.8	124.4	127.0
Percent change, fourth quarter over fourth quarter:								
Current dollars	5.6	4.5	4.0	4.2	4.1	4.5	4.5	4.5
Real, chained (1992) dollars	3.8	3.5	2.0	2.0	2.0	2.4	2.4	2.4
Chained price index (1992 = 100)	1.7	0.9	1.9	2.1	2.1	2.1	2.1	2.1
Percent change, year over year:								
Current dollars	5.9	4.8	4.0	4.1	4.2	4.4	4.5	4.5
Real, chained (1992) dollars	3.9	3.7	2.4	2.0	2.0	2.2	2.4	2.4
Chained price index (1992 = 100)	1.9	1.0	1.5	2.1	2.1	2.1	2.1	2.1
Incomes, billions of current dollars:								
Corporate profits before tax	734	721	724	739	765	787	826	867
Wages and salaries	3,890	4,146	4,349	4,526	4,701	4,892	5,106	5,331
Other taxable income [2]	1,717	1,763	1,815	1,863	1,921	1,980	2,051	2,126
Consumer Price Index (all urban): [3]								
Level (1982–84 = 100), annual average	160.6	163.1	166.7	170.6	174.5	178.5	182.6	186.8
Percent change, fourth quarter over fourth quarter	1.9	1.6	2.3	2.3	2.3	2.3	2.3	2.3
Percent change, year over year	2.3	1.6	2.2	2.3	2.3	2.3	2.3	2.3
Unemployment rate, civilian, percent:								
Fourth quarter level	4.7	4.6	4.9	5.1	5.3	5.3	5.3	5.3
Annual average	5.0	4.6	4.8	5.0	5.3	5.3	5.3	5.3
Federal pay raises, January, percent:								
Military [4]	3.0	2.8	3.6	4.4	3.9	3.9	3.9	3.9
Civilian [5]	3.0	2.8	3.6	4.4	3.9	3.9	3.9	3.9
Interest rates, percent:								
91-day Treasury bills [6]	5.1	4.8	4.2	4.3	4.3	4.4	4.4	4.4
10-year Treasury notes	6.4	5.3	4.9	5.0	5.2	5.3	5.4	5.4

[1] Based on information available as of early December 1998.

[2] Rent, interest, dividend and proprietor's components of personal income.

[3] Seasonally adjusted CPI for all urban consumers. Two versions of the CPI are now published. The index shown here is that currently used, as required by law, in calculating automatic adjustments to individual income tax brackets. Projections reflect scheduled changes in methodology.

[4] Beginning with the 1999 increase, percentages apply to basic pay only; adjustments for housing and subsistence allowances will be determined by the Secretary of Defense.

[5] Overall average increase, including locality pay adjustments.

[6] Average rate (bank discount basis) on new issues within period.

The Near-Term Budget Outlook

The Administration projects that the budget surplus first achieved in 1998 will continue in 1999 and subsequent years. With no change in policy, the surplus should reach $79.3 billion dollars in 1999 and $117.3 billion dollars in 2000. All economic projections contain uncertainty, and this is true for budget projections as well. The further into the future the projections go, the more uncertain they are.

The Long-Term Budget Outlook

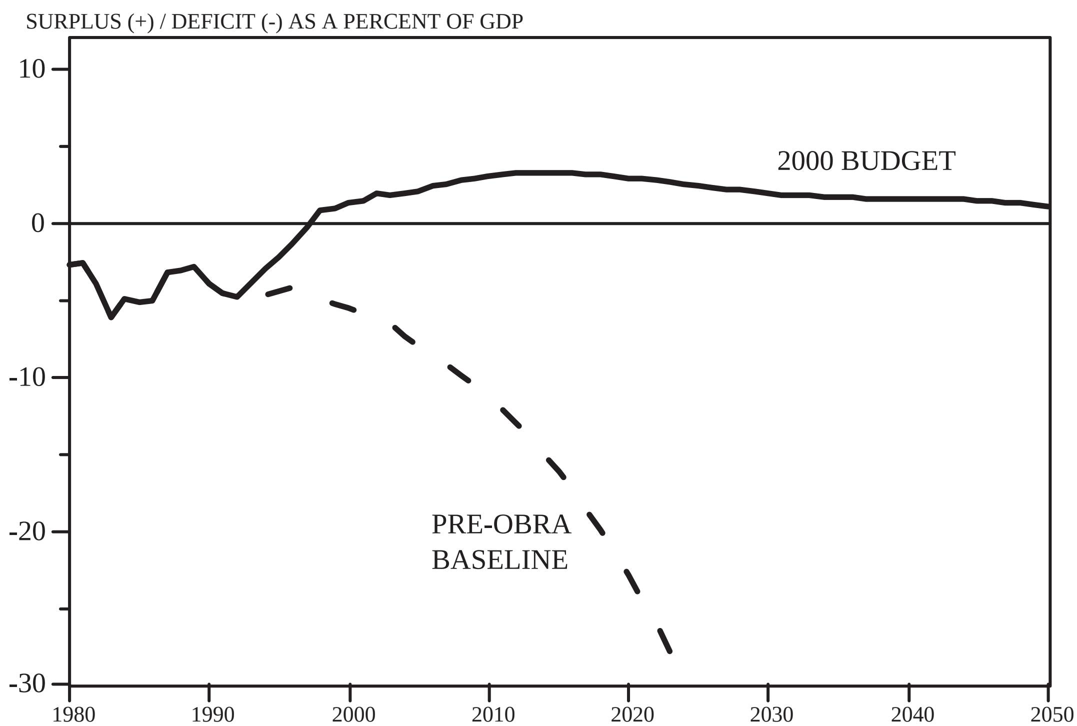
For many years, it was traditional to make budget projections for a total of five years—the budget year and the four beyond. In recent years, however, attention has focused on intervals of 10 years and even longer, especially when it is necessary to consider longer-term issues involving the aging of the population, like Social Security. Because the problems with that system will not even begin to appear until 2008, toward the close of the current 10-year budget window, the projections must be pushed out many decades into the future to examine the full problem.

The unexpectedly swift success in reducing the budget deficit since the passage of OBRA in 1993 also bodes well for our long-run projections. Without the changes enacted in OBRA, the Federal deficit would have continued to spiral out of control, reaching over 30 percent of GDP shortly after 2020. Projections in the 1997 Budget estimated a budget surplus for 2002, which was projected to last for about 20 years. However, the current long-run projection of the budget shows the surplus could continue for many years to come. Reform of Social Security is one of the most important challenges remaining to safeguard our hard won fiscal stability over time. In that context, maintaining fiscal discipline and using resources for strategic investments must be balanced.

The beneficial long-term results of these projections depend on prudent policy and on avoiding sustained adverse economic shocks. Permanent economic or technical shocks could knock the projections off track. However, ordinary business cycles should not affect the projections over the long run. In a typical cycle, a slowdown is preceded and followed by more rapid growth, and the budget regains in the rebound what it lost in the slowdown. (For more details on the long-run budget projections see *Analytical Perspectives,* Chapter 2, "Stewardship.")

Thanks to the policy initiatives taken by the Clinton Administration and the BBA, the budget provides a firm foundation to reform Social Security and put it on a solid long-term basis. Restoring confidence in this vital program is a key Administration priority. The long-term budget outlook summarized here offers the opportunity to get the job done.

Chart 1-8. THE IMPROVED BUDGET OUTLOOK PROVIDES A UNIQUE OPPORTUNITY TO SAVE SOCIAL SECURITY



Investing in Federal Statistics

Our democracy and economy demand that public and private leaders have unbiased, relevant, accurate, and timely information on which to base their decisions. Data on real Gross Domestic Product, the Consumer Price Index, and the trade deficit, for example, are critical inputs to monetary, fiscal, trade, and regulatory policy. They also have a major impact on government spending, budget projections, and the allocation of Federal funds. Taken together, statistics produced by the Federal Government on demographic, economic, and social conditions and trends are essential to inform decisions that are made by virtually every organization and household.

Despite these critical uses, rapid changes in our economy and society, and funding levels that do not enable statistical agencies to keep pace with them, can threaten the relevance and accuracy of our Nation's key statistics. Without improvements proposed in this budget, it will become more difficult for our statistical system to mirror accurately our economy and society, which, in turn, could undermine core government activities, such as the accurate allocation of scarce Federal funds. Fortunately, the most serious shortcomings of our statistical infrastructure could be substantially mitigated by proposals set forth in the Administration's budget. These initiatives are documented in greater detail in Chapter 11 of *Analytical Perspectives,* "Strengthening Federal Statistics."

IV. IMPROVING PERFORMANCE THROUGH BETTER MANAGEMENT

IV. IMPROVING PERFORMANCE THROUGH BETTER MANAGEMENT

> *We made a decision that was profoundly important, that the way Government works matters, that we could not maintain the confidence of the American people and we could not have ideas that delivered unless the Government was functioning in a sensible, modern, and prudent way.*
>
> President Clinton
> December 1998

On September 30, 1998, President Clinton announced that the Federal budget had reached balance and produced a surplus for the first time in a generation. Without this Administration's early and firm commitment to streamlining and reinventing Government, it would not have been possible to eliminate the deficit. "After all," Vice President Gore has said, "it is our progress in reinventing and downsizing Government, while improving it, that has enabled us to balance the budget, cut taxes for families, and invest properly in key priorities for the future."

Reinventing Government—the goals of improving the quality of services that Americans rightfully expect, while reducing the size of the Government that delivers them—seems an almost contradictory notion. How to do more with less? The answer is that the Government must meet the needs of the American people by improving its management and the performance of programs—much as U.S. business has done in the face of competitive pressure over the last quarter century. From the start, Vice President Gore, working with the departments, agencies, inter-agency working groups, and worker representatives, and drawing on the expertise of the private sector, has led an unprecedented effort to make the Federal Government more efficient and effective while also reducing its size.

From 1993-1998, the Administration has cut the Federal civilian work force by 365,000 full-time equivalent employees (FTEs). Based on the number of Federal employees on the payroll, the work force is the smallest it has been since the Kennedy Administration. Working with Federal employees, the Administration has eliminated wasteful spending and cut numerous outdated Government programs. These efforts have saved the American people more than $136 billion. Today, we have a smaller, more efficient Government that provides the services the American people have come to count on: protecting the environment; improving our schools; and providing retirement benefits to seniors, to name only a few. To recognize the Federal employees who help the Government operate more efficiently and better serve the American people, the President proposes a 4.4 percent pay raise, the largest increase since 1981, for civilian employees and military members.

The Clinton-Gore Administration relies on several key strategies to achieve its reinvention goals. Key among them are the National Partnership for Reinventing Government (NPR), Priority Management Objectives (PMOs), and inter-agency management groups.

Founded at the start of the Administration, the NPR (then the National Performance Review) has empowered Federal employees and managers and they have responded by improving services and cutting costs. It counts among its many successes the Food and Drug Administration's (FDA's) streamlined drug approval process, the Defense Department's (DOD's) reduction of many military specification buying standards, and the Federal Aviation Administration's (FAA's) improved safety procedures. NPR will concentrate on fostering customer-oriented, results-driven organizations that focus on performance.

PMOs focus the Administration's efforts to meet some of the Government's biggest management challenges. They are specific management initiatives covering a wide range of concerns, ranging from meeting the year 2000 computer challenge to implementing the restructuring of the Internal Revenue Service (IRS). The Administration also engages inter-agency groups (discussed later in this Section) to marshal resources across the Government to address concerns important to Americans.

Six years out, there is measurable success, more to be done, and a determination to realize the President's vision of a Government that functions in a "modern, sensible, and prudent way."

Internet addresses in this Section refer the reader to websites where work is described in greater detail.

NPR: Changing the Government

NPR has consistently pursued initiatives to build a Government that works better, costs less, and gets the results that matter to the American people. NPR efforts have led to operational improvements in agencies that affect everyday American life, such as better customer service at the Social Security Administration (SSA), and improvement in delivery of services, including the provision of water, food, and shelter to disaster victims by the Federal Emergency Management Agency.

In the coming year, NPR will focus on the following four major initiatives designed to improve Government services to all Americans:

(1) Working to deliver results Americans care about: In 1998, the NPR launched an effort with 32 agencies to increase their focus on customers and achieve results that matter to Americans. These High Impact Agencies (HIAs) interact directly with the public. The HIAs have defined specific commitments to improve service delivery and agency operations. Table IV–1 includes examples of the specific commitments made by many of the HIAs. This focus on customers will build on the agencies' strategic and annual performance plans discussed in Section VI. Additional information on the HIAs' efforts is available on the NPR website, www.npr.gov.

(2) Developing customer and employee satisfaction measures that will supplement agency program results: A key initiative in improving Government performance, the Government Performance and Results Act (GPRA), was enacted by Congress in 1993. This Act increases the accountability of Government agencies by requiring them to define measurable performance goals and report on their achievements.

In 1999 and 2000, the Administration intends to reinforce GPRA efforts by increasing the use of customer satisfaction goals in annual plans of selected agencies. For agency programs dealing directly with the public, customer satisfaction is a key measure. The Administration will also conduct the second annual employee satisfaction survey for Federal workers and use the data to monitor progress in bringing the benefits of reinvention to all Federal workers. Employee satisfaction also affects agency performance—satisfied employees mean better Government services, products, and benefits to the public.

(3) Improving American life in ways that no one Government program could accomplish alone: The Administration will pilot test strategies to provide seamless service delivery in areas of greatest concern to Americans, effectively creating a system of one-stop shopping for important Government services. People interested in help finding jobs or in improving public health in their community should be able to obtain that help swiftly and easily. The Administration is committed to using partnership approaches among Federal, State, and local programs to achieve the outcomes most Americans expect from their government.

Table IV–1. STRATEGIES TO ACHIEVE HIGH IMPACT AGENCY GOALS

Between now and January 1, 2001, agencies with great impact on Americans will:

I. Partner to get results that Americans care about that no agency can achieve alone. For example:

- In partnership with the airline industry, three Federal agencies (the Animal and Plant Health Inspection Service (APHIS), Customs, and the Immigration and Naturalization Service (INS)) will obtain advance information on 80 percent of international air passengers to expedite the overall flow of passengers with no loss in enforcement.
- The Food and Drug Administration will work closely with industry, health care providers, and the consumer to ensure that 75 percent of all consumers receiving new drug prescriptions will be given useful and readable information about their product.
- The Food Safety and Inspection Service will collaborate closely with other public health agencies that are members of the President's Food Safety Council to reduce food-borne illnesses by 25 percent, between 1997 and 2000. As a first step, they will work together in 1999 to develop a common approach and coordinate budgetary resources.

II. Create electronic access and processing in government. For example:

- The number of States issuing food stamps by electronic benefit transfer will increase from 22 in 1997 to 42 in 2000.
- An electronic trademark application will be placed on the Patent and Trademark Office's website. Trademark customers will be able to file applications and related papers electronically.
- By October 2000, the Department of Education will enable three million students and families to submit their Federal student aid applications electronically. This doubles the current annual number.

III. Manage with a set of measures that balance customer satisfaction, employee satisfaction, and business results. For example:

- The Veterans Health Administration (VHA) shows continuing improvement in patient satisfaction with the care they receive. In 1995, 60 percent of patients rated their care as very good or excellent. That number rose to 75 percent in 1998. The goal for 1999 is 79 percent. The 2000 goal is 83 percent and the 2003 goal is 95 percent.
- By 2001, the VHA will expand its adherence to clinical guidelines to cover 95 percent of common diseases among veterans compared to 76 percent in 1997.
- The Federal Emergency Management Agency will increase individual customer satisfaction with the assistance application process from 84 percent in 1995 to at least 90 percent in 2000.

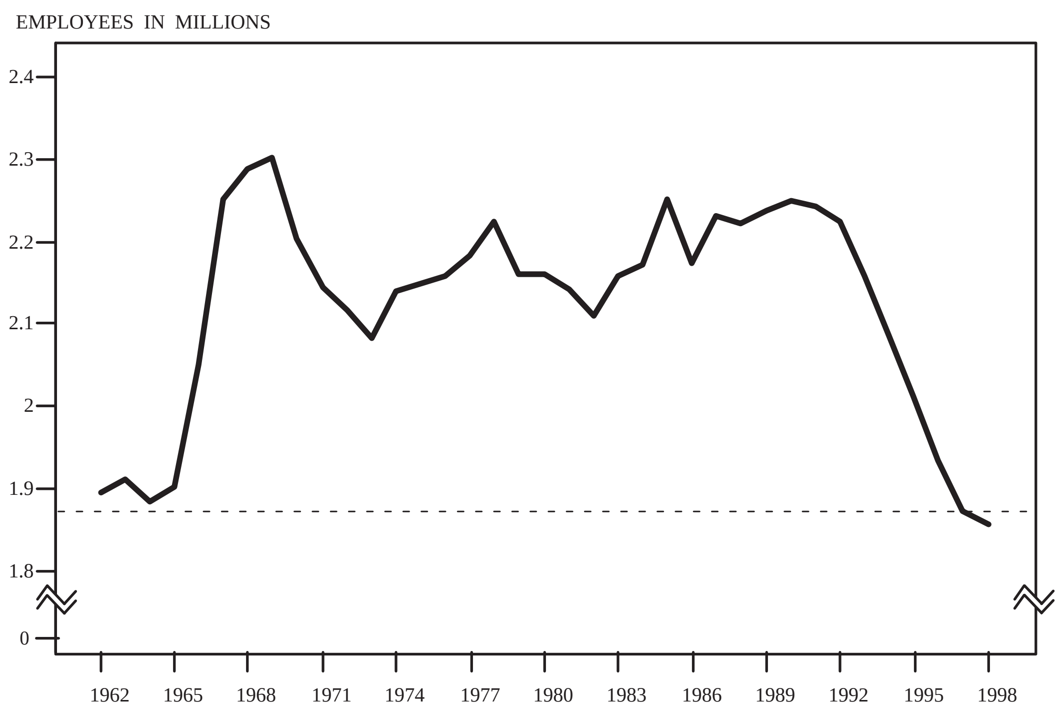
Note: Information on specific HIAs is available on agency websites.

One example of such partnerships is the establishment this year by Executive Order of a Food Safety Council, committed to reducing the incidence of food-borne illnesses. To improve the well-being of children, the Federal Government will also enter into 10 partnerships with State and local governments to devise new ways, under current law, to increase flexibility in the use of Federal program dollars and to redirect administrative savings for services and results. Successful partnerships will demonstrate measurable improvements in the lives of children. This performance partnership initiative has four components: 1) establishment of a results-driven accountability system, working with the Federal Interagency Forum on Child and Family Statistics, that will focus on key indicators of child well-being, such as immunization coverage, infant and child mortality, high school graduation rates, teen birthrates, youth crime rates, and child health insurance coverage; 2) identification of ways to consolidate planning and reporting for programs with related goals and greater flexibility in administering grant funds; 3) development of recommendations for new ways, within current law, through which administrative savings from discretionary grant programs might be pooled to establish a local Child Well-Being Investment Fund for innovations and priority programs; and 4) sharing of lessons learned through a "how-to" manual detailing strategies to reduce administrative costs and allow local flexibility.

(4) Allowing Americans to do business with the Government electronically: In 1997, the Administration announced the Access America initiatives to enable Americans to do business with the Government electronically. Recently, Vice President Gore launched Access America for Students, which pilots the integrated, computerized delivery of Government services to postsecondary students. This program will include services such as student loan applications and renewals, online address changes, veterans' educational benefits, campus admissions and services, and electronic income tax filing. Access America for Students will

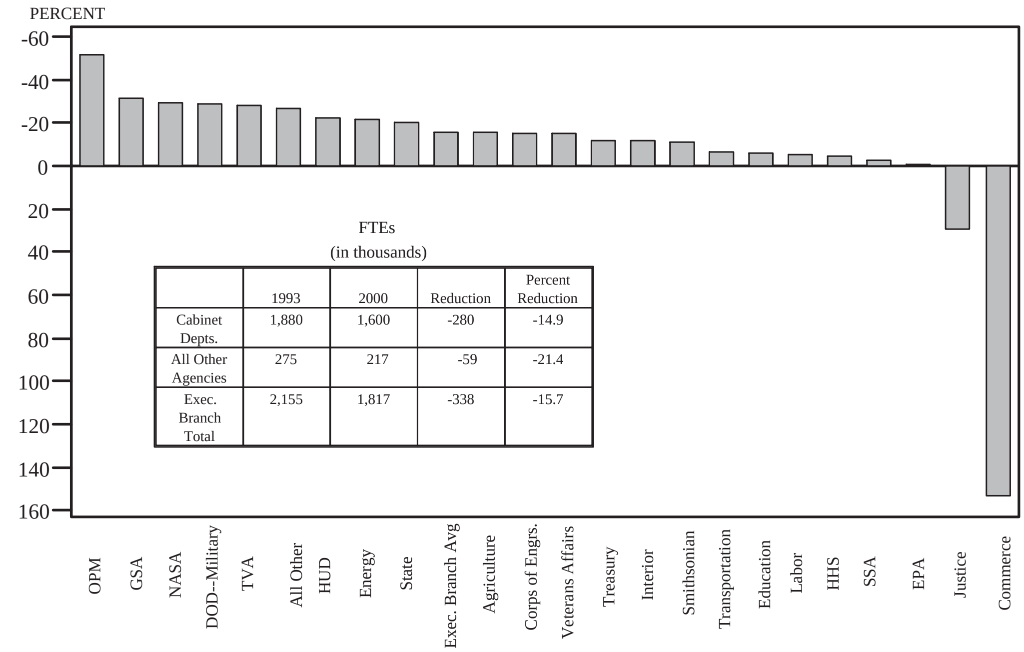
Chart IV-1. ACTUAL CIVILIAN EMPLOYMENT IN THE EXECUTIVE BRANCH, 1962 - 1998

(Excluding Postal Service)



Note: Data is end-of-year count.

Chart IV-2. CIVILIAN FTE CHANGES ON A PERCENT BASIS, 1993 - 2000 CABINET DEPARTMENTS AND SELECTED INDEPENDENT AGENCIES



Notes: The Executive Branch total excludes Postal Service. The 1993 base, which is the starting point for calculating the 272,900 FTE reduction required by the Federal Workforce Restructuring Act, is 2.2 million. The Department of Commerce includes 64,000 temporary hires for decenial census.

be carefully constructed to ensure the privacy and security of all users. Other Access America programs are planned for users of other Government services (e.g., senior citizens). Additional information on Access America is available at www.gits.gov.

Streamlining the Government

Two fundamental changes in the Federal work force have combined to create a leaner, more efficient Government. First, the Administration has cut the overall size of the Government by 16 percent. Second, the Administration has given Federal employees the authority to propose and carry out significant improvements in agency programs. These changes have led to the elimination of many internal rules, establishment of customer service standards, creation of agency reinvention labs, and improved labor-management relations.

The Administration's accomplishments in downsizing Government are unprecedented since the demobilization after World War II. As Chart IV–1 shows, this is the smallest Federal work force in 36 years. The savings have been used to help pay for a variety of initiatives authorized by the 1994 crime bill, including the successful effort to put 100,000 new local police officers on the streets.

Almost all of the 14 Cabinet Departments and large independent agencies are cutting their work forces. For example, the General Services Administration (GSA) is reducing FTEs by 31 percent by streamlining its lines of business. The Justice Department's growth reflects the Administration's expanded war on crime and drugs. The decennial census is temporarily increasing the size of the Commerce Department's payroll (see Chart IV–2).

Reducing the size of Government is just one measure of success. Acquiring and retaining the right mix of people with the best combination of skills is a challenge to all employers, and the Government is no exception. Streamlining organizations is never easy, but a partnership with Federal employee unions has made change possible. As agencies continue reinventing themselves to be more effective and responsive to America's needs, they will require management tools to restructure their work forces and achieve greater efficiencies. The Administration will support agencies if they need—as in the case of DOD, the Department of Energy (DOE), and the IRS—separate authority to restructure their work force with voluntary separation incentives. The Administration will also seek renewal of the authority to offer voluntary separation incentives to support downsizing efforts in those areas where cost/benefit analysis indicates that it would be beneficial.

Creating Powerful Incentives to Manage for Results

A new tool—the Performance-Based Organization (PBO)—was developed to help the Government operate more efficiently. Proposed by the Administration, and enacted by the Congress, the first PBO was mandated to improve the efficiency and delivery of student financial assistance.

PBOs encourage a group of Government executives in an organization to bear responsibility for its level of performance. These executives commit to meet tough annual performance goals, and if successful, they can receive substantial bonuses. To help them meet these goals, executives can exercise greater flexibility in hiring, compensation, and procurement. During the 106th Congress, the Administration will develop legislation to establish additional PBOs, including the FAA Air Traffic Services, the Seafood Inspection Service, the Patent and Trademark Office, the Rural Telephone Bank, the Defense Commissary Agency, the National Technical Information Service, the St. Lawrence Seaway Development Corporation, Federal Lands Highway, and the U.S. Mint.

Tackling Government's Biggest Management Challenges

To create a clear set of priorities for management efforts, the Administration has selected 24 key issues, listed in Table IV–2, to be PMOs. These were chosen as areas in need of real change, and will receive ongoing attention from the Administration. There are six new initiatives while 18 continue from last year's budget. PMOs are coordinated by OMB with assistance from the NPR and inter-agency working groups. This assures that objectives receive senior management attention. Periodic reporting and review of these objectives provide an opportunity for corrective action as necessary throughout the year.

Strengthening Government-Wide Management

1. Manage the year 2000 (Y2K) computer problem: There is no more immediate management challenge facing governments and industries world-wide than the impending shift of dates from the year 1999 to the year 2000. A year ago, 27 percent of the Federal Government's mission-critical systems were Y2K compliant. At the end of 1998, more than double that number—61 percent—met that standard. The Administration has set March 31, 1999, as the deadline for all mission-critical systems to be Y2K ready.

Under the direction of the President's Council on Year 2000 Conversion, agencies are reaching out to private sector organizations, State and local governments, and international institutions. External Y2K activities have been organized to focus on key sectors, including energy, telecommunications, and financial institutions. In December 1998, the U.S. Government helped organize a United Nations conference of Y2K coordinators from over 100 countries.

The Administration also recognizes a critical need for industry to share its Y2K experiences and solutions with each other and with the public. Accordingly, the Administration proposed and the Congress enacted the Year 2000 Information Disclosure Act, which encourages companies to share information about possible Y2K solutions.

In 1999, agencies will focus primarily on testing their systems and their interactions with other systems, and will develop contingency and continuity of operations plans. In 2000, agencies will focus on assuring that Federal programs continue to deliver uninterrupted service to the public.

Table IV–2. PRIORITY MANAGEMENT OBJECTIVES

STRENGTHENING GOVERNMENT-WIDE MANAGEMENT

1. Manage the year 2000 (Y2K) computer problem
2. Use results to improve program management
3. Improve financial management information
4. Protect critical information infrastructure
5. Strengthen statistical programs
6. Implement acquisition reforms
7. Implement electronic Government initiatives

IMPROVING STEWARDSHIP OF ASSETS

8. Better manage financial portfolios
9. Better manage real property

IMPROVING PROGRAM OPERATIONS AND INTEGRITY

10. Verify that the right person is getting the right benefit
11. Use competition to improve operations

IMPROVING PROGRAM MANAGEMENT

12. Modernize student aid delivery
13. Improve DOE contract management
14. Strengthen the HCFA's management capacity
15. Implement HUD reform
16. Resolve disputes over Indian trust funds
17. Implement FAA management reform
18. Implement IRS reforms
19. Streamline SSA's disability claims system
20. Revolutionize DOD business affairs
21. Improve management of the decennial census
22. Manage risks in building the International Space Station
23. Improve security at diplomatic facilities around the world
24. Reengineer the naturalization process and reduce the citizenship application backlog

2. Use results to improve program management: GPRA makes Government agencies more accountable by focusing managers and policy makers on agency performance. GPRA can fundamentally change how the Government carries out its programs and makes funding decisions. The Act requires Federal agencies to periodically develop long-range strategic plans and annually prepare performance plans and performance reports. The annual plans set specific performance targets for an agency's programs and activities. The combination of GPRA plans and reports introduces an unprecedented degree of managerial and institutional accountability for accomplishing program goals. Key to achieving success is making the plans useful to the Congress, the President, and agency management.

In 2000, agencies will submit to the Congress and the President the first of their annual reports on program performance. These reports, covering 1999, will compare actual performance to the performance target levels in the annual plans for that year, and provide an explanation for any goal not met. With these reports, the first cycle of GPRA implementation will be complete.

During 2000, agencies will also be revising and updating strategic plans for submission to the Congress and OMB by September 2000. All GPRA plans and reports are publicly available, and can often be found on individual agency websites.

Budgeting for Results is an effort to display and budget for all the resources used by Federal programs in a way that allows the costs to be systematically compared with the benefits provided. Although all costs are reflected somewhere in the budget, these costs are not all associated with the individual programs that use the resources. Some costs may be paid by other components within the Government. Thus, some of the basic information necessary for effective decision making is not readily available. In the coming year, efforts will continue toward making Budgeting for Results a reality.

3. Improve financial management information: In March 1998, for the first time in the history of the United States, the Government issued audited financial statements presenting the results of its operations. While the audit disclosed financial system weaknesses and problems in fundamental record-keeping in a number of areas, the Government's efforts to provide a full accounting is unprecedented. Bringing problems to light will force improvements. Improvement has already begun as illustrated by Table IV–3, which presents the anticipated results of audits of the financial statements of the 24 largest Federal agencies in 1998. These show that the Administration has already made substantial progress in improving financial management. Recognizing more must be done, the President directed agencies to resolve systems and record-keeping problems during 1999—with the goal being an unqualified report on the Government's 1999 financial statements, which will be issued in March 2000.

4. Protect critical information infrastructure: Last year, Presidential Decision Directive 63, Protecting America's Critical Infrastructures, launched a program to counter risks to the increasingly interconnected national infrastructures, such as telecommunications, banking and finance, energy, transportation, and essential Government services. These infrastructures are particularly vulnerable to disruptions—whether deliberate or accidental—to the computer systems that support them. The goal for 2000 is increased security for Government systems. The Federal Government should be a model of infrastructure protection, linking security measures to business risks and agency mission.

The goal for 2003 is a reliable and secure private information system infrastructure. The Administration will work with private industry, which owns the vast majority of the Nation's infrastructure, to meet common protection goals. Care will be taken to preserve privacy, and regulation will be used only if there is a material failure of the market to protect the health, safety, or well being of the American people.

5. Strengthen statistical programs: The Government spends more than $3 billion each year to produce statistical measures of our economy and society that help decision makers in the public and private sectors. These data are used for everything from spotting important trends in public health to projecting the impact of future demographic shifts on the Social Security system. In 1998, to improve access to, and the quality of, Government statistical data, the Administration: 1) sponsored a bill to permit limited sharing of

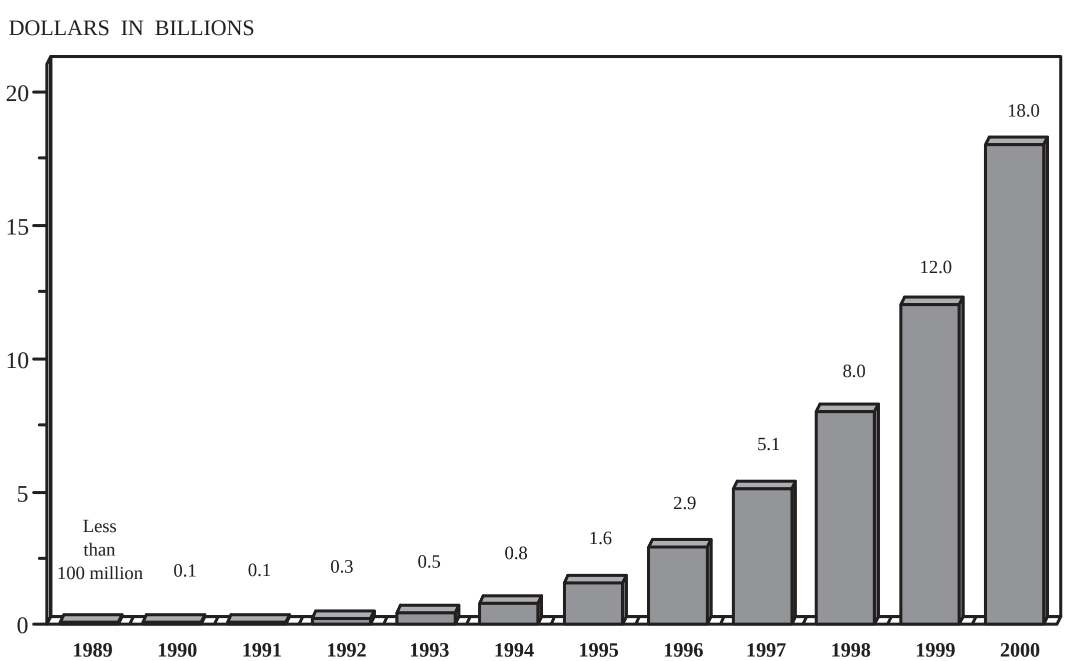
Table IV–3. CFO Agency Financial Statement Performance Goals

Financial Statements	1997 Actual	Estimate		
		1998	1999	2000
Audits Completed	23	24	24	24
Agencies with Unqualified Opinion	11	14	20	23
Agencies with Unqualified and Timely Opinion	8	12	20	23

confidential data among selected agencies solely for statistical use with appropriate safeguards; 2) doubled (to 28) the number of Federal agencies whose data series are indexed on www.fedstats.gov; and 3) published innovative inter-agency thematic reports based on federally-collected statistics, including *America's Children: Key National Indicators of Well-Being,* and *Changing America: Indicators of Social and Economic Well-Being by Race and Hispanic Origin.* In 1999, the Administration will continue to seek passage of legislation for statistical data sharing, and continue work on the American Community Survey to provide comparable demographic, economic, and housing data for small geographic areas. In 2000, the Administration will begin implementing the newly revised 1998 Standard Occupational Classification.

6. Implement acquisition reforms: The Federal Government is the Nation's largest buyer of goods and services, purchasing almost $200 billion annually. In the past six years, the Congress and the Administration have initiated numerous acquisition reforms to maximize the taxpayer's buying power. Contractors are increasingly being held responsible for results and measured on their performance when competing for future work. Agencies are buying commercial products and services rather than costly Government-unique solutions. The buying process continues to be streamlined, paperwork reduced, and results measured. In 1999, the Government will have 60 percent of Government purchases below $2,500 made by credit card—bypassing more paper intensive and time consuming procurement processes. By 2000, this rate will increase to 80 percent (see Chart IV–3). By 2000, over $23 billion in services contracts will be converted to Performance-Based Service Contracting (PBSC). Pilot programs demonstrated price reductions averaging 15 percent in nominal dollars, and agency satisfaction with contractor performance rose by 18 percent. Also by 2000, all major agencies will have systems which record contractors performance. This information will be a key

Chart IV-3. FEDERAL PURCHASE CARD PROGRAM GROWTH



Note: The average annual growth in the Federal Purchase Card Program is over 75 percent since its inception in 1989.

determinant to better manage contracts and successfully select contractors.

7. Implement electronic Government initiatives: As discussed in the Vice President's 1997 Access America Report, today's most important infrastructure improvement needed to promote electronic access to Government services is the ability to authenticate users over open networks like the Internet. The Government Paperwork Elimination Act of 1998 promotes Federal agency use of electronic signatures to verify identities and integrity of information and establishes the legal validity of electronic documents. In 1999, the Administration will work with the private sector to develop guidelines for implementing the Act. In 2000, the Administration will issue those guidelines, incorporating lessons from the Access America projects. Additional mission performance improvements from specific information systems investments are discussed in Chapter 22 of *Analytical Perspectives*.

Improving Stewardship of Assets

8. Better manage financial portfolios: The Federal Government currently underwrites more than $1 trillion in loans, primarily to students, homebuyers, and small businesses. The Government must better serve these customers and protect its interest in obtaining efficient and timely repayment. Using electronic commerce and the Internet, the Government will test streamlined processes for student loan applications and electronic drawdown to those who qualify. Privacy will be protected though the use of electronic signatures. The Government will also begin sharing information electronically to better manage its single-family home loans, and if successful, will apply the same model to other lending programs. By 2000, the Debt Collection Improvement Act, which requires agencies to refer debt over 180 days delinquent to the Treasury Department for collection, will be fully implemented with the help of a Government-wide offset program, private collection agencies, and asset sales.

9. Better manage real property: The Government owns billions of dollars worth of real property, including office buildings, hospitals, laboratories, and military bases. The Administration will pursue a number of initiatives, and where necessary, will submit legislation to:

- continue DOD's successful housing privatization program that augments each Federal dollar with two or more private sector dollars to construct and manage housing, thereby enabling the department to improve the quality of military family housing three times faster than would otherwise be possible;
- allow the Department of Veteran Affairs (VA) to sell unneeded property and keep the proceeds to improve direct care and services to veterans, with a share of the proceeds being used to provide assistance grants to local homeless populations; and
- amend the Federal Property and Administrative Services Act of 1949 to improve real property management, including allowing agencies to exchange or sell unneeded property and retain a share of the sales proceeds for other property investments.

Improving Program Operations and Integrity

10. Verify that the right person is getting the right benefit: It is important to ensure that beneficiaries get the benefits to which they are entitled and that errors in providing benefits are minimized. Agencies can shorten application review times and strengthen program integrity by sharing information among Government programs. For instance, in 2000, HUD will begin verifying tenant-reported income against other Federal income data. This will help ensure that housing assistance goes to those entitled to these benefits. Also in 2000, the Department of Education will propose legislation to permit the use of income information in the National Directory of New Hires to verify income reported on student loan applications and to identify income received by student loan defaulters. This could lead to an estimated savings of over $450 million.

In 1999, the Administration will support improved Federal and State program information sharing to minimize erroneous payments at benefit determination; to eliminate unnecessary burdens on applicants by coordinating information collection and verification; to protect individual privacy; and to enable customers to use secure and convenient electronic application processes.

11. Use competition to improve operations: Competition has become a cornerstone of the business strategy for DOD. DOD will compete over 200,000 positions (in accordance with OMB Circular A–76 procedures), including more than 100,000 positions between 2000 and 2005. Savings will result from: 1) reengineering work that stays in-house; and 2) contracting out, which has shown savings of 30 to 40 percent. Other agencies are identifying potential commercial activities, which will provide a basis for implementing the Federal Activities Inventory Reform Act of 1998 (FAIR). Inventories are due to OMB by June 30, 1999, under the Act.

Improving Program Implementation

12. Modernize student aid delivery: Each year, nearly nine million students receive a total of $50 billion in aid through six major Federal student financial assistance programs. These programs are separately authorized—with unique features—and have evolved information and other management systems that are not always consistent with one another. To improve and streamline the management of these programs, the Higher Education Amendments of 1998 authorized the Government's first ever Performance Based Organization (PBO). During 1999, this PBO will work with a broadly representative group of lenders, students, and program intermediaries to develop a five-year performance plan to modernize student aid delivery. The goals will include:

- improving service to students and other participants in the student aid process;
- reducing costs of administering the programs;
- integrating and improving program information and delivery systems; and
- developing open, common, and integrated delivery and information systems.

13. Improve DOE contract management: More than 90 percent of DOE's budget is spent through contractors who are responsible for the operation, management, and safety of DOE facilities. Making more effective use of Performance Based Service Contracts (PBSC) and competition would improve DOE's mission attainment and could potentially save up to $1 billion. In 1999, DOE will focus on PBSC conversions for two management and operating contracts and 10 service contracts to increase work accomplished and lower costs. Also, DOE will compete four of the eight major expiring contracts.

14. Strengthen Health Care Financing Administration's (HCFA's) management capacity: HCFA is responsible for the stewardship of many of the most important social programs run by the Federal Government, including Medicare, Medicaid, and the Children's Health Insurance Program (CHIP). HCFA faces the formidable challenge of modernizing its administrative infrastructure, meeting pressing statutory deadlines for program change from the Balanced Budget Act (BBA) and the Health Insurance Portability and Accountability Act (HIPAA), and perhaps most important, the need to be highly responsive to its customers.

HCFA has begun the process of management change through its recent reorganization. However, further reform is needed. HCFA, HHS, and OMB have together begun the development of a reform initiative that will increase HCFA's flexibility to operate as a customer centered prudent purchaser of health care while also increasing accountability. This initiative has five components: 1) management flexibilities (e.g., evaluation of personnel needs and flexibilities); 2) increased accountability to constituencies (e.g., regular reports to the Congress and the Administration, creation of an outside advisory board); 3) program flexibilities (e.g., new authorities and greater use of existing authorities to pay for services at market rates, enter into selective contracts, and engage in competitive bidding); 4) structural reforms (e.g., re-engineering the relationship between HCFA's central and regional offices and between HCFA and HHS; contracting out functions); and 5) contractor reform (e.g., promoting competition in Medicare claims processings, introducing contract terms that allow more flexibility for the Federal Government).

HCFA's core functions—modernizing Medicare, detecting fraud and abuse, providing beneficiary and provider education, implementing legislative changes, processing claims, providing increased beneficiary choices, and managing Federal and State Medicaid and CHIP programs—are vital and continue to expand. To meet these expanding programmatic challenges, as well as the challenges of continuous management reform, it is critical to move toward a stable source of funding for HCFA. As HCFA and HHS move down the road toward achieving fundamental reform and begin to accomplish some of the basic objectives noted above (e.g., contractor reform), the Administration will review legislative proposals to increase the stability of HCFA's funding.

15. Implement HUD reform: HUD's comprehensive reforms are geared toward producing improvements in agency operations—so that all tenants can live in safe and well-managed housing. These reforms include: clarifying the mission of each employee; cleaning up the data in existing management and financial systems; integrating these disparate management and financial systems where possible; and enhancing accountability in HUD programs. For instance, by 2000, HUD will initiate an independent, on-going assessment of all public housing and Section 8 projects. Projects that fail to meet reasonable private sector benchmarks for safety and financial integrity will be referred to a newly established HUD Enforcement Center for intensive oversight and technical assistance. If a project's safety and financial status do not improve, new management will be installed, or Federal assistance to the project will end. By 2000, HUD will also begin periodic customer and employee satisfaction surveys. The results of these surveys will be used to monitor progress in implementing meaningful HUD reform.

16. Resolve disputes over Indian trust funds: The Department of the Interior (DOI) is responsible for managing nearly $3 billion in trusts the Federal Government holds for the Indian Tribes and individual Native Americans. In 1998, DOI verified over half of all individual trust accounts, and conversion of these accounts to a commercial accounting system will be completed by the end of 1999. The Administration will also re-introduce legislation to settle disputed tribal trust balances that resulted from decades of mismanagement, and consolidate highly fractionated ownership of Indian lands. In 2000, DOI will:

- develop and negotiate settlement offers with Tribes whose accounts lack full documentation, and develop formula-driven settlement payments for Tribes that accept these offers;
- double the number of pilot projects to consolidate ownership of fractionated lands; and
- complete verification of the remaining one-third of all trust asset account data and finalize the conversion to the new commercial trust asset management system.

17. Implement FAA management reform: The safety of the flying public depends on the FAA—its air traffic controllers, technology, and preparation for future challenges. FAA has begun an 18-month pilot project to link pay increases for some staff to the achievement of their performance targets. In 1999, FAA will evaluate the overall impact of the first three years of its personnel reform. FAA will also continue to develop its cost accounting system to allow more business-like operations and management improvements. By early 2000, FAA will complete replacement of en route air traffic controller workstations and begin purchasing modernized airport terminal radar. FAA will continue to develop promising free flight technologies to improve air traffic control efficiency and effectiveness.

18. Implement IRS reforms: The IRS is modernizing its organization and its information technology to better serve over 200 million taxpayers and enhance its productivity by encouraging quality work. Major portions of the IRS' modernization plans were mandated by the Internal Revenue Service Restructuring and Reform Act of 1998. The new focus is captured by the IRS' revised mission statement: Provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all. The basic outline of the new structure was completed in August 1998. The IRS Commissioner expects to announce the final design and implementation plans on April 15, 1999. The new organization and system improvements will be implemented over the following two and a half years. At the same time, IRS is modernizing its information technology to better support its new organization. In December 1998, IRS awarded a prime contract for information technology modernization. This is a long-term partnership between IRS and private industry to deliver the modernized financial and information systems needed to support IRS' new customer oriented organization.

19. Streamline SSA's disability claims system: SSA has undertaken a multi-year redesign project to improve service delivery for the millions of individuals filing for, or appealing decisions on, disability claims. SSA is providing all its adjudicators with uniform training, instructions which clarify complex policy areas, and an improved quality assurance process. Initial results indicate that these changes are helping SSA make more accurate disability determinations earlier in the claims process. SSA is also pilot testing modifications designed to streamline the disability applications process and increase claimant interaction with SSA at both the initial claim and hearing levels. Implementation of pilot modifications that prove successful will begin in 1999 and 2000.

20. Revolutionize DOD business affairs: DOD is changing the way it does business. Just as industry was forced to change to be competitive, so too must DOD upgrade its business operations to effectively support future national security strategy. DOD will adopt better business processes, pursue commercial alternatives, consolidate redundant functions, and streamline organizations to reduce overhead and apply resultant savings to fund modernization and quality of life programs. For example:

- DOD has devolved day-to-day program management functions from the Office of the Secretary of Defense to the military departments and defense agencies so that it could concentrate on policy and oversight responsibilities.
- DOD competitive sourcing initiatives will produce savings of over $6 billion from 1998 to 2003, with annual recurring savings thereafter of more than $2 billion.
- DOD will also improve the work environment, and benefit the lives of Department personnel, by establishing a career transition office for military personnel, establishing a Chancellor for Education and Professional Development, reengineering travel procedures, and streamlining the shipment of household goods.

21. Improve management of the decennial census: The goal of the decennial census is to conduct the most accurate census in U.S. history. The Census Bureau's plan will implement strategies to conduct a thorough and complete census. Specifically, management improvements include: user-friendly forms; a telephone questionnaire assistance program; language assistance; and using state-of-the art statistical sampling techniques. In 1999, preparations include developing the master address list, printing the questionnaires, and opening local census offices. In 2000, the census becomes operational. Activities will include hiring 300,000 temporary field staff, staffing the local census offices, and conducting non-response follow up and integrated coverage measurement.

22. Manage risks in building the International Space Station: The United States has the lead role in the international effort to build the International Space Station. The cost of U.S. participation has escalated because of technical difficulties, new work requirements, performance shortfalls, and Russian delays and shortfalls. In 1999, the program will continue to address cost and schedule performance problems in its key contracts, strengthen contract management and cost controls, and further reduce risks from potential Russian shortfalls. In 2000, the program begins a transition from development activities to orbital operations and research, seeking to take advantage of commercial practices, products, and services. The first two components of the space station were launched successfully in November and December of 1998. Additional 1999 launches will prepare the orbital platform for the first permanent crew in January of 2000. Assembly will continue through 2004.

23. Improve security at diplomatic facilities around the world: The State Department received $1.4 billion in 1999 emergency funds to implement a broad program of security enhancements in response to terrorist bombings in Kenya and Tanzania and related threats directed at U.S. diplomatic and consular facilities overseas. Achieving global upgrades and maintaining that readiness at the Department's overseas posts poses a significant management challenge. Follow-on efforts will include significant investments in overseas facilities to ensure continued protection of U.S. Government employees working overseas. Long-range capital planning, including a review of future security requirements by a panel of experts and careful use of resources, will ensure that these investments meet cost, schedule, and performance goals of the program.

24. Reengineer the naturalization process and reduce the citizenship application backlog: The Immigration and Naturalization Service (INS) is redesigning its naturalization process to ensure service and benefits are provided with complete integrity and in a timely manner. At the same time, INS is addressing a backlog of 1.8 million pending applications for citizenship.

INS is committed to completing the naturalization process reengineering in 2000 and reducing the citizenship backlog—which currently requires applicants to wait upwards of 20 months to naturalize—to a 12-month wait-time in 1999 and a six to nine month wait-time by the end of 2000.

Using Inter-agency Groups to Improve Performance

To achieve the Administration's goal of making fundamental change in the operation of Government, inter-agency groups have been extensively used to lead crosscutting efforts. These groups draw together operational, financial, procurement, integrity, labor relations, and systems technology experts from across the Government. They establish Government-wide goals in their areas of expertise, and they marshal the resources within individual agencies to meet those goals. Several of these groups were established for the first time by this Administration, including the President's Management Council and the National Partnership Council. Other interagency groups are described in Table IV–4.

The President's Management Council (PMC): The PMC consists of the Chief Operating Officers of all Federal departments and the largest agencies. The PMC provides leadership for the most important Government-wide reforms. Council priorities include: streamlining agencies without unnecessarily disrupting the work force; identifying criteria and recommending methods for agency restructuring; identifying performance measures to support electronic commerce and performance-based service contracting; facilitating development of customer service standards; supporting labor-management partnerships; and leading GPRA implementation.

The National Partnership Council (NPC): President Clinton established the NPC in October 1993 to enlist the Federal labor unions as allies in reinvention and to shift Federal labor relations from adversarial litigation to cooperative problem solving. Members of the NPC include: representatives of Federal employee unions and Federal managers and supervisors; the Federal Mediation and Conciliation Service; the Federal Labor Relations Authority; the Office of Personnel Management; OMB; DOD; and the Department of Labor. In 2000, NPC will continue developing methods to evaluate partnerships and their effect on agency productivity and service. The results of this research will guide individual agencies in evaluating and promoting their efforts. More information on the NPC can be found on its website: www.opm.gov/npc.

Table IV–4. MAJOR INTER-AGENCY GROUPS

Council Name/Membership	Council Priorities/Recent Activities
Chief Financial Officers (CFO) Council: The CFOs and Deputy CFOs of the 24 largest Federal agencies and senior officials from OMB and Treasury. http://www.financenet.gov	• 1998 activities included interagency projects on GPRA implementation, electronic commerce, grants management, and human resources development. • Upcoming priorities include: achieving an unqualified opinion on the Government-wide consolidated financial statements; improving financial management systems; addressing GPRA implementation issues; improving management of receivables; modernizing payments and business methods; and improving the administration of Federal assistance programs.
Chief Information Officers (CIO) Council: The CIOs and Deputy CIOs for 28 major Federal agencies, two CIOs from small Federal agencies, and representatives from OMB and two information technology boards. http://cio.gov	• The Council develops recommendations for information technology management policy; identifies opportunities to share information resources; and supports the Federal Government's development of an information technology workforce. • Priorities for the coming year include: defining an inter-operable Federal information technology architecture; ensuring information security practices that protect Government services; leading the Federal year 2000 conversion effort; establishing sound capital planning and investment practices; improving the information technology skills of the Federal work force; and building relationships through outreach programs with Federal organizations, the Congress, industry, and the public.
President's Council on Integrity and Efficiency (PCIE): The 27 Presidentially-appointed Inspectors General (IGs), the Vice Chair of the agency-appointed IG council, and other key integrity officials. http://www.ignet.gov	• Priorities include mounting collaborative efforts to address integrity, economy, and effectiveness issues that transcend individual agencies. Recent efforts included a review of the controls of the Federal Electronics Benefits Transfer System and agency progress in debt collection. Current efforts include a project on non-tax delinquent debt. • Another priority is increasing the professionalism and effectiveness of IG personnel across the Government by setting standards for OIG work; maintaining professional training for OIG staff; and assisting OIGs as they confront new professional challenges such as GPRA implementation.
Electronic Processes Initiatives Committee (EPIC): Senior policy officials from DOD, GSA, Treasury, and OMB. http://policyworks.gov/org/main/me/epic/	• The PMC established EPIC to further the use of electronic commerce technologies and processes within the Government. • Its goals are to: facilitate electronic commerce and implementation of the Paperwork Elimination Act through the use of digital signatures to authenticate users and transactions; support integrated, commercially-based electronic buying and paying systems in the Government; improve citizen access to Government information and services through technology; improve financial management and reporting to assure taxpayers that Government resources are efficiently utilized; and foster the use of current technology, such as "smart cards", to improve business and administrative processes in the Government.

Table IV–4. MAJOR INTER-AGENCY GROUPS—Continued

Council Name/Membership	Council Priorities/Recent Activities
Federal Credit Policy Working Group: Representatives from the major credit and debt collection agencies and OMB. http://www.financenet.gov/financenet/fed/fcpwg	• Provides advice and assistance to OMB, Treasury, and Justice in formulating and implementing Government-wide credit policy. • Upcoming priorities are to: use the Internet for loan application processing and portfolio status reporting; share data among agencies to validate application and specially collected data; do asset valuation and sale of loans delinquent over one year; implement revised write-off policies and procedures; and develop common portfolio performance measures.
Procurement Executives Council: Senior procurement executives from major Federal agencies.	• An inter-agency forum for improving the Federal acquisition system. • Its priorities are improving the Federal acquisition work force; offering easier access to Government business to all segments of the private sector; promoting electronic commerce; and reducing government unique requirements.
Inter-agency Alternative Dispute Resolution Working Group (ADR): The Attorney General, representatives of the heads of all Cabinet Departments, and others with significant interest in Federal dispute resolution. http://www.financenet.gov/financenet/fed/iadrwg	• President Clinton established the ADR in May 1998 to assist Government agencies in making greater use of consensual methods for resolving disputes, including mediation, neutral evaluation, arbitration, and other processes. • The Attorney General has called upon experts throughout the Government to help other agencies establish new ADR programs in four areas: contracts and procurement; workplace disputes brought by Federal employees; claims arising from civil enforcement initiated by Government agencies; and monetary claims by citizens against the Government. A goal for 1999 is to assist each participating agency in establishing at least one new ADR program.
Joint Financial Management Improvement Program (JFMIP): A joint effort of GAO, OMB, Treasury, and OPM, with a rotating representative from another agency. http://www.financenet.gov/financenet/fed/jfmip/	• During 1998, JFMIP issued draft revised system requirements for Federal financial, human resource, and payroll systems; completed plans to redesign the testing and qualification process for commercial off-the-shelf accounting system software for Federal agencies; and issued guidance on core competencies in financial management. • In 2000, JFMIP will publish new financial system testing and qualifying processes and update other financial systems requirements.

VI. INVESTING IN THE COMMON GOOD: PROGRAM PERFORMANCE IN FEDERAL FUNCTIONS

12. OVERVIEW

The commitment of the President and the Congress to balance the budget—and keep it in balance—is promoting an increased focus on allocating ever scarcer resources to programs that demonstrate good performance. Departments are increasingly justifying funds for programs in terms of actual and expected performance. The Executive Branch and the Congress are asking the key questions: "What are we getting for what we are spending?" and "How will we know if we are successful?".

The Administration's focus on results is not new. Led by Vice President Gore's National Partnership for Reinventing Government (NPR), the Administration has made real progress in creating a Government that in the words of the NPR, "works better, costs less, and gets results Americans care about."

In this budget, the Administration highlights three aspects of performance:

- Fiscal performance (see Chapter 1, "Sustaining Growth");
- Management performance (see Section IV, "Improving Performance Through Better Management"); and
- Program performance, which is contained in this section.

Together, these sections constitute what the Government Performance and Results Act (GPRA) contemplated—a comprehensive, Government-wide Performance Plan. The Plan reflects the budget and management decisions made throughout the process of formulating the President's budget, presenting a results-oriented picture of more than 450 of year 2000 Federal Government performance goals.

The performance of Government programs is inextricably linked to the fiscal and economic environment and the management framework in which they operate. The President's commitment to not only balance the budget but to invest in the future while improving public management—to do more with less—has prompted the Administration to maintain or expand programs that demonstrate good performance. Performance by managers is increasingly being judged on program results.

In this section, the budget categorizes activities according to budget functions in order to group similar programs together and begin to present the relationship between their goals. As contemplated in GPRA, the Administration relied heavily on key performance measures and annual performance goals that were drawn from agency Annual Performance Plans. These were first articulated in the context of the long-term goals and objectives in the Strategic Plans that agencies submitted to OMB and to the Congress in September 1997.

Again this year, in preparing the budget, the Administration performed crosscutting analyses to augment analysis by agency and by budget functions to provide a more complete and useful picture of related missions and goals across programs. The Administration is continuing to discuss with the Congress and stakeholders how to apply crosscutting analyses to budget and management decision-making.

In preparing the budget, the Administration studied the measures and goals of the Annual Performance Plans and took a hard look at what the public is getting for what it is financing. Going into this second year of Government-wide implementation, the agencies continue to improve and make good progress in managing for results. Nevertheless, more work remains. Agencies will modify Annual Performance Plans as they implement them to reflect changing circumstances and resource levels, the plans will provide a backdrop for further discussion about allocating and managing resources, and the President's future budgets will contain new and better information. Going forward, the challenge remains to use these tools to create better performance to improve citizen confidence, service delivery, and program performance and management.

Table 12–1. FEDERAL RESOURCES BY FUNCTION

(In billions of dollars)

Function	1998 Actual	Estimate 1999	2000	2001	2002	2003	2004
NATIONAL DEFENSE:							
Spending:							
Discretionary Budget Authority	272.4	277.0	281.6	301.3	303.2	313.6	322.3
Mandatory Outlays:							
Existing law	–1.8	–0.8	–0.8	–0.6	–0.7	–0.7	–0.7
Credit Activity:							
Direct loan disbursements	....	0.2	0.2	N/A	N/A	N/A	N/A
Guaranteed loans	*	*	*	N/A	N/A	N/A	N/A
Tax Expenditures:							
Existing law	2.1	2.1	2.1	2.2	2.2	2.2	2.2
INTERNATIONAL AFFAIRS:							
Spending:							
Discretionary Budget Authority	19.0	40.8	21.3	21.2	20.8	21.0	21.1
Mandatory Outlays:							
Existing law	–5.0	–4.4	–3.9	–3.7	–3.4	–3.2	–3.1
Credit Activity:							
Direct loan disbursements	2.3	4.0	1.8	N/A	N/A	N/A	N/A
Guaranteed loans	12.4	13.4	13.0	N/A	N/A	N/A	N/A
Tax Expenditures:							
Existing law	11.0	12.4	12.3	13.1	14.1	15.2	16.3
Proposed legislation	....	....	–0.3	–0.5	–0.6	–0.6	–0.6
GENERAL SCIENCE, SPACE, AND TECHNOLOGY:							
Spending:							
Discretionary Budget Authority	18.0	18.8	19.2	19.4	19.4	19.3	19.3
Mandatory Outlays:							
Existing law	*	0.1	0.1	0.1	*	*	*
Tax Expenditures:							
Existing law	2.4	2.0	1.5	1.0	0.9	0.8	0.8
Proposed legislation	....	0.3	0.9	0.7	0.3	0.1	0.1
ENERGY:							
Spending:							
Discretionary Budget Authority	3.1	2.9	2.8	3.2	3.0	3.0	3.0
Mandatory Outlays:							
Existing law	–2.4	–3.2	–5.1	–4.4	–4.3	–4.2	–4.3
Credit Activity:							
Direct loan disbursements	1.0	1.6	1.3	N/A	N/A	N/A	N/A
Tax Expenditures:							
Existing law	1.5	1.6	1.6	1.6	1.6	1.4	1.2
Proposed legislation	....	*	0.4	0.7	0.7	0.8	1.0
NATURAL RESOURCES AND ENVIRONMENT:							
Spending:							
Discretionary Budget Authority	23.5	23.4	23.8	24.0	23.9	23.9	24.0
Mandatory Outlays:							
Existing law	0.4	1.0	0.7	0.8	0.7	0.9	0.8
Proposed legislation	....	....	–0.8	–0.7	–0.8	–0.7	–0.7
Credit Activity:							
Direct loan disbursements	*	*	*	N/A	N/A	N/A	N/A
Tax Expenditures:							
Existing law	1.5	1.5	1.6	1.6	1.7	1.7	1.8
Proposed legislation	....	....	–0.1	–*	*	0.1	0.2
AGRICULTURE:							
Spending:							
Discretionary Budget Authority	4.3	4.3	4.1	4.1	4.2	4.1	4.1
Mandatory Outlays:							
Existing law	7.9	16.4	10.9	8.8	7.3	6.0	6.2

Table 12–1. FEDERAL RESOURCES BY FUNCTION—Continued

(In billions of dollars)

Function	1998 Actual	Estimate 1999	2000	2001	2002	2003	2004
Proposed legislation	....	....	–*	–*	–*	–*	–*
Credit Activity:							
Direct loan disbursements	8.2	10.8	11.6	N/A	N/A	N/A	N/A
Guaranteed loans	4.2	6.6	6.7	N/A	N/A	N/A	N/A
Tax Expenditures:							
Existing law	0.8	0.9	0.9	1.0	1.0	1.0	1.1
COMMERCE AND HOUSING CREDIT:							
Spending:							
Discretionary Budget Authority	3.1	3.7	5.4	3.3	2.9	2.9	2.9
Mandatory Outlays:							
Existing law	–2.2	–3.1	1.2	4.1	6.2	6.6	7.0
Proposed legislation	....	....	–0.1	–0.1	–0.1	–0.1	–0.1
Credit Activity:							
Direct loan disbursements	1.9	1.7	1.6	N/A	N/A	N/A	N/A
Guaranteed loans	256.1	233.2	250.9	N/A	N/A	N/A	N/A
Tax Expenditures:							
Existing law	219.3	227.6	236.2	245.1	254.4	261.8	268.3
Proposed legislation	....	–0.1	–1.3	–2.2	–2.0	–1.8	–1.8
TRANSPORTATION:							
Spending:							
Discretionary Budget Authority	16.0	13.3	13.5	14.2	14.7	15.3	15.8
Mandatory Outlays:							
Existing law	2.1	2.1	2.4	2.0	1.4	1.9	1.8
Proposed legislation	....	....	*	*	*	*	*
Credit Activity:							
Direct loan disbursements	0.2	0.8	0.9	N/A	N/A	N/A	N/A
Guaranteed loans	0.7	0.1	0.1	N/A	N/A	N/A	N/A
Tax Expenditures:							
Existing law	1.6	1.7	1.7	1.8	1.9	2.0	2.1
COMMUNITY AND REGIONAL DEVELOPMENT:							
Spending:							
Discretionary Budget Authority	10.3	8.9	8.9	8.9	8.9	8.9	8.9
Mandatory Outlays:							
Existing law	–0.4	–0.5	–0.6	–0.7	–0.7	–0.8	–0.8
Proposed legislation	....	....	*	0.1	0.2	0.2	0.2
Credit Activity:							
Direct loan disbursements	1.5	2.4	2.1	N/A	N/A	N/A	N/A
Guaranteed loans	1.4	2.2	3.1	N/A	N/A	N/A	N/A
Tax Expenditures:							
Existing law	1.2	1.3	1.4	1.3	1.2	1.1	1.1
Proposed legislation	....	....	*	0.2	0.4	0.5	0.5
EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES:							
Spending:							
Discretionary Budget Authority	46.7	46.6	52.1	54.2	54.2	54.1	54.0
Mandatory Outlays:							
Existing law	12.4	14.0	14.9	13.9	13.1	15.1	16.1
Proposed legislation	....	–*	–1.7	–0.1	–0.3	–0.6	–0.4
Credit Activity:							
Direct loan disbursements	12.1	16.1	16.0	N/A	N/A	N/A	N/A
Guaranteed loans	22.0	23.2	24.6	N/A	N/A	N/A	N/A
Tax Expenditures:							
Existing law	29.9	37.6	40.0	42.0	44.0	45.9	49.0
Proposed legislation	....	0.2	1.6	3.7	2.7	2.5	2.6
HEALTH:							
Spending:							
Discretionary Budget Authority	26.4	30.1	30.6	31.0	30.8	30.8	30.8

Table 12–1. FEDERAL RESOURCES BY FUNCTION—Continued

(In billions of dollars)

Function	1998 Actual	Estimate 1999	2000	2001	2002	2003	2004
Mandatory Outlays:							
Existing law	106.6	115.5	122.8	131.6	141.7	153.0	165.0
Proposed legislation	....	*	–0.1	0.7	0.8	0.9	0.7
Credit Activity:							
Guaranteed loans	0.1	0.1	*	N/A	N/A	N/A	N/A
Tax Expenditures:							
Existing law	80.5	85.8	91.8	97.9	104.4	111.6	119.7
Proposed legislation	....	....	0.1	1.2	1.3	1.5	1.6
MEDICARE:							
Spending:							
Discretionary Budget Authority	2.7	3.0	2.9	2.9	2.9	2.9	2.9
Mandatory Outlays:							
Existing law	190.2	202.0	214.9	229.2	233.2	251.2	265.2
Proposed legislation	....	....	–1.2	–1.5	–1.5	–1.7	–1.8
INCOME SECURITY:							
Spending:							
Discretionary Budget Authority	29.7	32.8	30.2	36.4	36.2	36.2	36.2
Mandatory Outlays:							
Existing law	192.3	202.4	214.8	223.4	232.4	240.9	250.1
Proposed legislation	....	....	0.8	1.9	2.2	2.2	2.8
Credit Activity:							
Direct loan disbursements	*	*	*	N/A	N/A	N/A	N/A
Guaranteed loans	*	0.1	0.1	N/A	N/A	N/A	N/A
Tax Expenditures:							
Existing law	117.9	132.4	135.3	138.6	141.8	144.9	147.8
Proposed legislation	....	*	0.3	0.8	0.8	0.8	0.7
SOCIAL SECURITY:							
Spending:							
Discretionary Budget Authority	3.2	3.2	3.2	3.2	3.2	3.2	3.2
Mandatory Outlays:							
Existing law	376.1	389.2	405.2	423.5	443.9	464.9	487.2
Proposed legislation	....	....	*	0.1	0.1	0.2	0.2
Tax Expenditures:							
Existing law	22.8	23.4	24.6	25.9	27.4	29.0	30.7
VETERANS BENEFITS AND SERVICES:							
Spending:							
Discretionary Budget Authority	18.9	19.3	19.3	19.3	19.3	19.3	19.3
Mandatory Outlays:							
Existing law	23.3	24.3	24.7	25.3	25.9	27.0	27.6
Proposed legislation	....	....	0.3	0.6	1.0	0.6	0.9
Credit Activity:							
Direct loan disbursements	1.3	2.0	0.7	N/A	N/A	N/A	N/A
Guaranteed loans	39.9	32.6	31.2	N/A	N/A	N/A	N/A
Tax Expenditures:							
Existing law	3.0	3.1	3.3	3.4	3.6	3.7	3.9
ADMINISTRATION OF JUSTICE:							
Spending:							
Discretionary Budget Authority	24.8	26.2	26.4	26.8	26.9	26.7	26.8
Mandatory Outlays:							
Existing law	0.7	1.0	0.8	0.6	0.6	0.5	2.1
Proposed legislation	....	....	....	....	....	....	–1.5
GENERAL GOVERNMENT:							
Spending:							
Discretionary Budget Authority	12.1	13.2	12.7	13.5	13.2	13.3	13.2
Mandatory Outlays:							
Existing law	1.4	2.4	1.4	1.2	1.1	1.1	1.3
Proposed legislation	....	....	0.1	0.1	0.1	0.1	0.1

Table 12–1. FEDERAL RESOURCES BY FUNCTION—Continued

(In billions of dollars)

Function	1998 Actual	Estimate 1999	2000	2001	2002	2003	2004
Tax Expenditures:							
Existing law	56.8	59.2	61.6	64.1	66.9	69.7	72.9
Proposed legislation	....	....	*	*	0.1	0.1	0.1
NET INTEREST:							
Mandatory Outlays:							
Existing law	243.4	227.2	215.2	205.9	194.7	183.2	173.0
Tax Expenditures:							
Existing law	1.0	1.0	1.1	1.1	1.2	1.2	1.3
ALLOWANCES:							
Spending:							
Discretionary Budget Authority	....	7.6	–0.3	–47.7	–41.6	–20.5	–22.5
Mandatory Outlays:							
Proposed legislation	....	....	....	–2.8	–3.9	–4.6	–4.7
UNDISTRIBUTED OFFSETTING RECEIPTS:							
Spending:							
Discretionary Budget Authority	....	....	–2.8	1.1	1.1	–0.2	–0.2
Mandatory Outlays:							
Existing law	–47.2	–40.0	–42.3	–45.3	–51.3	–45.9	–46.7
Proposed legislation	....	....	–0.6	–0.8	–0.9	–1.0	–1.0
FEDERAL GOVERNMENT TOTAL:							
Spending:							
Discretionary Budget Authority	534.2	575.0	555.0	540.3	547.2	578.0	585.5
Mandatory Outlays:							
Existing law	1,097.9	1,145.9	1,177.4	1,215.6	1,241.8	1,297.7	1,348.0
Proposed legislation	....	–*	–3.2	–2.6	–3.2	–4.6	–5.3
Credit Activity:							
Direct loan disbursements	28.7	39.6	36.2	N/A	N/A	N/A	N/A
Guaranteed loans	336.8	311.4	329.8	N/A	N/A	N/A	N/A

* $50 million or less.
N/A = Not available.

13. NATIONAL DEFENSE

Table 13–1. FEDERAL RESOURCES IN SUPPORT OF NATIONAL DEFENSE
(In millions of dollars)

Function 050	1998 Actual	Estimate					
		1999	2000	2001	2002	2003	2004
Spending:							
Discretionary Budget Authority	272,370	276,982	281,588	301,321	303,208	313,581	322,343
Mandatory Outlays:							
Existing law	–1,792	–815	–766	–614	–743	–710	–660
Credit Activity:							
Direct loan disbursements	....	172	249	N/A	N/A	N/A	N/A
Guaranteed loans	25	32	37	N/A	N/A	N/A	N/A
Tax Expenditures:							
Existing law	2,095	2,120	2,140	2,160	2,180	2,200	2,220

N/A = Not available

The Federal Government will allocate $281.6 billion in discretionary resources in 2000 to defend the United States, its citizens, its allies, and to protect and advance American interests around the world. National defense programs and activities ensure that the United States maintains strong, ready, and modern military forces to promote U.S. objectives in peacetime, deter conflict, and if necessary, successfully defend our Nation and its interests in wartime.

Over the past half-century, our defense program has deterred both conventional and nuclear attack on U.S. soil and brought a successful end to the Cold War. Today, the United States is the sole remaining superpower in the world, with military capabilities unsurpassed by any Nation. As the world's best trained and best equipped fighting force, the U.S. military continues to provide the strength and leadership that serve as the foundation upon which to promote peace, freedom, and prosperity around the globe.

Department of Defense (DOD)

The DOD budget provides for the pay, training, operation, basing, and support of U.S. military forces, and for the development and acquisition of modern equipment to:

Shape the international environment by maintaining U.S. defense forces at levels sufficient to undertake our strategy of engagement, and conducting programs to reduce weapons of mass destruction, prevent their proliferation, and combat terrorism;

Respond to the full spectrum of crises by deploying forces overseas and maintaining capabilities to mobilize forces stationed on U.S. soil;

Prepare for an uncertain future by giving U.S. forces the military hardware that employs the best available technologies; and

Ensure that the U.S. military remains the world's most prepared and capable force by sustaining force readiness levels and re-engineering business practices to improve operations.

To achieve these objectives, the defense program supports the following forces and activities.

Conventional Forces: Conventional forces include ground forces such as infantry and tank units; air forces such as tactical aircraft;

naval forces such as aircraft carriers, destroyers, and attack submarines; and Marine Corps expeditionary forces. The Nation needs conventional forces to deter aggression and, when that fails, to defeat it. Funds to support these forces cover pay and benefits for military personnel; the purchase, operation, and maintenance of conventional systems such as tanks, aircraft, and ships; the purchase of ammunition and spare parts; and training.

Mobility Forces: Mobility forces provide the airlift and sealift that transport military personnel and materiel throughout the world. They play a critical role in U.S. defense strategy and are a vital part of America's response to contingencies that range from humanitarian relief efforts to major theater wars. Airlift aircraft provide a flexible, rapid way to deploy forces and supplies quickly to distant regions, while sealift ships allow the deployment of large numbers of heavy forces together with their fuel and supplies. The mobility program also includes prepositioning equipment and supplies at sea or on land near the location of a potential crisis, allowing U.S. forces that must respond rapidly to crises overseas to quickly draw upon these prepositioned items.

Strategic Nuclear Forces: Strategic nuclear forces are also important to our military capability. They include land-based intercontinental ballistic missiles, submarine launched ballistic missiles, and long-range strategic bombers. Within treaty-imposed limits, the primary mission of strategic forces is to deter nuclear attack against the United States and its allies, and to convince potential adversaries that they will never gain a nuclear advantage against our Nation.

Supporting Activities: Supporting activities include research and development, communications, intelligence, training and medical services, central supply and maintenance, and other logistics activities. For example, the Defense Health Program provides health care through DOD facilities, as well as through the CHAMPUS medical insurance program and TRICARE, its companion program.

DOD Performance

DOD's corporate goals derive from the key tenets of the U.S. national security strategy and form the basis of the performance goals and measures presented here. Each performance goal reflects one aspect of DOD's corporate goals and together contribute to the overall assessment of the Department's performance.

Shaping the International Environment and Responding to the Full Spectrum of Crises: DOD's first performance goal is to shape the international environment by participating in international security organizations, such as NATO, and improving our ability to work cooperatively with our friends and allies. Such efforts are designed to promote regional stability and security, and reduce the threat of war. Their failure could lead to a major conflict affecting U.S. interests.

Also, DOD must be able to respond to the full spectrum of crises, from small-scale contingencies to two nearly simultaneous major theater wars.

Evaluating DOD's performance in this area includes an assessment of:

- The ability of U.S. forces to enhance and sustain security relationships with friends and allies, enhance coalition warfighting, promote regional stability and support U.S. regional security objectives, deter aggression, and prevent or reduce the threat of conflict. One measure of this is DOD's ability to conduct joint exercises. In 2000, DOD will conduct 146 combined military exercises.

The budget will support DOD's continued success in implementing programs that reduce the threat posed by weapons of mass destruction (WMD). To that end DOD's Cooperative Threat Reduction (CTR) activities, in concert with enhanced threat reduction programs in the Departments of Energy and State, will continue to assist the successor states of the former Soviet Union secure, dismantle and destroy weapons; and help these states prevent the proliferation of WMD-related material and expertise.

Overseas presence, mobility, and the sustaining of a capable force structure are also key to DOD's ability to respond effectively to crises. DOD's effectiveness will be determined, in part, by the ability of U.S. forces "forward deployed" (that is, on site around the world) and those deploying from U.S.

bases to rapidly converge at the scene of a potential conflict to deter hostilities and protect U.S. citizens and interests in times of crisis.

- The Army will maintain one mechanized division in the Pacific region and two divisions with elements in Europe.

- The Navy will maintain an overseas presence, defined by the percentage of time regions are covered by an aircraft carrier battle group, at 100 percent in the Pacific, 75 percent in Europe and 75 percent in Southwest Asia.

- The Air Force will maintain two fighter wing equivalents in the Pacific, one in Alaska, two in Europe and one in Southwest Asia.

- The Marine corps will cover the Pacific region with a Marine expeditionary unit or amphibious ready group one hundred percent of the time, Europe eighty percent of the time, and Southwest Asia 50 percent of the time.

DOD's current force structure was derived from the Quadrennial Defense Review (QDR) which was designed to respond to the full spectrum of crises, up to and including two major-theater wars. DOD acknowledges the impact of a high rate of operation on unit readiness. Therefore, DOD will closely monitor the pace of peacetime operations across the forces. In 2000, these measures include:

- The Army will maintain four active corps headquarters, 18 active and National Guard divisions, two active armored cavalry regiments, and 15 National Guard enhanced readiness brigades. The Army will lower the number of units deploying more than 120 days per year to zero.

- The Navy will maintain 11 aircraft wings, 12 amphibious ready groups, 12 aircraft carriers, 56 attack submarines, and 114 surface combatants. In addition, the Navy will reduce to zero the number of units not meeting its personnel tempo goal.

- The Air Force will maintain 20.2 Air Force Fighter wing equivalents, four air defense squadrons, and 187 bombers. The Air Force will lower the number of units deploying more than 120 days per year to zero.

- The Marine Corps will maintain three marine expeditionary forces, three active and one reserve divisions, three active and one reserve air wings, and three active and one reserve force service support groups. The Marine Corps will lower to zero the number of units deploying more than 180 days per year over a 36-month scheduling period.

Remaining the world's most ready and capable force depends on four elements: ensuring the readiness of military units; retaining and recruiting high-quality personnel; strengthening and enhancing quality of life programs for military members and their families; and providing equal opportunity throughout the armed services.

DOD has identified specific milestones to measure progress and to monitor readiness levels in each area, such as the amount of training that individual units accomplish, the availability and operability of equipment, and the achievement of recruiting and retention goals.

- Several factors determine overall unit readiness, such as training, quality and availability of equipment, and number of personnel and, in 2000, DOD will ensure that all of its units meet their specified readiness goals.

- In 2000, on average, the Army will attain 800 tank miles per tank a year; active Air Force fighter crews will achieve 19.1 flying hours per crew a month; the Marine Corps will fully execute its mission training syllabus; and Navy ships will steam 50.5 days per quarter for deployed vessels and 28 days for non-deployed vessels.

Finally, the amount of sealift and airlift capacity must be sufficient to meet deployment time lines for deterring and defeating large-scale, cross-border aggression in two distant theaters in overlapping time frames, and to sustain U.S. forces engaged in two major theater wars.

- In 2000, DOD will attain an organic strategic airlift capability of 26 million ton miles a day and will attain a surge sealift capacity of 8.7 million square feet.

Preparing Now for an Uncertain Future: To achieve DOD's second corporate goal, U.S. forces must maintain a qualitative superiority over potential adversaries by pursuing a focused procurement and research and development program. DOD must transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st Century infrastructure. (Chapter 11, "Supporting the World's Strongest Military Force," contains a description of major DOD acquisition deliverables.) Achieving this goal depends on ensuring that:

- DOD will recruit 203,000 new members of the armed services, and will obtain 60 percent of recruits from the top half of those tested for service.

As part of meeting this goal, DOD will follow the strategy of Joint Vision 2010, developed by the Chairman of the Joint Chiefs of Staff, to transform U.S. forces for the future, and it will exploit emerging communication, information and associated technologies to reshape the way it fights and prepares for war.

- DOD will acquire modern and capable weapon systems and will deliver them to U.S. forces in 25 percent less time, from 132 months in 1992 to 99 months in 2000, and will meet required performance specifications.
- Defense Technology Objectives (DTOs) guide both basic research and focused investment. In 2000, DOD will maintain 70 percent of DTOs on track.
- Joint experimentation is an aggressive new program designed to give insights into new operational concepts and validate their ability to meet future battlefield requirements. In 2000, DOD will conduct 14 joint experiments.

DOD must develop new, innovative approaches to manage infrastructure costs, improve the quality of health care, and capitalize on the revolution in business affairs. Following the end of the Cold War, the United States began a major reduction of its military forces. DOD's cuts in infrastructure costs, however, have not kept pace. To make further cuts, DOD plans to adopt innovative management techniques and technological practices.

The Defense Health Program will work to improve the quality of health care provided to beneficiaries, expand their access to care, and contain the cost of that care to the Federal government. These goals will be achieved through continued measurement of health outcomes and customer satisfaction, partnerships with other Federal agencies as well as the private sector, and sizing the system to reflect the wartime and peacetime requirements more accurately.

As part of this goal, DOD must also transform its support functions. Therefore, DOD has identified specific measures around which to focus the reform of acquisition and business affairs.

By 2000, DOD will:

- Ensure that U.S. forces can achieve visibility of 90 percent of DOD materiel assets, while resupplying military peacekeepers and warfighters and reducing the 1997 average order-to-receipt time from 36 days to 18 days in 2000.
- Dispose of $500 million in excess National Defense Stockpile inventories and reduce other supply inventories by $53 billion.
- Dispose of 41 million cumulative square feet of excess real property.
- Award contracts for the construction of 41,000 privatized family housing units.
- Compete 50,000 positions under the OMB A-76 public-private sector competitions process.
- Limit the cost growth of major acquisition programs to less than one percent.
- Simplify purchasing and payment by using purchase card transactions for 90 percent of all DOD micropurchases, while reengineering the requisitioning, funding, and ordering processes.
- Cut paper acquisition transactions by half from 1997 levels through electronic commerce and electronic data interchange.
- Eliminate layers of management by streamlining processes, while cutting

DOD's acquisition-related work force by 15 percent.

Department of Energy (DOE) Performance

DOE contributes to our national security mainly by reducing the global danger from nuclear weapons and other weapons of mass destruction. DOE is committed to maintaining confidence in the nuclear weapons stockpile without testing, as required under the Comprehensive Test Ban Treaty; to strengthen the nuclear nonproliferation regime; to work with states of the former Soviet Union to improve control of nuclear materials; to develop improved technologies to detect, identify, and respond to the proliferation of weapons of mass destruction and illicit materials trafficking; and to clean up aggressively the environmental legacy of nuclear weapons programs.

The budget proposes $12.3 billion to meet DOE's national security objectives, of which $6.3 billion is for ongoing national security missions and $6.0 billion addresses environmental cleanup activities.

DOE will achieve the following performance goals:

National Security

- Meet all scheduled nuclear weapons alterations and modifications and certify to the President that standards for safety, reliability, and performance of the nuclear weapons stockpile are met.
- Demonstrate a computer code to perform 3-D analysis of the behavior of a nuclear weapons primary, including the prediction of total explosive yield.
- Dismantle about 375 nuclear warheads that have been removed from the U.S. nuclear weapons stockpile.
- Begin to implement a bilateral agreement with Russia for disposing of surplus weapons plutonium.
- Continue upgrades to protect fissile materials at over 50 sites in Russia including five uranium and plutonium processing sites, three nuclear weapons complex sites, and 10 Russian Navy projects; and create civilian ventures in Russia's formerly closed nuclear cities to block nuclear smuggling.

Environmental Quality

- Complete 200 release site assessments. A release site is a specific location where hazardous, radioactive, or mixed waste has or is suspected to have occurred.
- Clean up 200 release sites, bringing the number completed to more than 4,500 of a total inventory of approximately 9,300 release sites.
- Complete 400 facility decommissioning assessments.
- Decommission 110 facilities, increasing the number completed to 730 of approximately 2,850 facilities.

Other Defense-Related Activities

Other activities that support national defense and that are implementing performance measurement include programs involving the:

- Coast Guard, which supports the defense mission through overseas deployments for engagements with friends and allies, port security teams, boarding and inspection teams for enforcing U.N. sanctions, training, aids to navigation, international icebreaking, equipment maintenance, and support of the Coast Guard Reserve;
- Federal Bureau of Investigation, which conducts counterintelligence and surveillance activities;
- Maritime Administration, which helps maintain a fleet of active, military useful, privately owned U.S. vessels that would be available in times of national emergency;
- Arlington National Cemetery, which is developing an expansion plan for using contiguous land sites that will be vacated by the Army, Navy, and Marine Corps; and
- Selective Service System, which is modernizing its registration process to promote military recruiting among registrants. This spirit of volunteerism will be achieved in partnership with the America's Promise group, private corporations, and the armed services.

Accurately Recognizing and Reporting Veterans Benefits

The Nation has long viewed veterans programs as a key way to attract the high-quality people needed for our volunteer armed forces. Americans recognize veterans benefits as an appropriate part of the compensation provided for service in the military. Veterans programs are inextricably linked with national defense; without defense, veterans programs would not exist.

Because the Veterans Affairs Department funds and administers these benefits, however, the Federal Government has accounted for them differently than other defense-related budget costs. They appear in the budget's Veterans Benefits and Services function, not the National Defense function. Also, the budget does not report the full size of these obligations. Rather than recognize the benefits and future Federal obligations that military members earn through their service, the budget reports only the amounts paid in a single year to veterans. Thus, neither the Defense Department (DOD) nor Congress gets a full picture of defense personnel costs when making decisions about the size and scope of our military, making it far harder to consider which package of benefits might best attract and retain quality military personnel. Finally, the 1993 Government Performance and Results Act encourages policy makers to align missions and related Government programs in the budget.

The Administration, which plans to work with Congress this year to address this problem, believes that any of the following four options would improve the current budgetary treatment of veterans programs, enabling the Government to more accurately measure the true cost of our national defense: (1) move the veterans-related discretionary accounts into the Defense function; (2) fund veterans entitlements on an accrual basis in DOD's budget and fund discretionary veterans programs in the Defense function; (3) fund veterans entitlements on an accrual basis in DOD's budget and display veterans spending in related functions (e.g., Education); or (4) fund veterans entitlements on an accrual basis in DOD's budget and continue to reflect veterans spending in its current function.

Table 13–2 below shows the estimated annual charges to DOD's military personnel account from pre-funding veterans benefits.

Table 13–2. ACCRUING VA BENEFITS FOR CURRENT MILITARY PERSONNEL

(Notional Costs of Accruing and Actuarially Funding VA Benefits in DOD Budget)

Program	Percentage of DOD Basic Pay [2]	2000 DOD Notional Cost (in millions of dollars)
VA Compensation	11.6%	4,482
Active Duty Education	2.0%	773
VA Loans	0.2%	77
Vocational Rehabilitation and Counseling	0.9%	348
VA Pensions	2.5%	966
VA Burial	0.1%	39
Total VA Benefits	**17.3%**	**6,684**

[1] For a more detailed discussion of veterans programs, see Chapter 27, "Veterans Benefits and Services."
[2] Basic pay for military personnel does not include benefits, special and incentive pay or bonuses, or housing and subsistence allowances.

14. INTERNATIONAL AFFAIRS

Table 14–1. FEDERAL RESOURCES IN SUPPORT OF INTERNATIONAL AFFAIRS

(In millions of dollars)

Function 150	1998 Actual	Estimate					
		1999	2000	2001	2002	2003	2004
Spending:							
Discretionary Budget Authority [1]	18,991	40,850	21,311	21,165	20,815	20,965	21,115
Mandatory Outlays:							
Existing law	–4,992	–4,355	–3,886	–3,680	–3,393	–3,150	–3,057
Credit Activity:							
Direct loan disbursements	2,346	4,002	1,759	N/A	N/A	N/A	N/A
Guaranteed loans	12,369	13,376	12,983	N/A	N/A	N/A	N/A
Tax Expenditures:							
Existing law	11,040	12,410	12,265	13,100	14,075	15,160	16,280
Proposed legislation	....	....	–310	–540	–570	–600	–630

N/A = Not available

[1] 1999 includes $18.4 billion for the International Monetary Fund quote increase and the New Arrangements to Borrow.

The Administration proposes $21.3 billion for International Affairs programs in 2000. By fully funding these programs, the United States can continue to provide critical international leadership to accomplish key strategic goals, such as enhancing national security, fostering world-wide economic growth, supporting the establishment and consolidation of democracy, and improving the global environment and addressing other key global issues. The State Department outlined these goals more fully in its September 1997 report, "United States Strategic Plan for International Affairs."

In many cases, the performance goals that follow are from agency performance plans. If an agency has not submitted 2000 performance plan to OMB, the performance goals remain unchanged from the International Affairs chapter of the 1999 Budget. In addition to the goals identified below, agencies have established other performance goals for themselves to ensure that they fulfill their legislative mandates in ways that also contribute to U.S. national interests.

National Security

U.S. security depends on active diplomacy, steps to resolve destabilizing regional conflicts, and vigorous efforts to reduce the continuing threat of weapons of mass destruction. The budget proposes the necessary funds to support the Middle East peace process following the signing of the Wye Memorandum. The budgt also provides funds to help the new NATO members—Poland, Hungary, the Czech Republic—and other East European nations. A strong, active United Nations enhances U.S. diplomatic efforts, and the budget proposes to fund assessed contributions to this and other international organizations, as well as annual assessed and voluntary peacekeeping contributions.

Economic and reconstruction assistance and police training are critical to our effort to support the Dayton Accords on Bosnia, and funding under the FREEDOM Support Act helps foster the transition to market democracies in the former Soviet Union. For Kosovo, the budget includes resources to support observers to verify compliance by all parties and the training of a professional, local police force. Finally, the budget fully supports further progress on our efforts to control weapons of mass destruction by requesting $48 million under the restructured State Department which will incorporate the Arms Control and Disarmament Agency for programs that seek to reduce eliminate, or curb the spread of such weapons.

Relevant agencies will meet the following performance goals in 2000:

- The State Department, in seeking to advance the Middle East peace process, will achieve significant progress towards fulfilling the goals of the Oslo Accord.
- The State Department will avert or defuse regional conflicts where critical national interests are at stake through bilateral U.S. assistance and U.N. peacekeeping activities.
- The State and Defense Departments will ensure that the armed forces of NATO's "candidate countries" can operate in a fully integrated manner with other NATO forces upon their planned entry into NATO.
- The State and Defense Departments and the Agency for International Development (USAID) will achieve significant progress toward implementing the Dayton Accords in Bosnia.
- The State Department will achieve full compliance with, and verification of, treaties regarding weapons of mass destruction and, if necessary, combat suspected development programs.

Economic Prosperity

International affairs activities increase U.S. economic prosperity in several ways. First, the U.S. Trade Representative (USTR), supported by the State Department and other agencies, works to reduce barriers to trade in U.S. goods, services, and investments by negotiating new trade liberalizing agreements and strictly enforcing existing agreements.

Second, the Export-Import Bank (Eximbank) and the Trade and Development Agency (TDA) provide grant and credit financing to correct market distortions that can put U.S. exports at a competitive disadvantage. The Overseas Private Investment Corporation (OPIC) provides investment insurance and financing for development projects in support of U.S. businesses large and small.

Third, development assistance from the Multilateral Development Banks (MDBs) and USAID, along with debt reduction, help increase economic growth, openness, and market orientation in developing and transitioning countries, creating new markets for U.S. goods and services and reducing the economic causes of instability in these regions.

Relevant agencies will meet the following performance goals in 2000:

- USTR will use the Third World Treaty Organization (WTO) Ministerial Conference to set the negotiating agenda for the round that begins in 2000; will conclude two or more pending accession negotiations to the WTO; will negotiate cuts in specific, identified barriers to U.S. and global trade; and will effectively enforce international trade agreements.
- The Eximbank will develop new mechanisms to expand the availability of financing for U.S. exports by pioneering joint ventures with the private sector, as well as innovative financing programs that will increase the Bank's support for small and medium-sized exporters.
- OPIC will increase the amount of private U.S. investment that supports American, foreign policy and development goals and benefits the U.S. economy.
- TDA will increase, from 1998 levels, the ratio of TDA-supported exports to TDA expenditures and the percentage of TDA projects that ultimately yield U.S. exports.
- USAID, through bilateral assistance, and the Treasury Department, through its contributions to the MDBs, will provide assistance that helps to increase the real annual per capita GDP growth rate from 1998 levels in developing countries.

American Citizens and U.S. Borders

The State Department, through the U.S. passport office and the network of embassies and consulates overseas, helps and protects Americans who travel and reside abroad—

most directly through various consular services, including citizenship documentation and help in emergencies. The Department also helps to control how immigrants and foreign visitors enter and remain in the U.S. by effectively and fairly administering U.S. immigration laws overseas and screening applicants, in order to deter illegal immigration and prevent terrorists, narcotics traffickers, and other criminals from entering the United States.

The State Department will meet the following performance goals in 2000:

- Improve U.S. passport security by issuing all passports produced in the United States with a digitized passport photo.
- Complete the world-wide modernization of consular systems and meet year 2000 requirements, thus contributing to border security.

Law Enforcement

The expansion and rising sophistication of transnational crime, international drug trafficking, and terrorism represent direct threats to our national security. The State Department has broad responsibility for federal law enforcement policy and progrm coordination in the foreign arena. The budget funds the State Department's diplomatic efforts to convince other countries to work cooperatively to address international criminal threats; it also funds assistance and training that helps other countries combat corruption, terrorism, and illegal narcotics, and provides the developing countries with economic alternatives to narcotics cultivation and export.

The State Department, working with the Departments of Justice, the Treasury, and Defense, will meet the following performance goals in 2000:

- Increase, from 1998 levels, the number of foreign governments that enact and enforce legislation to combat corruption, money laundering, and other transnational criminal activities.
- Reduce, from 1998 levels, the hectares of coca and opium poppies being cultivated in producing countries.
- Increase, from 1998 levels, criminal justice section training, providing equipment, and techinical assistance to local and federal law enforcement organizations.

Democracy

Advancing U.S. interests in the post-Cold War world often requires efforts to support democratic transitions, address human rights violations, and promote U.S. democratic values. The budget funds the State Department's diplomatic efforts that discourage other nations' interference with the basic democratic and human rights of their citizens. It also funds direct foreign assistance through USAID and other agencies that helps countries develop the institutions and legal structures for the transition to democracy. Finally, the budget funds exchange and training programs of the State Department, as well as international broadcasting programs that seek to spread U.S. democratic values throughout the world and ensure that Americans understand and value the peoples and cultures of other nations.

Relevant agencies will meet the following performance goals for 2000:

- USAID, State Department public diplomacy programs, and international broadcasting programs will provide assistance that lead to the improvement of Freedom House ratings of countries in which the United States is assisting the transition to democracy.
- As a result of State Department diplomacy and direct assistance, the instances of human rights abuses as reported by the State Department in the annual U.S. Report on Human Rights will be reduced from 1998 levels.
- Public diplomacy activities will increase, from 1998 levels, the support for democracy, democratic institutions, and human rights in selected countries that participate in the programs, as measured through polling.

Humanitarian Response

U.S. values demand that we help alleviate human suffering from foreign crises, whether man-made or natural, such as Hurricane

Mitch, even in cases with no direct threat to U.S. security interests. The budget provides the necessary funds to address and, where possible, try to prevent, humanitarian crises through USAID's Foreign Disaster Assistance and Transition Initiatives programs, through the State Department's Migration and Refugee Assistance program, and through food aid provided under "Public Law 480" authorities. The budget also funds U.S. bilateral demining efforts to address the growing humanitarian crisis caused by landmines in areas of former conflict.

Relevant agencies will meet the following performance goals for 2000:

- USAID, in conjunction with other public and private donors, will provide humanitarian assistance that will maintain the nutritional status of children aged five or under living in regions affected by humanitarian emergencies.
- The State Department will reduce refugee populations, from 1998 levels, through U.S.-sponsored integration, repatriation, and resettlement activities.
- The State Department will increase, from 1998 levels, the amount of land returned to productive economic activity by clearing mines and other unexploded ordnance. Over time, this will also result in a reduction of innocent casualties.

Global Issues

The global problems of environmental degradation, population growth, and the spread of communicable diseases directly affect future U.S. security and prosperity. The State Department's negotiation of the Kyoto global climate change treaty and USAID's five-year, $1 billion global climate change assistance effort will reduce the threat of this global problem. Funding of current commitments and arrears to the Global Environment Facility remains critical to the effort of reducing environmental degradation.

Similarly, U.S. leadership and U.S. bilateral assistance efforts and U.S. contributions to multilateral organizations are critical to reduce the pressures of illegal immigration on the U.S. economy, and help alleviate the causes of regional conflict. U.S. support, mainly through USAID both for bilateral and multilateral activities also reduces the global threat of AIDS and other communicable diseases.

Finally, the volunteer programs of the Peace Corps serve U.S. national interests by promoting mutual understanding between Americans and the people of developing nations and providing technical assistance to interested countries.

Relevant agencies will meet the following performance goals in 2000:

- The State Department and USAID, working with the Environmental Protection Agency and with other bilateral and multilateral donors, through diplomacy and foreign assistance will slow the rate of increase, from 1998 levels, of climate change gas emissions among key developing nation emitters.
- USAID will provide assistance in conjunction with other donors that will cut, from 1998 levels, the total fertility rates in developing countries.
- USAID, working with the Department of Health and Human Services and with other donors, will provide assistance that will reduce, from 1998 levels, the infant mortality rate and the rate of new cases of AIDS, malaria, tuberculosis and other communicable diseases in developing countries.
- The Peace Corps will provide opportunities for 4200 Americans in 2000 to enter service as new volunteers, assisting countries with their development needs and increasing cultural awareness.

15. GENERAL SCIENCE, SPACE, AND TECHNOLOGY

Table 15–1. FEDERAL RESOURCES IN SUPPORT OF GENERAL SCIENCE, SPACE, AND TECHNOLOGY
(In millions of dollars)

Function 250	1998 Actual	Estimate					
		1999	2000	2001	2002	2003	2004
Spending:							
Discretionary Budget Authority	17,950	18,775	19,202	19,408	19,372	19,339	19,335
Mandatory Outlays:							
Existing law	44	72	78	68	34	34	34
Tax Expenditures:							
Existing law	2,385	1,985	1,490	1,035	855	795	765
Proposed legislation	....	311	933	656	281	133	53

Science and technology are principal agents of change and progress, with over half of the Nation's economic productivity growth in the last 50 years attributable to technological innovation and the science that supported it. Appropriately enough, the private sector makes many investments in technology development. The Federal Government, however, also plays a role—particularly when risks are too great or the potential return for companies is too long-term.

Within this function, the Federal Government supports areas of cutting-edge science, through the National Aeronautics and Space Administration (NASA), the National Science Foundation (NSF), and the Department of Energy (DOE). The activities of these agencies contribute to greater understanding of the world in which we live, ranging from the edges of the universe to the smallest imaginable particles, and to new knowledge that may or may not have immediate applications to improving our lives. Because the results of basic research are unpredictable, the challenge of developing performance goals for this area is formidable.

Each of these agencies funds high-quality research and contributes to the Nation's cadre of skilled scientists and engineers. To continue this tradition, and as a general goal for activities under this function:

- At least 80 percent of the research projects will be reviewed by appropriate peers and selected through a merit-based competitive process.

Another important Federal role is to construct and operate major scientific facilities and capital assets for multiple users. These include telescopes, satellites, oceanographic ships, and particle accelerators. Many of today's fast-paced advances in medicine and other fields rely on these facilities. As general goals:

- Agencies will keep the development and upgrade of these facilities on schedule and within budget, not to exceed 110 percent of estimates.
- In operating the facilities, agencies will keep the operating time lost due to unscheduled downtime to less than 10 percent of the total scheduled possible operating time, on average.

The budget proposes $19.2 billion to conduct these activities. The Government also stimulates private investment in these activities through over $1 billion a year in tax credits and other preferences for research and development (R&D).

National Aeronautics and Space Administration

The budget proposes $12.5 billion for NASA activities in this function. NASA serves as the lead Federal agency for research and development in civil space activities, working to expand frontiers in air and space to serve America and improve the quality of life on Earth. NASA pursues this vision through balanced investment in four enterprises: Space Science; Earth Science; Space Transportation Technology; and Human Exploration and Development of Space.

Space Science programs, for which the budget proposes $2.2 billion, are designed to enhance our understanding of how the universe was created, how stars and planets evolve and die, and the possible existence of life beyond Earth. In the past year, NASA spacecraft achieved several important watershed events in Space Science including the first direct image of a planet outside the solar system, taken by the Hubble Space Telescope, and a confirmed discovery of ice on the moon by the Lunar Prospector mission.

- NASA Space Science will successfully launch its three planned spacecraft—the Thermosphere, Ionosphere, and Mesosphere Energetics and Dynamics mission; the Imager for Magnetopause-to-Aurora Global Exploration, and the High Energy Solar Spectroscopic Imager—within 10 percent of their schedules and budgets.
- NASA Space Science will develop innovative new technologies to reduce the cost of future spacecraft by delivering the first engineering model of a standard, miniaturized integrated avionics system, to be used for the Europa Orbiter and future missions.
- The NASA Advisory Council will rate all near-term Space Science objectives as being met or on schedule. Examples of objectives include: investigate the composition, evolution and resources of Mars, the Moon, and small solar system bodies such as asteroids and comets; identify planets around other stars; and observe the evolution of galaxies and the intergalactic medium.

Earth Science programs, for which the budget proposes $1.5 billion, focus the effects of natural and human-induced changes on the global environment through long-term, space-based observation of Earth's land, oceans, and atmospheric processes. This year, NASA's Tropical Rainfall Measuring Mission provided new insights that will enable weather forecasters to more accurately predict where and when a hurricane will hit land.

- NASA Earth Science will successfully launch its three planned spacecraft—the Advanced Cavity Radiometer Irradiance Monitor, the Vegetation Canopy Lidar (VCL) mission, and a technology validation mission to reduce the costs of future Landsat missions—within 10 percent of their schedules and budgets.
- NASA Earth Science will double the volume of precipitation, land surface, and climate data it archives from its missions compared to 1998, increase the number of products delivered from its archives by 10 percent, and make the data available to users within five days.
- NASA's Advisory Council will rate all near-term Earth Science objectives as being met or on schedule. Examples of objectives include: observe and document land cover and land use change and impacts on sustained resource productivity; and understand the causes and impacts of long-term climate variations on global and regional scales.

Space Transportation Technology programs, for which the budget proposes $240 million, work with the private sector to develop and test experimental launch vehicles that reduce the cost of access to space.

- The X–33 program will begin flight testing in 2000 to demonstrate technologies that are traceable to the mass fraction and operability required for future reusable launch vehicles (including 48-hour surge turnarounds and seven day routine turnarounds with a 50-person ground crew).
- The X–34 program will continue flight testing in 2000 to demonstrate tech-

nologies key to the operational requirements of future reusable launch vehicles including high flight rates (including a flight rate of 25 flights in one year).

Human Exploration and Development of Space (HEDS) programs, for which the budget proposes $5.6 billion, focus on the use of human skills and expertise in space. In 1998, HEDS programs supported the successful launch of four Space Shuttle flights, including one flight to better understand the functioning of the nervous system in the environment of space. In November, 1998, assembly of the International Space Station in orbit began with the joining of the first Russian and American modules.

- On the International Space Station, NASA will deploy the U.S. Laboratory Module, initiate Station-based extra-vehicular activity capability, and activate a Station-based external robotic manipulator within performance, schedule and budget targets.
- NASA will ensure that Space Shuttle safety, reliability, availability and cost will improve, by achieving seven or fewer flight anomalies per mission, successful on-time launches 85 percent of the time, and a 12-month flight manifest preparation time.
- NASA will expand human presence and scientific resources in space by initiating continuous three-person crew presence on the International Space Station.

National Science Foundation

The budget proposes $3.9 billion in 2000 for NSF. While NSF represents just three percent of Federal R&D spending, it supports nearly half of the non-medical basic research conducted at academic institutions, and 30 percent of Federal support for mathematics and science education. In 1998, NSF investments, in conjunction with NIH, led to the discovery that biological clocks are not just in the brain, but in genes, thereby prompting the consideration of new strategies for the treatment of disorders associated with jet lag, shift work, and seasonal depression. In addition, NSF-funded scientists determined that the years 1997, 1995, and 1990 were the warmest since 1400 A.D., providing further evidence of the importance of human influence on the global climate system.

NSF research and education investments are made in three primary areas:

Research Project Support: Over half of NSF's resources support research projects performed by individuals, small groups and centers, and instrumentation grants.

- An independent assessment will judge whether NSF's research investments have lead to important discoveries and new knowledge and techniques, both expected and unexpected, within and across traditional disciplinary boundaries. The assessment will also determine connections between discoveries and their service to society.
- NSF will maintain the percentage of competitive research grants going to new investigators at a minimum of 30 percent.

Facilities: Facilities such as observatories, particle accelerators, research stations, and oceanographic research vessels provide the platforms for research in fields such as astronomy, physics, and oceanography. About 20 percent of NSF's budget supports large, multi-user facilities required for cutting-edge research. NSF facilities will meet the function-wide goals to remain within cost and schedule, and to operate efficiently.

Education and Training: Education and training activities, accounting for 19 percent of NSF's budget, revolve around efforts to improve teaching and learning in science, mathematics, engineering, and technology at all education levels. Education and training projects develop curriculum, enhance teacher training, and provide educational opportunities for students from pre-K through postdoctoral.

- Over 80 percent of schools participating in a systemic initiative program will: 1) implement a standards-based curriculum in science and mathematics; 2) further professional development of the instructional workforce; and 3) improve student achievement on a selected battery of tests, after three years of NSF support.

Department of Energy

DOE provides major scientific user facilities and sponsors basic scientific research in specific fields supporting over 60 percent of federally-funded research in the physical sciences.

The budget proposes $2.8 billion for DOE science programs, which include high-energy and nuclear physics, basic energy sciences, biological and environmental research, fusion energy sciences, and computational and technology research. These programs support scientific facilities for high-energy and nuclear physics and fusion energy sciences and the research performed by the users of the facilities. They also provide and operate synchrotron light sources, neutron sources, supercomputers, high-speed networks, and other instruments that researchers use in fields ranging from biomedicine to agriculture, geoscience, and materials. These facilities provide the cutting-edge experimental and theoretical techniques to enable insights into dozens of applications, and they are available, on a competitive basis, to researchers funded by NSF, other Federal agencies, and public and private entities. DOE's facilities will meet the function-wide goals to remain within cost and schedule, and to operate efficiently. Regular peer-review assessments will judge whether DOE science programs have high scientific quality.

Basic Energy Sciences (BES) supports basic research in the natural sciences for new and improved energy techniques and technologies, and to understand and mitigate the environmental impacts of energy technologies.

- BES will continue construction of the Spallation Neutron Source, at cost and timetables as contained in the Critical Decision II agreement, to provide beams of neutrons used to probe and understand the properties of materials at an atomic level. This research leads to better fibers, plastics, catalysts, and magnets and improvements in pharmaceuticals, computing equipment, and electric motors.

Computational and Technology Research (CTR) performs long-term computational and technology research through an integrated program in applied mathematical sciences, high-performance computing and communications, information infrastructure, and laboratory technology research.

- CTR will develop advanced computing capabilities, computational algorithms, models, methods, and libraries, and advanced visualization and data management systems to enable new computing applications in science.
- Users will judge that computer facilities and networks have met 75 percent of their requirements.

Biological and Environmental Research (BER) provides fundamental science to develop the knowledge to identify, understand, and anticipate the long-term health and environmental consequences of energy production, development, and use.

- BER will complete sequencing of 50 million subunits of human DNA and provide these to publicly accessible databases.
- BER will commence full operation at three Atmospheric Radiation Measurement sites to provide unique climatological data.

High Energy and Nuclear Physics (HENP) strives to deepen the understanding of the nature of matter and energy at the most fundamental level, as well as understanding of the structure and interactions of atomic nuclei.

HENP will deliver on the 2000 U.S./DOE commitments to the international Large Hadron Collider project. HENP facilities will provide cutting-edge scientific capabilities to further study the fundamental constituents of matter.

Fusion Energy Sciences (FES) conducts research on the scientific and technical basis for an economical and environmentally acceptable fusion energy source.

- FES will operate the National Spherical Torus Experiment and three small, innovative experiments to provide a basic scientific understanding of fusion concepts.

Tax Incentives

Along with direct spending on R&D, the Federal Government has sought to stimulate private investment in these activities with tax preferences. The current law provides a 20-percent tax credit for private research and experimentation expenditures above a certain base amount. The credit, which was extended in 1998, is due to expire on June 30, 1999. The President proposes to extend it for one year. Under current law, the credit will cost $1.7 billion in 1999 and $1.0 billion in 2000. The extension will cost $0.3 billion in 1999 and $0.9 billion in 2000.

A permanent tax provision also lets companies deduct, up front, the costs of certain kinds of research and experimentation, rather than capitalize these costs. This tax expenditure will cost $510 million in 2000. Finally, equipment used for research benefits from relatively rapid cost recovery. The cost of this tax preference is calculated in the tax expenditure estimate for accelerated depreciation of machinery and equipment.

16. ENERGY

Table 16–1. FEDERAL RESOURCES IN SUPPORT OF ENERGY
(In millions of dollars)

Function 270	1998 Actual	Estimate					
		1999	2000	2001	2002	2003	2004
Spending:							
Discretionary Budget Authority	3,077	2,888	2,836	3,169	3,020	2,992	2,965
Mandatory Outlays:							
Existing law	–2,440	–3,184	–5,142	–4,404	–4,336	–4,244	–4,281
Credit Activity:							
Direct loan disbursements	992	1,592	1,295	N/A	N/A	N/A	N/A
Guaranteed loans	....	....	....	N/A	N/A	N/A	N/A
Tax Expenditures:							
Existing law	1,535	1,575	1,625	1,630	1,635	1,450	1,200
Proposed legislation	....	1	379	671	660	787	1,040

N/A = Not available

Federal energy programs contribute to energy security, economic prosperity and environmental protection. Funded mainly through the Energy Department (DOE), they range from protecting against disruptions in petroleum supplies, to conducting research on renewable energy sources, to cleaning up DOE facilities contaminated by years of nuclear-related research activities. The Administration proposes to spend $2.8 billion for these programs. In addition, the Federal Government allocates about $1.6 billion a year in tax benefits, mainly to encourage development of traditional and alternative energy sources.

The Federal Government has a longstanding and evolving role in energy. Most Federal energy programs and agencies have no State or private counterparts and clearly involve the national interest. The federally-owned Strategic Petroleum Reserve (SPR), for instance, protects against supply disruptions and the resulting consumer price shocks, while Federal regulators protect public health and the environment and ensure fair, efficient energy rates. DOE's applied research and development (R&D) programs in fossil, nuclear, solar/renewable energy and energy conservation speed the development of technologies, usually through cost-shared partnerships with industry. The programs not only open new opportunities for American industry, but reach beyond what the marketplace demands today, putting the Nation in a better position to meet the demands of tomorrow.

Energy Resources

DOE maintains the SPR and invests in R&D to protect against petroleum supply disruptions and reduce the environmental impacts of energy production and use. The SPR was created in 1975 and now holds 563 million barrels of crude oil in underground salt caverns at four Gulf Coast sites. The SPR helps protect the economy and provide flexibility for the Nation's foreign policy in case of a severe energy supply disruption.

- In 2000, DOE will maintain its capability to reach its SPR drawdown rate of about four million barrels a day within 15 days and to maintain that rate for at least 90 days.

DOE's energy R&D investments cover a broad array of resources and technologies to make the production and use of all forms of energy—including solar and renewables, fossil, and nuclear—more efficient and less environmentally damaging. These investments not only lay the foundation for a more sustainable energy future but also open major international markets for manufacturers of advanced U.S. technology and enhance our Nation's energy security.

Energy conservation programs, for which the budget proposes $838 million, are designed to improve the fuel economy of various transportation modes, increase the productivity of our most energy-intensive industries, and improve the energy efficiency of buildings and appliances. They also include grants to States to fund energy-efficiency programs and low-income home weatherization. Each of these activities benefits our economy and reduces emissions of carbon dioxide and other greenhouse gases. Many rely on partnerships with the private sector for cost-sharing and commercialization. Energy-efficiency technologies that have already come to market include heat-reflecting windows, high-efficiency lights, geothermal heat pumps, high-efficiency electric motors and compressors, and software for designing energy-efficient buildings.

In 2000, DOE's Energy Conservation program will:

- demonstrate low-cost, high-volume manufacturing processes for key components of fuel cells for ultra-clean automobiles;
- complete the development of advanced industrial turbines for efficient in-plant generation of electricity and steam;
- arrange for $400 million worth of energy-efficiency improvements at Federal facilities to be financed through regional and national energy-savings performance contracts; and
- weatherize 70,000 low-income homes.

Solar and renewable energy programs, for which the budget proposes $399 million, focus on technologies that will help the Nation use its abundant renewable resources such as wind, solar, and biomass to produce low-cost, clean energy that contributes no net carbon dioxide to the atmosphere. The United States is the world's technology leader in wind energy, with a growing export market and production costs that have fallen below five cents per kilowatt-hour. In addition, photovoltaics are becoming more useful in remote power applications, and new biofuels plants are being constructed. DOE also is coordinating the President's Million Solar Roofs initiative, which was introduced in the 1999 Budget, and States, cities, and Federal agencies to date have pledged 710,000 solar roof installations (a mixture of solar heat/hot water and photovoltaics) over the next nine years.

In 2000, DOE's Solar and Renewable Energy program will:

- support the President's Million Solar Roofs initiative through partnerships and technical assistance so that at least 29,000 solar roofs will be installed in 2000; and
- complete demonstrations of full-scale biomass co-firing with coal, commercial-scale conversion of agricultural wastes to ethanol, an advanced geothermal power cycle, and dispatchable power from a solar "power tower."

DOE's energy efficiency and renewable energy programs form a major part of the Administration's Climate Change Technology Initiative, which is intended to find ways to reduce emissions of carbon dioxide and other greenhouse gases in ways that benefit our economy rather than constrain it. (For more details, see Chapter 7, "Promoting Research.")

Fossil fuel energy R&D programs, for which the budget proposes $364 million, help industry develop advanced technologies to produce and use coal, oil, and gas resources more efficiently and cleanly. Federally-funded development of clean, highly-efficient gas-fired and coal-fired generating systems aim to reduce greenhouse gas emission rates, while reducing electricity costs. The programs also help boost the domestic production of oil and natural gas by funding R&D projects with industry to cut exploration, development, and production costs.

In 2000, DOE will:

- complete demonstration of new tertiary oil recovery technologies;
- begin testing the first commercial prototype solid-oxide fuel cell for distributed power generation; and

- verify the design of a fuel-cell/turbine hybrid power plant.

Nuclear fission power is a widely used technology, providing over 20 percent of the electric power consumed in the United States and about 17 percent worldwide without generating greenhouse gases. If fossil plants were used to produce the amount of electricity generated by these nuclear plants, more than 300 million additional metric tons of carbon would be emitted each year. Continued R&D addressing the issues that threaten the acceptance and viability of nuclear fission in the United States will help determine whether fission can fulfill its potential for supplying economically-priced energy while reducing greenhouse gas emissions.

In 2000, DOE will:

- receive Nuclear Regulatory Commission approval to test advanced "chip"-based nuclear plant instrumentation and control technology for increased reliability and safety;
- complete validation of artificial intelligence software for steam-tube inspection;
- and identify new reactor and/or fuel-cycle concepts that may improve the cost, performance, safety, or proliferation-resistance of civilian nuclear power.

Environmental Quality

In Non-defense Environmental Management, the budget proposes $331 million to manage the Nation's most complex environmental cleanup program, the result of more than four decades of research and production of nuclear energy technology and materials. (For information on DOE's Defense Environmental Management program, see Chapter 13, "National Defense.") This will reduce environmental risk and manage the waste at: (1) sites run by DOE's predecessor agencies; (2) sites contaminated by uranium and thorium production from the 1950s to the 1970s; and (3) DOE's uranium processing plants operated by the recently privatized United States Enrichment Corporation.

In 2000, DOE will:

- complete remediation at four geographic sites;
- increase the total number of geographic sites completed to 76 of 113; and
- make ready for disposal about 87 percent of the high-level waste at the West Valley, New York site.

DOE's Civilian Radioactive Waste Management Program oversees the management and disposal of spent nuclear fuel from commercial nuclear reactors and high-level radioactive waste from Federal cleanup sites. Following completion of the Viability Assessment for storing nuclear waste in Yucca Mountain, DOE plans to:

- complete an Environmental Impact Statement (EIS) in 2000 for use of the Yucca Mountain site;
- complete scientific and technical work identified in the Viability Assessment as necessary for the Secretary to make a nuclear waste site recommendation to the President in 2001; and
- if the site is determined to be suitable for a permanent nuclear waste repository, submit a license application to the Nuclear Regulatory Commission in 2002.

Energy Production and Power Marketing

The Federal Government is reshaping programs that produce, distribute, and finance oil, gas, and electric power. In February, 1998, DOE sold the Naval Petroleum Reserve, commonly known as Elk Hills, for $3.7 billion—the largest privatization of a federal entity in U.S. history. Elk Hills had been set aside early this century to provide an oil reserve for Navy ships, but in recent years was being operated by DOE as a commercial oil and gas field because it was no longer needed for its original purpose.

The four Federal Power Marketing Administrations, or PMAs, (Bonneville, Southeastern, Southwestern, and Western) market electricity generated by 127 multi-purpose Federal dams and manage 33,000 miles of federally-owned transmission lines in 34 States. The PMAs sell about six percent of the Nation's electricity, primarily to preferred customers such as counties, cities, and publicly-owned utilities. The PMAs face growing challenges as the electricity industry moves toward open, competitive markets.

- In 2000, each PMA will operate its transmission system to ensure that service is continuous and reliable—that is, that the system achieves a "pass" rating each month under North American Reliability Council performance standards.

The Tennessee Valley Authority (TVA) is a Federal Government corporation and the Nation's single largest electric power generator. It generates four percent of the electric power in the country and transmits that power over its 17,000 mile transmission network to 159 municipal utilities and rural electric cooperatives that serve some eight million customers in seven States.

TVA is responding to changes that are bringing greater competition to the electric power industry by taking steps to increase its ability to supply power at competitive prices. The agency is now engaged in a major effort to cut its debt in half, from $28 billion in 1997 to $14 billion in 2009.

- In 2000, TVA will reduce its debt by $700 million.

(For information on TVA's non-power activities, see Chapter 21, "Community and Regional Development.")

In 2000, the Agriculture Department's Rural Utilities Service (RUS) will make $1 billion in direct loans to rural electric cooperatives, public bodies, nonprofit associations, and other utilities in rural areas for generating, transmitting, and distributing electricity. Its main goal is to finance modern, affordable electric service to rural communities. Included within this funding amount is a new $400 million Treasury rate loan proposal, which will help rural utility borrowers position themselves to be viable in a competitive, deregulated environment RUS borrowers continue to provide service the poorest counties in rural America and counties suffering the most from population out-migration.

- In 2000, RUS will upgrade 130 rural electric systems, benefitting over 1.6 billion customers and generating nearly 21,000 jobs.

Energy Regulation

The Federal Government's regulation of energy industries is designed to protect public health, achieve environmental and energy goals, and promote fair and efficient interstate energy markets. DOE improves the Nation's use of energy resources through its appliance energy efficiency program, which specifies minimum levels of energy efficiency for major home appliances, such as water heaters, air conditioners, and refrigerators. The Federal Energy Regulatory Commission (FERC), an independent agency within DOE, regulates the transmission and wholesale prices of electric power, including non-Federal hydroelectric power, and the transportation of oil and natural gas by pipeline in interstate commerce. FERC promotes competition in the natural gas industry and in wholesale electric power markets. Recent FERC reforms to give consumers competitive choices in services and suppliers will cut consumer energy bills by $3 billion to $5 billion per year.

In 2000, DOE will issue three final rules and three proposed rules and determinations on different categories of applicants. FERC will measure the extent to which natural gas and electricity prices more clearly and quickly reflect changing supply and demand conditions and will measure the reduction in wholesale electricity price differences among regions, to evaluate the success of its initiative to restructure interstate natural gas and electricity markets.

DOE Corporate Management

Acquisition Reform at the Department of Energy is a high priority of the Administration. Because more than 90 percent of the Department's budget is spent on contracts to operate its facilities, improving management and oversight of these contracts can improve mission support and save taxpayer dollars. DOE has established a Department-wide system to evaluate and use past performance data for contractor selections and will work with OMB to achieve short-term PBSC successes in 2000 and create incentives for more conversions.

Nuclear Regulatory Commission (NRC)

NRC, an independent agency, regulates the Nation's civilian nuclear reactors and the medical and industrial use of nuclear materials to ensure public health and safety and to protect the environment. NRC international activities also promote U.S. interests in nonproliferation and the safe and secure use of nuclear materials in other countries. NRC safety performance goals for 2000 include:

- no civilian nuclear reactor accidents;
- no significant accidental releases of radioactive material from storage and transportation of nuclear waste; and
- no offsite release of radioactivity beyond regulatory limits from low-level waste disposal sites.

Tax Incentives

Federal tax incentives are mainly designed to encourage the domestic production of fossil and other fuels, and to promote the vitality of our energy industries and diversification of our domestic energy supplies. Certain fuel producers many cut their taxable income as their fuel resources are depleted. An income tax credit helps promote the development of certain non-conventional fuels. It applies to oil produced from shale and tar sands, gas produced from a number of unconventional sources (including coal seams), some fuels processed from wood, and steam produced from solid agricultural byproducts. Another tax provision provides a credit to producers who make alcohol fuels—mainly ethanol—from biomass materials. The law also allows a partial exemption from Federal gasoline taxes for gasolines blended with ethanol. The Climate Change Technology Initiative proposes $3.6 billion in new tax incentives to help reduce greenhouse gases (see Table 33–4). These incentives provide for purchases of energy-efficient homes and heating/cooling equipment, electric and hybrid vehicles, rooftop solar systems, and combined heat-and-power systems. They also extend wind and biomass tax credits.

17. NATURAL RESOURCES AND ENVIRONMENT

Table 17–1. FEDERAL RESOURCES IN SUPPORT OF NATURAL RESOURCES AND ENVIRONMENT
(In millions of dollars)

Function 300	1998 Actual	Estimate					
		1999	2000	2001	2002	2003	2004
Spending:							
Discretionary Budget Authority	23,456	23,355	23,812	23,987	23,886	23,911	23,964
Mandatory Outlays:							
Existing law	441	1,049	709	802	701	860	834
Proposed legislation	....	....	–753	–740	–777	–726	–703
Credit Activity:							
Direct loan disbursements	39	35	46	N/A	N/A	N/A	N/A
Guaranteed loans	....	....	....	N/A	N/A	N/A	N/A
Tax Expenditures:							
Existing law	1,460	1,515	1,555	1,620	1,670	1,735	1,790
Proposed legislation	....	....	–84	–45	31	108	185

N/A = Not available

The Federal Government spends over $23 billion a year to protect the environment, manage Federal land, conserve resources, provide recreational opportunities, and construct and operate water projects. The Federal Government manages about 700 million acres—a third of the U.S. continental land area.

The Natural Resources and Environment function reflects most Federal support for natural resources and the environment, but does not include certain large-scale environmental programs, such as the environmental clean-up programs at the Departments of Energy and Defense.

Within this function, Federal efforts focus on providing cleaner air and water, conserving natural resources, and cleaning up environmental contamination. The major goals include:

- protecting human health and safeguarding the natural environment—air, water, and land—upon which life depends;
- restoring and maintaining the health of federally-managed lands, waters, and renewable resources; and
- providing recreational opportunities for the public to enjoy natural and cultural resources.

Federal lands include the 378 units of the National Park System, the 156 National Forests; the 514 refuges in the National Wildlife Refuge System; and land managed by the Bureau of Land Management (BLM) in 11 Western States (see Chart 17–1).

Land and Water Conservation Fund

The Land and Water Conservation Fund (LWCF) is an important tool for species and habitat conservation. The Fund uses the royalties of offshore oil and gas leases to help Federal, State, and local governments acquire land for conservation and outdoor recreation.

The 2000 Lands Legacy initiative will allocate full funding ($900 million) from the LWCF to support: (1) conservation of Federal lands to preserver wildlife habitat, natural resources, and historic sites; (2) Federal grants and planning assistance for States and local governments to protect local green space, urban parks, and greenways; and (3) Federal and State efforts to restore ocean and coastal resources.

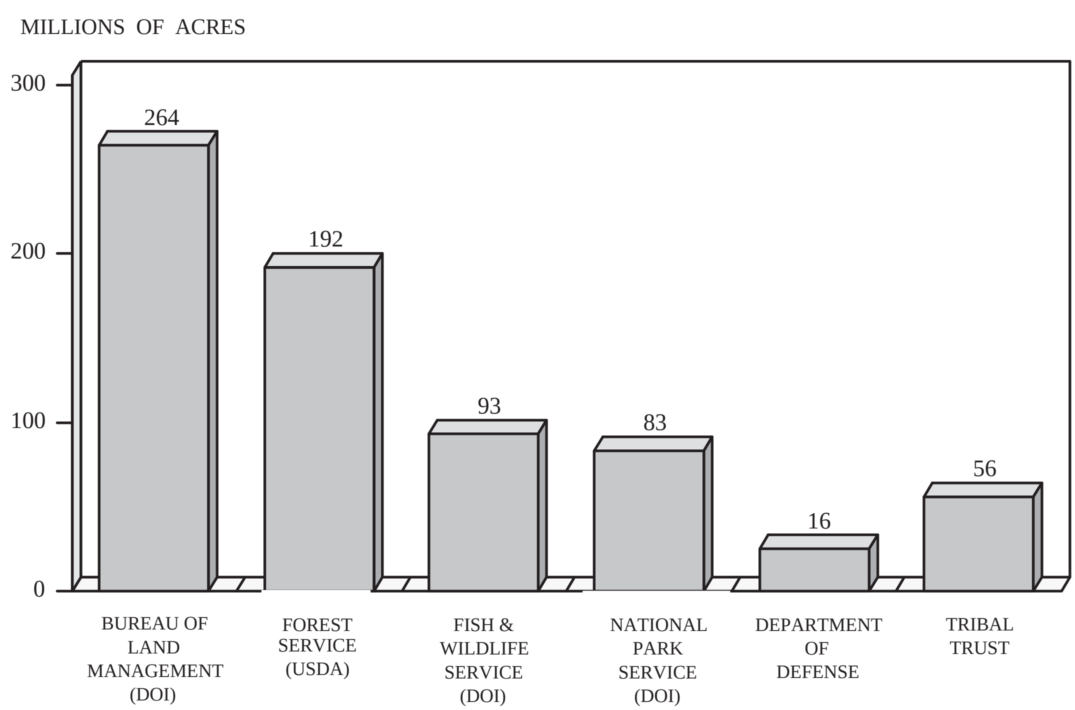
- In 2000, Interior will acquire approximately 500,000 acres in the California Desert region, 22,500 acres to expand refuges in the Northern Forests of Maine, Vermont, New Hampshire, and New York, and about 1,500 acres for Civil War battlefields.
- In 2000, the Forest Legacy program will support permanent easements for 150,000 acres, up from 9,000 acres in 1999.
- In 2000, approximately 80,000 acres of farmland threatened with development will be protected through permanent easements.
- In 2000, the National Oceanic and Atmospheric Administration (NOAA) will double the number of protected acres in the National Estuay Reserve System from 500,000 in 1999.

As a complement to the Lands Legacy initiative, the Administration will also propose a Livability Initiative that includes, among other components, a new financing tool that will generate $9.5 billion in bond authority for investments by State, local, and Tribal governments. These Better America Bonds will be used to preserve green space, create or restore urban parks, protect water quality, and clean up brownfields.

National Parks

The Federal Government spends over $1.8 billion a year to maintain a system of national parks that covers over 83 million acres in 49 States, the District of Columbia, and various territories. Discretionary funding for the National Park Service (NPS) has steadily increased (almost five percent a year since 1986) and fee receipts have grown from $93 million in 1996 to about $180

Chart 17-1. FEDERAL LAND MANAGEMENT BY AGENCY



million in 1998. Yet, the popularity of national parks has generated even faster growth in the number of visitors, new parks, and additional NPS responsibilities.

With demands growing faster than available resources, NPS is taking new, creative, and more efficient approaches to managing parks and has developed performance measures against which to gauge progress. NPS and other Department of the Interior bureaus are systematically addressing facility maintenance and construction needs through newly established five-year lists of priority projects. The bureaus will update these lists annually to track progress in addressing top priorities and completing funded projects on time and at cost.

In 2000, NPS will:

- Maintain the percentage of park visitors that summarize their experience as good or very good at 95 percent—the 1998 results of a new survey using an enhanced methodology and covering over 300 parks.
- Help State and local governments through NPS partnerships to add an additional 280 miles of recreational trails, 310 miles of recreational river corridors, and 9,000 acres of recreational parkland, compared to 220 trail miles, 240 river miles, and 7,000 parkland acres added in 1998.
- Complete 329 data sets for natural resource inventories in 2000 out of 2,287 required, compared to 180 completed through 1998.

Conservation and Land Management

The 75 percent of Federal land that makes up the National Forests, National Grasslands, National Wildlife Refuges, and the BLM-administered public lands also provides significant public recreation. BLM provides for nearly 65 million recreational visits a year, while over 30 million visitors enjoy wildlife each year at National Wildlife Refuges. With its 133,000 miles of trails, the Forest Service is the largest single supplier of public outdoor recreation, providing 341 million recreational visitor days last year.

Federal lands also provide other benefits. With combined annual budgets of about $4 billion, BLM and the U.S. Forest Service (USFS) manage lands for multiple purposes, including outdoor recreation, range, timber, watershed, wildlife and fish, and wilderness. BLM, USFS, and NPS have been identified by the Vice President's National Partnership for Reinventing Government as High-Impact Agencies. As part of the goals to cut red tape and streamline processes, these agencies are cooperating to build an integrated nationwide outdoor recreation information system that delivers seamless service to customers regardless of agency jurisdiction.

Some high priority reinvention projects include:

Financial Management: USFS is implementing a new general ledger system and re-engineering the budget process to better align budget planning and execution with the agency's strategic goals. A redesigned budget structure will better connect funding categories to strategic goals and help employees at the field level execute integrated ecosystem projects.

"Service First": Proposed in the 1996 Reinventing Government report, USFS and BLM are working together to deliver seamless service to customers and "boundaryless" care for the land. This began as two pilot projects in Colorado and Oregon to: (1) improve customer service with one-stop shopping; (2) achieve efficiencies in operations to reduce or avoid costs; and (3) take better care of the land by taking a landscape approach to stewardship rather than stopping at the traditional jurisdictional boundaries. USFS and BLM are also looking to streamline major business processes to make them work better for both employees and customers.

BLM and USFS concentrate on the long-term goal of providing sustainable levels of multiple uses while ensuring and enhancing ecological integrity. Their performance measures include:

- USFS will target increased funding to needed watershed restoration work by increasing acres of watershed restoration work by 100 percent (to 40,000 acres) over 1999 levels of 20,000 acres; increasing the acres of noxious weed control by 21 percent (to 64,500 acres) over 1999 levels of

51,410 acres; maintain the pace of obliterating existing roads at the 1999 level (3,500 miles), as compared to 1,200 miles in 1998; and increasing the number of acres treated for fire hazard reduction to 1.8 million, compared to a 1999 planned level of 1.6 million.

- For priority watersheds, BLM will enhance the ecological integrity of an additional 1,700 miles of riparian areas and 128,500 acres of wetlands in 2000, compared to 868 miles and 11,842 acres enhanced in 1997; BLM will also treat 344,300 acres for fire hazard reduction by prescribed fire and mechanical means, compared to 1997 levels of 70,000 acres.

The Interior Department's Fish and Wildlife Service (FWS), with a budget of $1.6 billion, manages 93 million acres of refuges and, with the Commerce Department's National Marine Fisheries Service (NMFS), protects species on Federal and non-Federal lands.

- Proposed 2000 funding increases will enable the refuge system to manage an additional 948,000 more acres over the 1997 baseline of 93 million acres.
- FWS will also increase by one million acres the number of protected, non-Federal acres in Habitat Conservation Plans (HCPs) up from two million in 1998; keep 15 more species off the endangered species list, compared to a 1998 baseline of seven species kept off the list; and improve or stabilize the populations of 37 percent of species listed a decade or more, over a 1998 baseline of 36 percent.
- NMFS will implement programs in 2000 to continue fully assessing 80 percent of fish stocks, increasing the number of listed species that improve in status to 16 over a baseline of 12 in 1997, and increasing the number of restored acres of coastal habitat by 25 percent over 1999 levels of 43,000 cumulative acres restored.

Half of the continental United States is crop, pasture, and rangeland. Two percent of Americans own and manage this land—farmers and ranchers. The Department of Agriculture's (USDA) Natural Resources Conservation Service provides technical assistance to them to improve land management practices.

Under USDA's Wetlands Reserve Program (WRP), the Federal Government buys long-term or permanent easements from cropland owners that take the land out of production and restore it to wetlands. Landowners receive up to 100 percent of the fair market agricultural value for the land and cost-share assistance to cover the wetland restoration expenses. At the end of 1999, cumulative acreage in the WRP will total 775,174.

- In 2000, WRP will enroll 199,826 additional acres, bringing its cumulative acreage to the 975,000 authorized enrollment cap.
- USDA will use a number of programs to address the goals outlined in the Clean Water Action Plan's Animal Feeding Operations Strategy, resulting in the installation of 10,400 animal waste management systems to protect water from agricultural pollution, an increase of 30 percent over 1999.
- Through several programs, USDA will also implement resource management systems to control erosion and improve habitat on 6.3 million acres of grazing lands, compared to six million acres in 1999.

USDA's Environmental Quality Incentives Program (EQIP), which provides funds to farmers and ranchers to adopt sound conservation practices, will again target funds in 2000 to conservation priority areas such as Maine's Penobscot Nation and Texas's Edwards Aquifer. These areas use EQIP funds to address problems ranging from erosion to threatened and endangered species to water quality. The 2000 budget proposes $300 million in mandatory funding for EQIP, a $126 million increase above 1999, in support of the Clean Water Action Plan.

Everglades and California Bay-Delta Restoration

Federal and non-Federal agencies are carrying out long-term restoration plans for several nationally significant ecosystems, such as those in South Florida and California's Bay-Delta. The South Florida ecosystem is a national treasure that includes the Everglades and Florida Bay. Its long-term viability is critical for the tourism and fishing industries, and for the water supply, economy, and quality of life for South Florida's six million people. Economic development and water uses in California's San Francisco Bay-San Joaquin Delta watershed have diminished water quality, degraded wildlife habitat, endangered several species, and reduced the estuary's reliability as a water source for two-thirds of Californians and seven million acres of highly productive agricultural land.

- The U.S. Army Corps of Engineers will complete its comprehensive review of the central and southern Florida project by July 1, 1999, thus providing a master plan for restoring the Everglades while accommodating other demands for water and related resources in South Florida. By September 30, 2002, seven of the 68 currently known federally endangered and threatened species in South Florida will be able to be "down-listed."
- The Bay-Delta program expects to complete during 2000 the required National Environmental Policy Act review and select the preferred long-term plan to solve critical water-related problems in the California Bay-Delta. The plan will contain specific, measurable performance goals for levee protection, ecosystem restoration, and water conservation, storage and conveyance.

Scientific Support for Natural Resources

The management of lands, the availability and quality of water, and improvements in the protection of resources are based on sound natural resources science. The U.S. Geological Survey (USGS) provides research and information to land managers and the public to better understand ecosystems and species habitat, land and water resources, and natural hazards.

In 2000, the USGS will lead the Community-Federal Information Partnership, an interagency effort to provide communities with the geospatial information they need to make sound planning decisions and preserve open space. Communities will receive GIS technological tools and earth science data to improve mapping and planning capabilities.

The Commerce Department's NOAA manages ocean and coastal resources in the 200-mile Exclusive Economic Zone and in 12 National Marine Sanctuaries. Its National Ocean Service and NMFS manage 201 fish stocks, 163 marine mammal populations, and their associated coastal and marine habitats. NOAA's National Weather Service (NWS), using data collected by the National Environmental Satellite and Data Information Service, provides weather forecasts and flood warnings. Its Office of Oceanic and Atmospheric Research provides science for policy decisions in areas such as climate change, air quality and ozone depletion.

- In 2000, NWS' ongoing modernization will increase the lead time of flash flood warnings to 42 minutes and the accuracy of flash flood warnings to 85 percent; increase the lead time of severe thunderstorm warnings to 20 minutes and the accuracy of severe thunderstorm warnings to 85 percent, and increase the accuracy of heavy snowfall forecasts to 60 percent.

Pollution Control and Abatement

The Federal Government helps achieve the Nation's pollution control goals by: (1) taking direct action; (2) funding actions by State, local, and Tribal governments; and (3) implementing an environmental regulatory system. The Environmental Protection Agency's (EPA) $7.2 billion in discretionary funds and the Coast Guard's $140 million Oil Spill Liability Trust Fund (which funds oil spill prevention and cleanup) finance the activities in this subfunction. EPA is an NPR High Impact Agency whose discretionary funds have three major components—the operating program, Superfund, and water infrastructure financing.

EPA's $3.7 billion operating program provides the Federal funding to implement most Federal pollution control laws, including the Clean Air, Clean Water, Resource Conservation and Recovery, Safe Drinking Water, and Toxic Substances Control Acts. EPA protects human health and the environment by developing national pollution control standards, largely enforced by the States under EPA-delegated authority. For example, under the Clean Air Act, EPA works to make the air clean and healthy to breathe by setting standards for ambient air quality, toxic air pollutant emissions, new pollution sources, and mobile sources.

- In 2000, EPA will certify that five of the estimated 30 remaining nonattainment areas have achieved the one-hour National Ambient Air Quality Standard for ozone (see Chart 17–2).
- In 2000, air toxics emissions nationwide from stationary and mobile sources combined will be reduced by five percent from 1999 (for a cumulative reduction of 30 percent from the 1993 level of 1.3 million tons).

Under the Clean Water Act, EPA works to conserve and enhance the ecological health of the Nation's waters, through regulation of point source discharges and through multi-agency initiatives such as the Administration's Clean Water Action Plan.

- In 2000, environmental improvement projects will be underway in 350 high priority watersheds as a result of implementing activities under the Clean Water Action Plan.

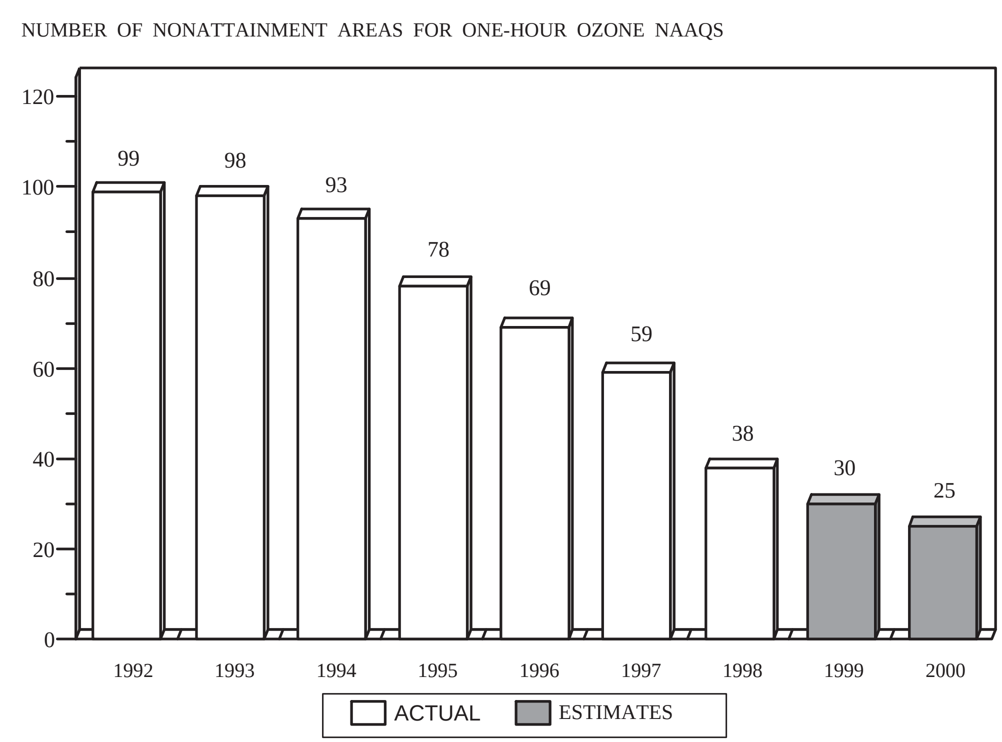
Under the Federal Insecticide, Fungicide, and Rodenticide Act and the Federal Food, Drug, and Cosmetic Act, EPA regulates pesticide use, grants product registrations, and sets tolerances (standards for pesticide residue on food) to reduce risk and promote safer means of pest control.

- In 2000, EPA will reassess 20 percent of the existing 9,700 tolerances to ensure that they meet the statutory standard of "reasonable certainty of no harm," achieving a cumulative 53 percent.

EPA's pollution prevention program seeks to reduce environmental risks where Americans reside, work, and enjoy life.

- In 2000, the quantity of Toxic Release Inventory pollutants released, disposed of, treated, or combusted for energy recovery will be reduced by 200 million pounds, or two percent, from 1999 reporting levels.

Chart 17-2. AIR QUALITY TRENDS



Under the Resource Conservation and Recovery Act (RCRA), EPA and authorized States prevent dangerous releases to the environment of hazardous, industrial nonhazardous, and municipal solid wastes by requiring proper facility management and cleanup of environmental contamination at those sites.

- In 2000, 146 more hazardous waste management facilities will have approved controls in place to prevent dangerous releases to air, soil, and groundwater, for a total of 65 percent of 3380 facilities.

EPA's underground storage tank (UST) program seeks to prevent, detect, and correct leaks from USTs containing petroleum and hazardous substances. Regulations issued in 1988 required that substandard USTs (lacking spill, overfill and/or corrosion protection) be upgraded, replaced or closed by December 22, 1998.

- By the end of 2000, 90 percent of USTs will be in compliance with these requirements, which improves upon the estimated 65 percent as of the December 22, 1998 deadline.

In October 1997, the President announced immediate actions to begin addressing the problem of global climate change, and included the Climate Change Technology Initiative (CCTI) in the 1999 Budget. The 2000 Budget provides $216 million for the second year of EPA's portion of CCTI, much of which focuses on the deployment of underutilized but existing technologies that reduce greenhouse gas emissions. The partnerships EPA has built with business and other organizations since the early 1990s will continue to be the foundation for reducing greenhouse gas emissions in 2000 and beyond.

- In 2000, greenhouse gas emissions will be reduced from projected levels by more that 50 million metric tons of carbon equivalent per year through EPA partnerships with businesses, schools, State and local governments, and other organizations. This reduction level will be an increase of 10 million metric tons over 1999 reduction levels.
- In 2000, energy consumption will be reduced from projected levels by over 60 billion kilowatt hours, resulting in over $8 billion in energy savings to consumers and businesses that participate in EPA's climate change programs. This will represent an increase of 15 billion kilowatt hours and $5 million in annual energy savings over 1999.

The new Clean Air Partnership Fund will also contribute to the achievement of these goals as well as the ozone attainment goal.

The $1.5 billion Superfund program pays to clean up hazardous spills and abandoned hazardous waste sites, and to compel responsible parties to clean up. The Coast Guard implements a smaller but similar program to clean up oil spills. Superfund also supports EPA's Brownfields program, designed to assess, clean up, and re-use formerly contaminated sites.

- In 2000, EPA will complete 85 Superfund cleanups, continuing on a path to reach 925 completed cleanups by the end of 2002.
- In 2000, EPA will fund Brownfields site assessments in 50 more communities, thus reaching 350 communities by the end of 2000.
- In 2000, the Coast Guard will reduce the rate of oil spilled into the Nation's waters to 4.83 gallons per million gallons shipped from a baseline of 5.25 gallons in 1998.

Federal water infrastructure funds provide capitalization grants to State revolving funds, which make low-interest loans to help municipalities pay for wastewater and drinking water treatment systems required by Federal law. The $1.625 billion in the 2000 Budget is consistent with the Administration's plans to capitalize these funds to the point where the Clean Water State Revolving Funds (CWSRF) and the Drinking Water State Revolving Funds (DWSRF) provide a total of $2.5 billion in average annual assistance. The $72 billion in Federal assistance since passage of the 1972 Clean Water Act has dramatically increased the portion of Americans enjoying better quality water. Ensuring that community water systems meet health-based drinking water standards is supported by both the DWSRF and operating program resources.

- In 2000, another two million people will receive the benefits of secondary treatment of wastewater, for a total of 181 million.
- In 2000, 91 percent of the population served by community water systems will receive drinking water meeting all health-based standards in effect as of 1994, up from 83 percent in 1994.

USDA gives financial assistance to rural communities to provide safe drinking water and adequate wastewater treatment facilities to rural communities. The budget proposes $1.5 billion in combined grant, loan, and loan guarantees for this assistance, a 12 percent increase over 1999. Part of those funds will go toward the Water 2000 initiative to bring indoor plumbing and safe drinking water to under-served rural communities. Since 1994, USDA has invested almost $1.6 billion in loans and grants on high-priority water 2000 projects nationwide.

- In 2000, USDA will fund 300 high-priority water 2000 projects.

The Office of Surface Mining (OSM), in partnership with States, reclaims abandoned coal mines using funds from the Abandoned Mine Lands Reclamation Fund.

- In 2000, OSM will reclaim 9,235 acres of abandoned coal mine lands, 1,235 acres more than in 1999.

Water Resources

The Federal Government builds and manages water projects for navigation, flood-damage reduction, environmental purposes, irrigation, and hydropower generation. The Army Corps of Engineers operates Nationwide, while Interior's Bureau of Reclamation operates in the 17 western States. The budget proposes $4.7 billion for the agencies in 2000—$3.9 billion for the Corps, $0.8 billion for the Bureau. The budget includes a proposal to create a new Harbor Services Fund to increase funding for the Corps' operations, maintenance, and construction activities at our Nation's ports and harbors and help ensure a safe and economically competitive port system. While navigation and flood damage reduction remain the Corps' major focus, its responsibilities increasingly address environmental objectives.

- In 2000, maintain Corps controlled commercial navigation and flood damage-reduction facilities to be fully operational at least 95 percent of the time.
- In 2000, the Corps' regulatory program will achieve "no net loss" of wetlands by creating, enhancing, and restoring wetlands functions and values that are comparable to those lost when the Corps issues permits to allow wetlands to be developed.

Congress created the Bureau of Reclamation primarily to develop water supplies to support economic development in the western States. Since the West is now largely developed, the Bureau has shifted its emphasis to become a water resources management agency.

- In 2000, the Bureau will deliver or release the amount of water contracted for from Reclamation-owned and operated facilities, expected to be no less than 27 million acre-feet. Reclamation will also generate power needed to meet contractual commitments and other requirements 100 percent of the time, depending upon water availability.

Tax Incentives

The tax code offers incentives for natural resource industries, especially timber and mining. The timber industry can deduct certain costs for growing timber, pay lower capital gains rates on profits, take a credit for investments, and quickly write-off reforestation costs—in total, costing about $585 million in 2000. The mining industry benefits from percentage depletion provisions (which sometimes allows deductions that exceed the economic value of resource depletion) and can deduct certain exploration and development costs—together, costing about $270 million in 2000.

In 2000, Better America Bonds will provide tax incentives for State and local governments to protect local green spaces, improve water quality, and clean up abandoned industrial sites.

18. AGRICULTURE

Table 18–1. FEDERAL RESOURCES IN SUPPORT OF AGRICULTURE
(In millions of dollars)

Function 350	1998 Actual	Estimate					
		1999	2000	2001	2002	2003	2004
Spending:							
Discretionary Budget Authority	4,346	4,318	4,140	4,140	4,153	4,140	4,140
Mandatory Outlays:							
Existing law	7,879	16,445	10,942	8,757	7,342	6,032	6,198
Proposed legislation	....	....	–20	–37	–33	–30	–38
Credit Activity:							
Direct loan disbursements	8,222	10,802	11,640	N/A	N/A	N/A	N/A
Guaranteed loans	4,226	6,563	6,688	N/A	N/A	N/A	N/A
Tax Expenditures:							
Existing law	780	880	905	950	985	1,035	1,085

N/A = Not available

The Federal Government helps to increase U.S. agricultural productivity by ensuring that markets function fairly and predictably and that farmers and ranchers do not face unreasonable risk. Agriculture Department (USDA) programs disseminate economic and agronomic information, ensure the integrity of crops, inspect the safety of meat and poultry, and help farmers finance their operations and manage risks from both weather and variable export conditions. The results are found in the public welfare that Americans enjoy from an abundant, safe, and inexpensive food supply, free of severe commodity market dislocations. Agriculture and its related activities account for 16 percent of the U.S. Gross Domestic Product.

Conditions on the Farm

Economic conditions facing U.S. agriculture in 1998 challenged this Federal role. Demand for farm commodities and record market prices of recent years receded, with gross crop cash receipts falling seven percent from the record $112 billion in 1997. Net cash income fell $1.7 billion short of the 1997 record of $60.8 billion. Forecasts for 1999 put net cash income down $5 billion from the record level, but within the last five year's average. Producers are expected to earn slightly less from 1998 and 1999 crop sales due to lower feed grain prices. Livestock receipts in 1998 fell back to the 1996 level of $93 billion from 1997's record $96.6 billion. Beef cattle prices, continued to decline, despite reductions in the herd. Pork producers, with long-expanding inventories experienced a severe drop in hog prices (see Chart 18–1).

Macro-economic agricultural conditions in 1998 were nearly the reverse of conditions that led to record farm income and prices of recent years. Last year, world-wide production of major grains was robust, which weakened demand for U.S. crops; the Asian financial crisis dampened a major source of export growth; the U.S. livestock sector experienced some relief in reduced feed costs. These conditions prompted the Federal Government to expand spending on agriculture, including $5.9 billion in emergency disaster relief enacted in the 1999 Omnibus Consolidated and Emergency Supplemental Appropriations Act.

Despite generally lower commodity prices, farm assets and equity continue to rise. Farm sector business assets rose four percent in value in 1998, to $1.13 trillion. Farm asset values will remain at historic high levels in 1999, while farm real estate values will rise for the eleventh straight year. Farm business debt will rise in 1999, attaining its highest level since 1986; but debt-to-equity and -to-asset ratios improved in 1998 and are much stronger than on the eve of the financial stress in the 1980s farm sector. However, a continuation of low commodity prices may cause increasing financial stress for many producers. In 1998, an index of farm debt as a percentage of the maximum debt producers could pay at current income levels rose to 60 percent from 45 percent in the early 1990s.

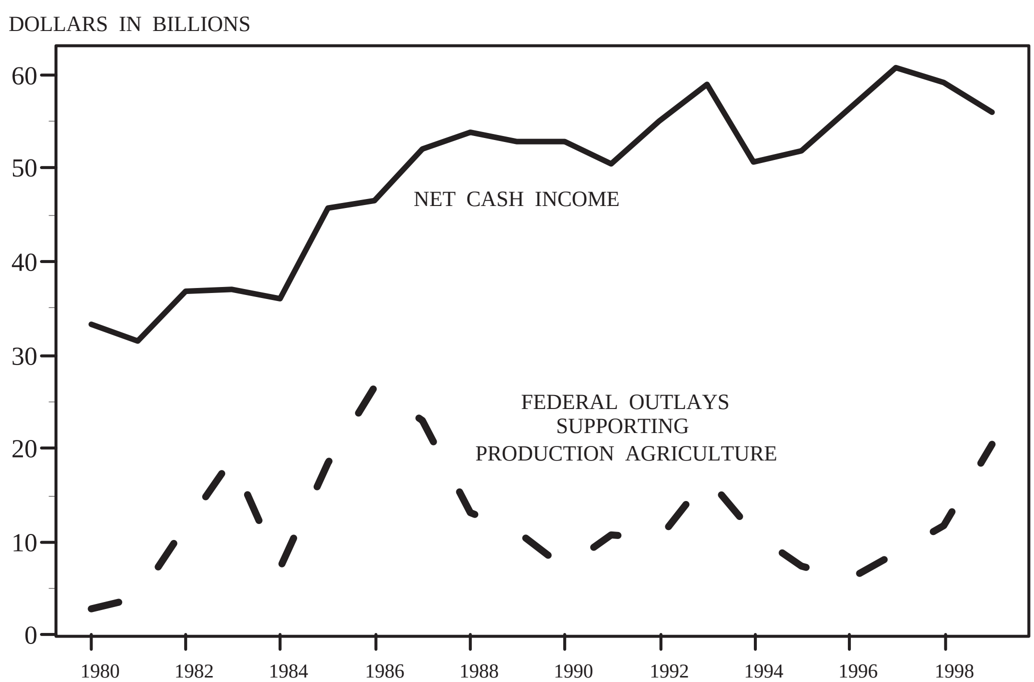
Exports are key to future U.S. farm income. The Nation exports 30 percent of its farm production, and agriculture produces the greatest balance of payments surplus, for its share of national income, of any economic sector. Agricultural exports reached a record $60 billion in 1996. Lower world market prices and bulk export volume reduced exports by an estimated $4 billion in 1998 and in 1999 export growth is likely to be minimal. Pacific Asia, including Japan, is the most important region for U.S. farm exports, accounting for 42 percent of total U.S. export sales in 1996. Consequently, the financial turmoil in certain Asian countries significantly affects U.S. exports.

The 1996 Farm Bill

Known officially as the Federal Agriculture Improvement and Reform Act (FAIR) of 1996, the Farm Bill was a milestone in U.S. agricultural policy. The bill, effective through 2002, fundamentally redesigned Federal income support and supply management programs for producers of wheat, corn, grain sorghum, barley, oats, rice, and cotton. It expanded the market-oriented policies of the previous two major farm bills, which have gradually reduced the Federal influence in the agricultural sector.

Under previous laws dating to the 1930s, farmers who reduced plantings could get income support payments when prices were

Chart 18-1. FARM SECTOR INCOME AND FEDERAL SUPPORT



Note: 1999 forecast by USDA.

low, but farmers had to plant specific crops in order to receive such payments. Even when market signals encouraged the planting of a different crop, farmers had limited flexibility to do so. By contrast, the 1996 Farm Bill eliminated most such restrictions and, instead, provided fixed, but declining payments to eligible farmers through 2002, regardless of market prices or production volume. This law "decoupled" Federal income support from planting decisions and market prices. The law has brought changes in the crop acreage planted in response to market signals. In 1997, wheat acreage fell by six percent, or about five million acres, from the previous year, while soybean acreage rose by 10 percent, or over six million acres.

The Farm Bill's freedom from planting restrictions on farmers meant greater potential volatility in crop prices and farm income. Not only can USDA no longer require farmers to grow less when supplies are great, but the size of farm income-support payments no longer varies as crop prices fluctuate. The previous farm bills were not perfectly counter-cyclical: participants in USDA commodity programs whose crops were totally ruined when prices were high got no income-support payment then, but would now through fixed payments. And, the 1996 Farm Bill provides additional "marketing loan" payments to farmers when commodity prices fall below a statutorily set "loan rate". However, the 1998 conditions raised the issue of whether the Federal farm income safety net was sufficient, and how should it be improved, to a new urgency.

However, the 1998 crop and price situation showed that the 1996 Farm Bill does not sufficiently protect farm income under certain conditions. Some crop prices significantly decreased from previous years—but the Farm Bill's "decoupled" income assistance did not adjust upward to compensate. If in the future commodity prices are again unacceptably low, the Administration will work to secure farm income assistance.

The 1998 crop experience also highlighted problems with the crop insurance program, which is intended to be the foundation of the farm safety net. Farmers who experience multi-year losses are left with insufficient coverage at higher cost; there is no coverage available for many commodities including livestock; and, most fundamentally, coverage that provides adequate compensation is simply not affordable for many farmers. During the coming year, the Administration will work to find a bipartisan solution, including offsets, that will address these weaknesses by reforming crop insurance and strengthening the safety net for farmers.

Federal Programs

USDA seeks to enhance the quality of life for the American people by supporting production agriculture; ensuring a safe, affordable, nutritious, and accessible food supply; conserving agricultural, forest, and range lands; supporting sound development of rural communities; providing economic opportunities for farm and rural residents; expanding global markets for agricultural and forest products and services; and working to reduce hunger in America and throughout the world. (Some of these missions fall within other budget functions and are described in other chapters in this Section.)

Farming and ranching are risky. Farmers and ranchers face not only the normal vagaries of supply and demand, but also uncontrollable risk from nature. Federal programs are designed to accomplish two key economic goals: (1) enhance the economic safety net for farmers and ranchers; and (2) open, expand, and maintain global market opportunities for agricultural producers.

The Federal Government mitigates risk through a variety of programs:

Federal Farm Commodity Programs: Since most Federal income support payments under the 1996 Farm Bill are now fixed, farm income can fluctuate more from year to year due to supply and demand changes. Farmers must rely more on marketing alternatives, and develop strategies for managing financial risk and stabilizing farm income. However, in response to unprecedented crop/livestock price decreases and regional production problems, Congress included as part of the $5.9 billion in emergency disaster relief provided in the 1999 Omnibus Consolidated and Emergency Supplemental Appropriations Act an additional

$2.8 billion in income-support payments, above the 1996 Farm Bill authorized level of $5.6 billion. In addition, the Federal Government continues to provide other safety-net protections, such as the marketing assistance loans that guarantee a minimum price for major commodities, that paid producers $1.7 in 1998 and will pay them an estimated $2 billion in 1999.

Insurance: USDA helps farmers manage their risks by providing subsidized crop insurance, delivered through the private sector, which shares the insurance risk with the Federal Government. Farmers pay no premiums for coverage against catastrophic production losses, and the Government subsidizes their premiums for higher levels of coverage. Over the past three years, an average 65 percent of eligible acres have been insured, with USDA targeting an average indemnity payout of $1.08 for every $1 in premium, down from the historical average indemnity of $1.40 for every $1 in premium. Crop insurance costs the Federal Government about $1.5 billion a year, including USDA payments to private companies for delivery of Federal crop insurance.

Early in 1999, as part of the $5.9 billion in emergency disaster relief, the President signed into law over $2 billion in supplemental crop insurance payments in response to severe crop losses in 1998. Payments also were made to uninsured farmers, but with the requirement that those farmers purchase insurance in the 1999 and 2000 crop years. Consequently, crop insurance participation, and therefore subsidy costs, are expected to increase in these years, with the percentage of eligible acres insured rising toward 70 percent. USDA also continues to develop crop insurance policies on new crops and expand several insurance products that mitigate revenue risk—price and production risk combined. These revenue insurance pilots have shown that farmers generally want these types of products, and USDA will continue to expand their application and availability.

Trade: The trade surplus for U.S. agriculture declined by about 10 percent in 1998 to $16.6 billion, after experiencing faster growth in recent decades than any other sector of the economy. USDA's international programs helped to shape that growth, and cushion the drop in foreign demand. The Foreign Agriculture Service's efforts to negotiate, implement, and enforce trade agreements play a large role in creating a strong market for exports.

In 2000, USDA will:

- take action to overcome 700, or 15 percent, more trade barriers than in 1999; and
- generate 6,000 trade leads for U.S. agricultural export sales, an increase of 20 percent.

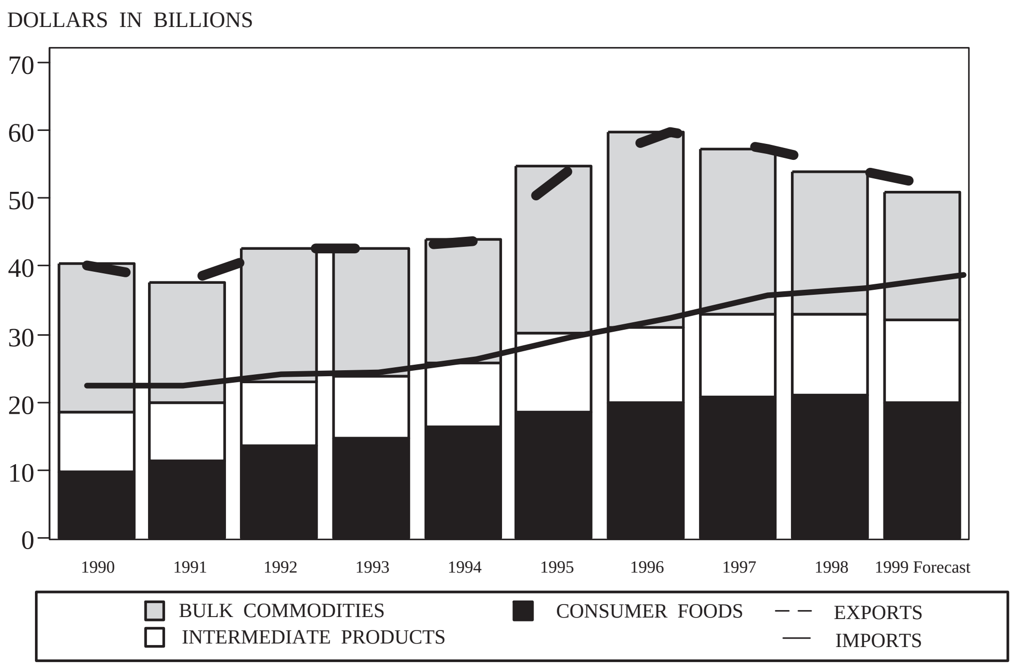
USDA is authorized to spend over $1 billion in 2000 on export activities, ($3.5 billion will be spent in 1999), including subsidies to U.S. firms facing unfairly-subsidized overseas competitors, and loan guarantees to foreign buyers of U.S. farm products. USDA also helps firms overcome technical requirements, trade laws, and customs and processes that often discourage the smaller, less experienced firms from taking advantage of export opportunities. USDA outreach and exporter assistance activities help U.S. companies address these problems and enter export markets for the first time.

USDA programs also help U.S. firms, especially smaller-sized ones, export more aggressively, and high-value products now account for more than half of export value even as total U.S. farm exports have been declining recently (see Chart 18-2). By participating in the Market Assistance Program (MAP) or USDA-organized trade shows, firms can more easily export different products to new locations on their own. Small and medium-sized firm recipients (those with annual sales of under $1 million) now represent 94 percent of the MAP branded-promotion spending, up from 70 percent in 1996, and USDA expects to raise that figure to 100 percent in 1999.

In 2000, USDA will:

- assist 2,000 U.S. firms to establish export activities and oversee marketing distribution channels; and
- increase the percentage of new firms that the MAP supports in establishing marketing and distribution channels by eight percent, to 70 firms for a total of 1,700 participants.

Chart 18-2. U.S. AGRICULTURAL EXPORT PROFILE AND TRADE SURPLUS



Notes: High-value products now make up over 50 percent of total exports.
Trade surplus was at $21.5 billion in 1997.

Agricultural Research: The Federal Government spends approximately $1.8 billion a year to support agricultural research and enhance U.S. and global agricultural productivity. The average annual return to publicly-funded agricultural research exceeds 35 percent, according to recent academic estimates.

The Agricultural Research Service (ARS) is USDA's in-house research agency, addressing a broad range of food, farm, and environmental issues. It puts a high priority on transferring its research findings to the private sector.

In 2000, ARS expects to:

- submit 70 new patent applications;
- participate in 90 new Cooperative Research and Development Agreements;
- license 30 new products; and
- develop 70 new plant varieties to release to industry for further development and marketing.

The Cooperative State Research, Education, and Extension Service provides grants for agricultural, food, and environmental research; higher education; and extension activities. The National Research Initiative competitive research grant program, launched in 1990 on the recommendation of the National Research Council, works to improve the quality and increase the quantity of USDA and private sector farm, food, and environmental research. In addition, the Agricultural Research, Extension, and Education Reform Act of 1998 authorized $120 million annually in mandatory funds for certain priority research, although appropriations action blocked these funds for 1999.

Economic Research and Statistics: The Federal Government spends about $155 million to improve U.S. agricultural competitiveness by reporting and analyzing economic information. The Economic Research Service provides economic and other social science information and analysis for decision-making on agriculture, food, natural resources, and rural development policy. The National Agricultural Statistics Service (NASS) provides estimates of production, supply, price, and other aspects of the farm economy, providing information that helps ensure efficient markets.

- In 2000, NASS will include over 95 percent of national agricultural production in its annual commodities reports, up from 92 percent in 1997.

Inspection and Market Regulation: The Federal Government spends a half-billion dollars a year to secure U.S. cropland from pests and diseases and make U.S. crops more marketable. In addition, USDA's Food Safety and Inspection Service reduces the risk that U.S. meat and poultry products will threaten consumers' health (see Chapter 23, "Health"). The Animal and Plant Health Inspection Service (APHIS) inspects agricultural products that enter the country; controls and eradicates diseases and infestations; helps control damage to livestock and crops from animals; and monitors plant and animal health and welfare. The Agricultural Marketing Service (AMS) and the Grain Inspection, Packers, and Stockyards Administration help market U.S. farm products in domestic and global markets, ensure fair trading practices, and promote a competitive, efficient marketplace.

In 2000, APHIS will:

- make about 83 million inspections of incoming passengers (mainly from airlines) to prevent the entry of illegal plants and animals that could endanger U.S. agriculture, a slight increase over estimated 1999 levels;
- make about 72,000 interceptions of pests (an interception may involve more than one pest specimen) that could endanger U.S. agriculture, about the same as 1999;
- clear most international air passengers through its inspection process in 30 minutes or less, a 20-percent improvement over 1997 rates; and
- clear 65 percent of passengers crossing U.S. land borders in non-peak traffic periods in 20 minutes or less on the northern border, and 30 minutes or less on the southern border.

In 2000, AMS will:

- contine a microbiological surveillance program on domestic and imported fruits and vegetables as part of the President's Food Safety Initiative; and
- perform about 55,000 analyses on 13 different commodities, collecting 9,000 samples to measure pesticide residues, an increase from the estimated 1999 activities of about 50,000 analyses, 13 commodities, about 8,200 samples.

Conservation: The 1996 Farm Bill was the most conservation-oriented farm bill in history, enabling USDA to provide incentives to farmers and ranchers to protect the natural resource base of U.S. agriculture. Farmers can now use crop rotations, which earlier price support programs had severely limited. Also, the bill created several new programs. The Environmental Quality Incentives Program (EQIP), with $200 million in annual spending (and another $100 million proposed for 2000) provides cost-share and incentive payments to encourage farmers to adopt new and improved farming practices or technology, and reduce the environmental impact of livestock operations. Farmers may use different nutrient management or pest protection approaches, with USDA offering financial assistance to offset some of the risk. Another new 1996 Farm Bill program was the Farmland Protection Program (FPP). The U.S. loses more than two acres of farmland to development every minute. The FPP provides cost-share funds for agricultural easements to State, local, and tribal governments to preserve farmland and prevent its conversion to other uses.

USDA's conservation programs give technical and financial help to farmers and communities. They include the Conservation and Wetlands Reserve Programs, which remove land from farm uses; and the Conservation Operations program, which provides technical assistance.

In 2000, USDA will:

- increase the number of acres enrolled each year for riparian buffers and filter strips to 3.5 million, from an estimated 2.4 million acres in 1999;
- increase the number of locally led resource plans developed through EQIP to 400 in 2000, up from 200 in 1999, and

- protect approximately 130,000 productive farmland acres through the FPP from being permanently lost to development.

For more information on conservation, and USDA's investments in public land management, see Chapter 17, "Natural Resources and Environment." USDA programs also help to maintain vital rural communities, as described in Chapter 21, "Community and Regional Development."

Agricultural Credit: USDA provides about $600 million a year in direct loans and over $2.5 billion in guaranteed loans to finance farm operating expenses and farmland purchases. Direct loans, which carry interest rates at or below those on Treasury securities, are targeted to beginning or socially disadvantaged farmers who cannot secure private credit.

In 2000, USDA will:

- increase the proportion of loans targeted to beginning and socially-disadvantaged farmers to 16 percent, from an estimated 14 percent in 1999 and 11 percent in 1997; and

- reduce the delinquency rate on farm loans to 15 percent, from an estimated 17 percent in 1999 and 18 percent in 1998.

The Farm Credit System and Farmer Mac—both Government-Sponsored Enterprises—enhance the supply of farm credit through ties to national and global credit markets. The Farm Credit System (which lends directly to farmers) has recovered strongly from its financial problems of the 1980s, in part through Federal help. Farmer Mac increases the liquidity of commercial banks and the Farm Credit System by purchasing agricultural loans for resale as bundled securities. In 1996, Congress gave the institution authority to pool loans as well as more years to attain required capital standards, which Farmer Mac has now achieved.

Personnel, Infrastructure, and the Regulatory Burden: USDA administers its many farm programs through 2,500 county offices with over 17,000 staff. The 1996 Farm Bill significantly cut USDA's workload, prompting the Department to re-examine its staff-intensive field office-based infrastructure. In 1999, USDA will: (1) plan to implement recommendations of a study to find ways to operate more efficiently; (2) continue an Administration initiative to scrap duplicative and unnecessary regulations and paperwork; and (3) continue to upgrade its computer systems to streamline its collection of information from farmers and better disseminate information across USDA agencies.

In 2000, USDA will:

- merge the headquarters and State office administrative support staffs for its field office agencies (Farm Services Agency, Natural Resources Conservation Service, Rural Development), consistent with the recommendations of the 1998 consultant's report, to reorganize by business process instead of by agency, to provide more efficient and coordinated support services. Administrative support functions of the county-based agencies will be merged into a single account under the Executive Director of the new Support Services Bureau.

19. COMMERCE AND HOUSING CREDIT

Table 19–1. FEDERAL RESOURCES IN SUPPORT OF COMMERCE AND HOUSING CREDIT
(In millions of dollars)

Function 370	1998 Actual	Estimate					
		1999	2000	2001	2002	2003	2004
Spending:							
Discretionary Budget Authority	3,128	3,704	5,369	3,343	2,863	2,902	2,941
Mandatory Outlays:							
Existing law	–2,160	–3,058	1,179	4,054	6,224	6,563	7,024
Proposed legislation	....	....	–86	–95	–103	–112	–123
Credit Activity:							
Direct loan disbursements	1,944	1,749	1,571	N/A	N/A	N/A	N/A
Guaranteed loans	256,139	233,210	250,891	N/A	N/A	N/A	N/A
Tax Expenditures:							
Existing law	219,320	227,555	236,210	245,090	254,415	261,795	268,275
Proposed legislation	....	–52	–1,306	–2,190	–2,016	–1,804	–1,783

N/A = Not available

The Federal Government facilitates commerce and supports housing in a range of ways. It provides direct loans and loan guarantees to ease access to mortgage and commercial credit; sponsors private enterprises that support the secondary market for home mortgages; regulates private credit intermediaries, especially depository institutions; protects investors when insured depository institutions fail; promotes exports and technology; collects our Nation's statistics; and offers tax incentives. (The Government also provides subsidies for low-income housing through programs classified in the Income Security function.)

Mortgage Credit

The Government provides loans and loan guarantees to increase homeownership, and to help low-income families afford suitable apartments. Housing credit programs of the Departments of Housing and Urban Development (HUD), Agriculture (USDA), and Veterans Affairs (VA) supported $150 billion in loan and loan guarantee commitments in 1998, helping more than 1.7 million households (see Table 19–2). All of these programs have contributed to the success of the President's National Homeownership Initiative which, along with a strong economy, has helped boost the national homeownership rate to 66.8 percent—its highest ever.

- In 2000, the national homeownership rate will be 67.5 percent.

HUD's Mutual Mortgage Insurance (MMI) Fund: The MMI Fund, run by the Federal Housing Administration (FHA), helps increase access to single-family mortgage credit in both urban and rural areas. In 1998, the MMI Fund guaranteed over $90 billion in mortgages for over one million households. Nearly three-fourths of such mortgages went to first-time homebuyers.

- The FHA/MMI fund will continue to remain solvent and self-sustaining.
- In 2000 the share of FHA mortgage insurance for first-time homebuyers will increase by one percent a year over 1995 levels to 73.3 percent in 2000.

USDA's Rural Housing Service (RHS): RHS offers direct and guaranteed loans and grants to help very low- to moderate-income

Table 19–2. SELECTED FEDERAL COMMERCE AND HOUSING CREDIT PROGRAMS: CREDIT PROGRAMS PORTFOLIO CHARACTERISTICS

(Dollar amounts in millions)

	Dollar volume of direct loans/ guarantees written in 1998	Numbers of housing units/small business financed by loans/ guarantees written in 1998	Dollar volume of total outstanding loans/guarantees as of the end of 1998
Mortgage Credit:			
HUD/FHA Mutual Mortgage Insurance Fund	90,518	1,025,024	380,338
HUD/FHA General Insurance and Special Risk Insurance Fund	15,074	277,011	89,287
USDA/RHS single-family loans	3,830	56,617	23,626
USDA/RHS multifamily loans	218	9,628	11,902
VA guaranteed loans	39,862	368,791	169,006
Subtotal, Mortgage Credit	149,502	1,737,071	674,159
SBA Guaranteed Loans	11,524	45,019	33,695
Total Assistance	**161,026**	**1,782,090**	**707,854**

rural residents buy and maintain adequate, affordable housing. The single family direct loan program provides subsidized loans to very low-income rural residents, while the single family guarantee loan program guarantees up to 90 percent of a private loan for moderate-income rural residents. Together, the two programs provided $3.8 billion in loans and loan guarantees in 1998, providing 56,617 decent, safe affordable homes for rural Americans.

- In 2000, RHS will further reduce the number of rural residents living in substandard housing by providing $4.3 billion in loans and loan guarantees for 50,500 new or improved homes.

Veterans' Affairs (VA): VA recognizes the service that veterans and active duty personnel provide to the Nation by helping them buy and retain homes. The Government partially guarantees the loans from private lenders, providing $40 billion in loan guarantees in 1998. One of VA's key goals is to improve loan servicing to avoid veteran foreclosures.

- In 2000, VA will be successful in intervening to help veterans avoid foreclosure 41 percent of the time, from the 1998 level of 37 percent. (See Chapter 27 for more information.)

Ginnie Mae: Congress created Ginnie Mae in 1968 to support the secondary market for FHA, VA, and USDA mortgages through securitization. To date, Ginnie Mae has helped over 20 million low- and moderate-income families buy homes.

- In 2000, Ginnie Mae will continue to securitize 95 percent of FHA and VA loans, enhancing mortgage market efficiency and lowering financing costs for home buyers.

Rental Housing

The Federal Government provides housing assistance through a number of HUD and USDA programs in the Income Security function. HUD's rental programs provided subsidies for over 4.8 million very-low-income households in 1998. In addition, USDA's RHS rental assistance grants to low-income rural households provided $547 million to support 39,000 new and existing rental units in 1998. For 2000, agencies will meet the following performance goals:

- RHS will make new and continued rental assistance commitments to fund 44,400 new and existing units.
- Increase the percentage of Section 8 families with children living in low-poverty census tracts from 61 percent in 1998 to 63 percent.

Public Housing and Other Assisted Housing Programs

The Federal Government funds capital and management improvements of public housing authorities across the country. The Government also funds programs supporting the housing needs of particular populations, such as the elderly and disabled.

- Demolish over 13,000 public housing units to move toward the Administration's goal of demolishing 100,000 of the worst public housing units by 2003.
- Help 3,000 low-income, frail elderly live as independently as possible by financing conversion of conventional subsidized apartments to assisted living.

Housing Tax Incentives

The Government provides significant support for housing through tax preferences. The two largest tax benefits are the mortgage interest deduction for owner-occupied homes (which will cost the Government $55.1 billion in 2000) and the deductibility of State and local property tax on owner-occupied homes (costing $19.5 billion in 2000).

Other tax provisions also encourage investment in housing: (1) capital gains of up to $500,000 on home sales are exempt from taxes (costing $98 billion from 2000 to 2004); (2) States and localities can issue tax-exempt mortgage revenue bonds, whose proceeds subsidize purchases by first-time, low- and moderate-income home buyers (costing $1 billion in 2000); and (3) installment sales provisions let some real estate sellers defer taxes. Finally, the low-income housing tax credit provides incentives for constructing or renovating rental housing that helps low-income tenants (costing about $3.3 billion in 2000). The President reproposes to raise the volume cap on the low-income housing tax credit, and further proposes to provide permanent authorization for 15,000 new housing vouchers for extremely low-income elderly linked to Low-Income Housing Tax Credit properties.

Commerce, Technology, and International Trade

Technology Policy: The Commerce Department promotes the development of technology and advocates sound technology policies. Commerce's Patent and Trademark Office (PTO) protects U.S. intellectual property rights around the world through bilateral and multilateral negotiation, and through its domestic patent and trademark system.

- In 2000, PTO will issue over 154,000 patents, reduce the average processing time for inventions from the 1999 average of 10.9 months to an average of 10.2 months, and attain a 70 percent customer satisfaction measure.
- In 2000, PTO will reduce the average time required for processing trademark applications from the 1999 average of 15.5 months to an average of 13.8 months, and attain an 80 percent customer satisfaction measure.

Commerce's National Institute of Standards and Technology (NIST): NIST works with industry to develop and apply technology, measurements, and standards. NIST administers the Manufacturing Extension Partnership (MEP), which makes technological information and expertise available to smaller manufacturers.

- In 2000, NIST laboratories will produce over 2,100 technical publications and offer 1,330 standard reference materials.
- In 2000, MEP will serve 36,250 clients, increasing their sales by $591 million and generating $459 million in additional capital investment.

The International Trade Administration (ITA): ITA strives to promote an improved trade posture for U.S. industry and develop the export potential of U.S. firms in a manner consistent with U.S. foreign and economic policy.

- In 2000, ITA will provide counseling assistance to 14,000 small businesses, an increase of 3,500 over 1999 efforts.

- In 2000, ITA's Advocacy Center will support $10.5 billion in exports $500 million more than 1999.

Commerce's Bureau of Export Administration (BXA): The BXA is a regulatory agency that enforces U.S. export controls.

- In 2000, BXA will issue 10,400 licenses for dual use commodities (military or civilian use), 400 more than in 1999.

Commerce's Census Bureau and Bureau of Economic Analysis (BEA): The Census Bureau collects, tabulates, and distributes a wide variety of statistical information about Americans and the economy, including the constitutionally-mandated decennial census. In addition, BEA prepares and interprets U.S. economic accounts, including the Gross Domestic Product (GDP).

- In 2000, the Census Bureau will conduct a decennial census. The goal is to count 99.9 percent of the population, thus reducing the 1990 undercount of 1.6 percent to 0.1 percent.

Small Business Administration (SBA): SBA assists and promotes small business by expanding access to capital through guaranteed private sector loans that carry longer terms and lower interest rates than those for which small businesses would otherwise qualify. SBA guaranteed over $11.5 billion in small business loans in 1998.

- In 2000, SBA will work to increase the number of small businesses receiving counseling and training to 1.3 million, an eight percent increase over the estimated 1999 level.

- SBA will guarantee 63,000 new Sec. 7(a) and Sec. 504 business loans in 2000, a 13 percent increase over the projected 1999 volume of 55,600.

- Following authorization in 2000, America's Private Investment Companies and the New Market Ventures Capital programs will commit a combined $1.1 billion to private venture capital firms, which the firms will leverage with private-sector captial to make $1.7 billion in total business investments in low- and moderate-income areas.

Financial Regulation

Federal Deposit Insurance: Federal deposit insurance protects depositors against losses when insured commercial banks, thrifts (savings institutions), and credit unions fail. From 1985 to 1995, this insurance protected depositors in over 1,400 failed banks and 1,100 thrifts, with total deposits of over $700 billion. Five agencies regulate federally-insured depository institutions to ensure their safety and soundness: the Office of the Comptroller of the Currency regulates national banks; the Office of Thrift Supervision regulates thrifts; the Federal Reserve regulates State-chartered banks that are Federal Reserve members; the Federal Deposit Insurance Corporation (FDIC) regulates other State-chartered banks; and the National Credit Union Administration (NCUA) regulates credit unions.

- In calendar 2000, the FDIC will perform 2,928 safety and soundness examinations.

- In calendar 2000, the NCUA will reduce by seven percent (from 372 to 346) the number of federally insured credit unions with net capital of less than six percent.

SEC and CFTC: The Securities and Exchange Commission (SEC) oversees U.S. capital markets and regulates the securities industry. The Commodity Futures Trading Commission (CFTC) regulates U.S. futures and options markets. Both regulators protect investors by preventing fraud and abuse in U.S. capital markets and ensuring adequate disclosure of information.

- The SEC will examine every investment company complex and every investment advisor at least once during each five-year examination cycle.

- The CFTC will review every designation application and rule change request, except for stock index futures (which require SEC approval) within 10 to 45 days and respond to trading exchanges (e.g., Chicago Board of Trade) with an approval or deficiency letter.

Federal Trade Commission (FTC)

The FTC enforces various consumer protection and antitrust laws that prohibit fraud, deception, anticompetitive mergers, and other unfair and anticompetitive business practices in the marketplace.

- In 2000, the FTC will save consumers $200 million by stopping fraud and other unfair practices, and another $200 million by stopping anticompetitive behavior.

Federal Communications Commission (FCC)

The FCC works to encourage competition in communications and to promote and support every American's access to telecommunications services. Through introduction of more efficient licensing and authorization processes, the FCC will ensure a more rapid introduction of new services and technologies. The FCC's policy and rulemaking process promotes a deregulatory, pro-competitive environment, ensures efficient spectrum use, and sets guidelines for equipment and services so that all Americans have access to telecommunications services.

- In 2000, the FCC will achieve 90 percent of enforcement, licensing and service authorization activities within established deadlines.

Commerce Tax Incentives

The tax law provides incentives to encourage business investment. It taxes capital gains at a lower rate than other income. This will cost the Government $496 billion in 2000. In addition, the law does not tax gains on inherited capital assets that accrue during the lifetime of the original owner. This will cost $27.1 billion from 2000 to 2004. The law also provides more generous depreciation allowances for machinery, equipment, and buildings. Other tax provisions benefit small firms generally, including the graduated corporate income tax rates, preferential capital gains tax treatment for small corporation stock, and write-offs of certain investments. Credit unions, small insurance companies, and insurance companies owned by certain tax-exempt organizations also enjoy tax preferences. Tax benefits for other kinds of businesses are described in other chapters in Section VI.

20. TRANSPORTATION

Table 20–1. FEDERAL RESOURCES IN SUPPORT OF TRANSPORTATION
(In millions of dollars)

Function 400	1998 Actual	Estimate					
		1999	2000	2001	2002	2003	2004
Spending:							
Discretionary Budget Authority	16,005	13,330	13,518	14,159	14,709	15,333	15,844
Mandatory Outlays:							
Existing law	2,063	2,071	2,404	2,034	1,424	1,890	1,844
Proposed legislation	....	....	12	12	13	14	14
Credit Activity:							
Direct loan disbursements	151	756	900	N/A	N/A	N/A	N/A
Guaranteed loans	686	120	120	N/A	N/A	N/A	N/A
Tax Expenditures:							
Existing law	1,645	1,690	1,740	1,810	1,895	1,985	2,070

N/A = Not available

America's transportation system consists of public and private systems financed by Federal, State, and local governments, and the private sector. Our intermodal transportation network is vital to America's standard of living—transportation becomes a part of almost every good and service produced in the economy, and the mobility it provides is an essential ingredient of daily life. The economy grows and works best when there are few impediments to goods and people getting where they must—thus an economy that works for all Americans depends on a transportation system that is efficient, reliable, and accessible. Above all, however, safety is our foremost goal. The Federal Government spends about $50 billion a year on transportation, meeting these challenges today and into the 21st Century.

Transportation Equity Act for the 21st Century

A significant portion of Federal investment in transportation infrastructure is for highways, transit, and highway safety programs. On June 9, 1998, the President signed the Transportation Equity Act for the 21st Century (TEA–21), which authorizes a total of $218 billion for these surface transportation programs from 1998–2003. In addition to providing for increased infrastructure investment, TEA–21 strengthens transportation safety programs and environmental programs, establishes a welfare to work transit initiative, and continues core research activities. TEA–21 also creates two new budget categories designed to "guarantee" funding for these programs for the first time in history. These categories prevent the expenditure of funds on programs other than highways, transit, and highway safety. Of the total amount of funding authorized by TEA–21, $162 billion is provided within the Highway Category Guarantee and $36 billion is within the Transit Category Guarantee. The remaining $20 billion is not guaranteed. The budget provides $28.1 billion and $5.8 billion for these two categories, respectively.

Safe Operations

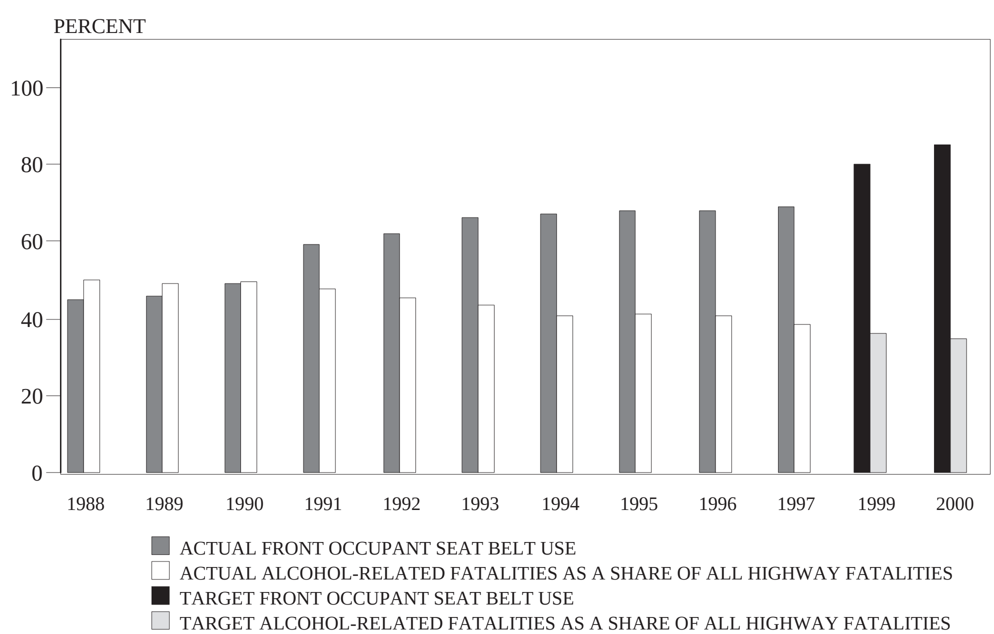
The Federal Government works with State and local governments and private groups to minimize the safety risks inherent in transportation. It regulates motor vehicle design and operation, inspects commercial vehicles, educates the public regarding safety, directs air and waterway traffic, rescues mariners in danger, monitors railroad safety and conducts safety research.

A range of Federal activities work to reduce the number of deaths and injuries from highway crashes, which number about 42,000 and over three million a year, respectively. Federal programs reach out to State and local partners, industry and health care professionals to identify the causes of crashes and develop new strategies to reduce deaths, injuries, and the resulting medical costs. These partnerships yield results—in 1997 the Nation's safety belt use reached an all-time high of 69 percent. A particularly senseless tragedy—alcohol related highway fatalities—reached a new low in 1997, at 38.6 percent of all highway deaths. Along with coordinating such national traffic safety efforts, the National Highway Traffic Safety Administration (NHTSA) regulates the design of motor vehicles, investigates reported safety defects, and distributes traffic safety grants to States. The budget proposes $404 million for NHTSA, a 12-percent increase over 1999, and fully supports NHTSA's impaired driving programs, along with a new initiative that focuses on drinking and driving by high risk groups including 21 to 34-year-olds, repeat offenders with high blood alcohol content, and youthful drivers (see Chart 20–1).

In partnership with the highway community, the Federal Highway Administration (FHWA) works to identify top roadway safety issues and countermeasures. In 2000, efforts will focus on run-off-road and pedestrian/bicycle crashes, since these safety problems contributed 36 percent and 15 percent respectively of total highway fatalities in 1997. In 2000 safety construction programs will contribute $565 million to correct unsafe roadway design and remove roadway hazards.

The FHWA's National Motor Carriers program, for which the budget proposes $105 million in 2000, develops uniform standards that improve motor vehicle and driver safety, helps coordinate law enforcement activities, and aligns interstate trucking safety require-

Chart 20-1. INCREASING SEAT BELT USE AND DECLINING ALCOHOL-RELATED FATALITIES



ments. The program maintains national uniform driver testing requirements as well as information systems that prevent unsafe operators from registering vehicles. The program also provides grants to States to enforce Federal and compatible State standards for commercial motor vehicle safety inspections, traffic enforcement, and compliance reviews. The Department of Transportation seeks to:

- Reduce the rate of highway-related fatalities per 100 million vehicle miles traveled (VMT) from 1.7 in 1996 to 1.5 in 2000; and reduce the rate of injuries from 141 in 1996 to 124 per 100 million VMT in 2000.

Perhaps the Federal Government's most visible transportation safety function involves air traffic control and air navigational systems. The Federal Aviation Administration (FAA) handles about two flights a second, moving 1.5 million passengers each day. Through its regulatory and certification authorities, the FAA also promotes aviation safety. In 2000, the FAA will perform nearly 320,000 safety related inspections. To meet safety needs, the Administration plans to spend $8.4 billion on FAA operations and capital modernization, 10 percent more than in 1999. In 2000, the FAA seeks to:

- Reduce the fatal aviation accident rate for commercial air carriers from a 1994–1996 baseline of 0.037 fatal accidents per 100,000 flight hours. The 2000 target is 0.033 per 100,000—with the reduction to be achieved in six key areas outlined in the agency's Safer Skies Agenda.

The Federal Government also plays a key safety role on our waterways. The Coast Guard operates radio distress systems, guides vessels through busy ports, operates reliable and safe navigation systems, regulates vessel design and operation, enforces U.S. and international safety standards, provides boating safety grants to States, and supports a 35,000-member voluntary auxiliary that provides safety education and assists regular Coast Guard units. The Coast Guard is recognized as the world leader in maritime search and rescue, maintaining and operating a fleet of cutters, boats, and aircraft that saved over 4,000 lives in 1998 alone. The budget proposes $3.3 billion for Coast Guard operations and capital. The Coast Guard seeks to:

- Reduce the number of recreational boating fatalities from a 1997 baseline of 819 fatalities. The 2000 target is at or below 720 fatalities.
- Continue to save at least 93 percent of all mariners reported in imminent danger.

The Federal railroad safety program, for which the budget proposes $132 million in 2000, works in partnership with the rail industry. The Safety Assurance and Compliance program brings together rail labor, management and the Federal Government to determine root causes of safety problems. This partnership has produced results: from 1994 to 1997, the railroad-related fatality rate, on-the-job casualty rate, and train crash rate fell by 19, 53, and eight percent respectively. The Federal Railroad Administration seeks to:

- Reduce the rate of rail-related crashes from a 1995 baseline of 3.91 per million train-miles to 3.32 or less in 2000; and to reduce the rate of rail-related fatalities from a 1995 baseline of 1.71 per million train miles to 1.54 or less in 2000.

Similarly, the Federal pipeline safety program has implemented several risk management projects to improve the targeting and effectiveness of regulations while reducing or minimizing their costs. The Federal Government also develops regulations and standards for hazardous materials shipping, and enforces those standards for every mode of transportation. DOT seeks to:

- Reduce the number of serious hazardous materials incidents in transportation to 411 or fewer in 2000, from a peak of 464 in 1996.

Infrastructure and Efficiency Investment

America has about four million miles of roads, 580,000 bridges, over 180,000 miles of railroad track, 5,400 public-use airports, 6,000 transit systems, 350 ports and harbors and 25,000 miles of commercially-navigable waterways. This extensive, intermodal network is essential to the Nation's commerce, and enhancing its efficiency advances economic growth as well as international competitiveness.

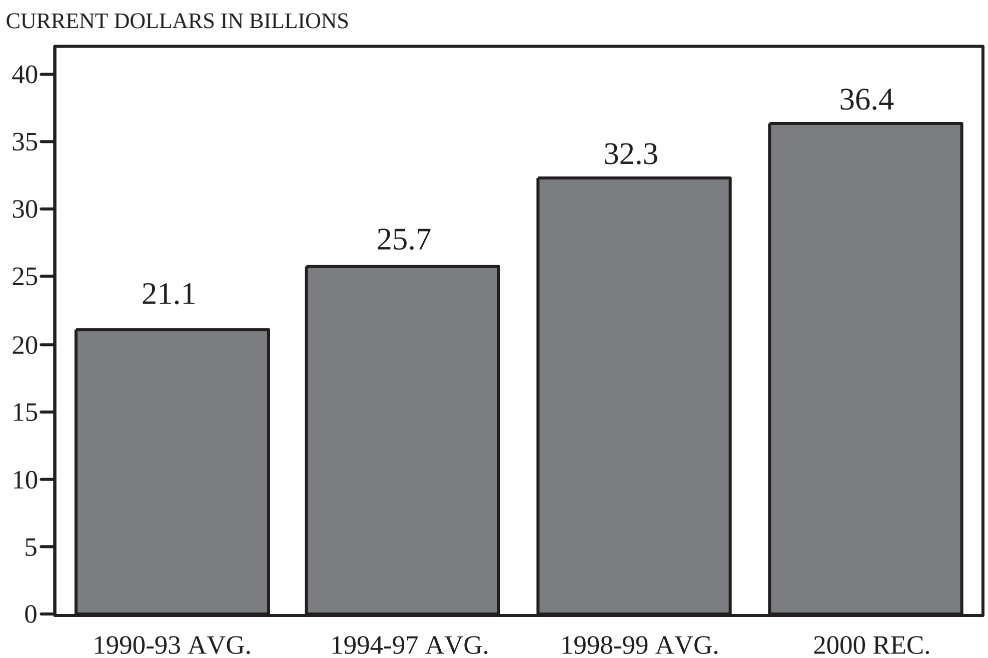
The Federal Government helped develop large parts of the system, with funding mainly through user fees and transportation taxes. Total Federal investment represents about half of total public investment—that is, $29 billion of the $61 billion of Federal, State, and local spending on transportation infrastructure in 1995. Investment is targeted to maintain and improve the condition of the existing system while at the same time advancing safety, quality, efficiency, and the intermodal character of transportation infrastructure. In 2000, Federal transportation infrastructure investment would rise to $36.4 billion, an increase of $1.3 billion or about four percent over 1999 (see Chart 20–2).

Innovative Financing: In the past six years, this Administration has taken innovative steps to sustain or accelerate fiscally responsible investment. Under the State Infrastructure Banks (SIB) program, eligible States can deposit certain Federal funds to assist surface transportation projects. So far, States have capitalized $526 million in federal funds in SIBs, and the banks have signed loan agreements to assist 41 projects.

Under the new Transportation Infrastructure Finance and Innovation Act (TIFIA), direct loans, loan guarantees, and standby lines of credit are provided to fill market gaps and encourage substantial private co-investment for infrastructure of critical importance, such as intermodal facilities, border crossing infrastructure, and expansion of multi-State highway trade corridors. With funding of $81 million in 2000, this program has the potential to leverage up to $1.8 billion in credit for major project investment.

Highways and Bridges: About 957,098 miles of roads and all bridges are eligible for Federal support, including the National Highway System and Federal lands roads. In 2000, the Federal Government plans to spend $28 billion to maintain and expand these roads with funding from motor fuels taxes, mainly the gasoline tax. The Federal gas tax is 18.4

Chart 20-2. INCREASING INVESTMENT IN AMERICA'S FUTURE: FEDERAL FUNDING OF PUBLIC-USE TRANSPORTATION INFRASTRUCTURE



cents per gallon, of which 15.4 cents goes to the Highway Trust Fund's highway account, to finance formula grants to States for highway-related repair and improvement.

State and local governments provide 56 percent of total highway and bridge infrastructure spending, most of which they generate through their own fuel and vehicle taxes. The average State gasoline tax was 19.9 cents per gallon in 1997. State and local governments accelerate their infrastructure projects through debt financing, such as bonds and revolving loan funds. The Federal Highway Administration will work with State and local governments to:

- Increase the percentage of miles on the National Highway System (NHS) that meet pavement performance standards for acceptable ride quality—from 90.4 percent in 1996 to 91.8 percent in 2000.

- Reduce delays on Federal-aid highways from 9.2 hours of delay per 1,000 vehicle miles traveled in 1996 to 9.0 in 2000.

- Reduce the percentage of bridges on the NHS that are deficient—from 23.4 percent in 1997 to 22.5 percent in 2000.

Transit: As with highways, the Federal Government partners with State and local governments to improve mass transit. Of the Federal motor fuels tax, 2.85 cents a gallon goes to the Highway Trust Fund's Mass Transit Account, which funds transit grants to States and urban and rural areas. Federal capital grants comprise about half of the total spent each year to maintain and expand the Nation's 6,000 bus, rail, trolley, van, and ferry systems. Together, States and localities invest over $3 billion a year on transit infrastructure and equipment.

In 2000, the Federal Government plans to spend $5.6 billion on transit infrastructure, an eight-percent increase over 1999. The Federal role is especially important to finance capital-intensive urban bus and rail transit systems, as well as rural bus and van networks. Millions of Americans use transit for their daily commute, easing roadway congestion and reducing air pollution. Many riders depend on public transportation due to age, disability, or income. Transit can also provide economic opportunity—the Job Access and Reverse Commute program will help to provide transportation services in urban, suburban and rural areas to assist welfare recipients and low income individuals reach employment opportunities. The Federal Transit Administration seeks to:

- Increase transit ridership from 39 billion passenger miles traveled in 1996 to 40.56 in 2000.

Passenger Rail: The Federal Government will invest $571 million in 2000 to support the Nation's passenger rail system's capital improvements and equipment maintenance. The combination of Federal and private sector investment in Northeast Corridor will show results in 2000, with the beginning of high-speed rail service between Boston and New York which is estimated to reduce trip times by 35 percent. The Federal Railroad Administration, through capital funding, seeks to:

- Increase Amtrak's intercity ridership from 20.2 million passengers per year in 1996 to a record level of 24.7 million or more in 2000.

Aviation and Airports: The Federal Government seeks to ensure that the aviation system is safe, reliable, accessible, integrated, and flexible. In 2000, spending will continue the modernization of FAA air traffic control equipment, including upgrades to controller workstations that will improve reliability and capacity for future growth. Investments also include automation tools to optimally sequence aircraft, and planning to coordinate the flow of air traffic into major hubs. In addition, about 3,300 airports throughout the country are eligible for the Airport Improvement Program, which funds projects that enhance capacity, safety, security, and noise mitigation. These funds augment other airport funding sources, such as bond proceeds, State and local grants, and passenger facility charges. With 98 percent of the population living within 20 miles of one of these airports, most citizens have excellent access to air transportation. The Federal Aviation Administration seeks to:

- Reduce the rate of air travel delays by 5.5 percent from a 1992–1996 baseline of 181 delays per 100,000 activities to 171 in 2000. To accomplish this, the FAA seeks a 20 percent reduction in volume and equipment related delays which cause about one quarter of all air travel delays.

Maritime Transportation: For our Nation's commercial shipping infrastructure, Federal loan guarantees make it easier to build and renovate vessels, while the Coast Guard establishes and operates radio and visual aids-to-navigation infrastructure that enables the safe movement of shipping. Port development is left largely to State and local authorities, which have invested over $16 billion in infrastructure improvements over the past 50 years. The Maritime Administration seeks to:

- Attain a stable U.S. commercial shipbuilding orderbook of 520,000 gross tons by 2000.

Research and Technology

The Federal Government has an integral role in developing transportation technology. Federal research helps build stronger roads and bridges, design safer cars, reduce human error in operations, and improve the efficiency of existing infrastructure. In 2000, the Federal Government will spend over $1.2 billion on transportation research and technology, 40 percent more than in 1999.

The DOT Joint Program Office's Intelligent Transportation Systems (ITS) program is developing and deploying technologies to help States and localities improve traffic flow and safety on streets and highways. ITS provides a cost-effective way to improve the management of our infrastructure, boosting efficiency and capacity. The private sector, which works closely with the ITS program, will deploy many of the technologies developed jointly with Federal funding.

The FAA's research, engineering, and development programs help improve safety, security, capacity, and efficiency in the National Airspace System. For example, the development of the advanced traffic management system and the demonstration of user preferred routing and navigation procedures will improve not only safety but the air system capacity and efficiency. In 2000, the budget includes work on improved modeling of airspace capacity; improved weather forecast processing, reporting, and use; and air travel delay forecasting/management technology. Other FAA research will focus on the causes of human error; aircraft safety and fire protection methods; quieter engines and reduced aircraft emissions; and security and explosives detection systems.

The National Aeronautics and Space Administration's (NASA) Aeronautical Research and Technology Program funds partnerships with industry that may revolutionize the next generation of planes, making them safer, faster, more efficient, and more compatible with the environment.

Using technology, the Federal Government seeks to balance new physical capacity with the operational efficiency and safety of the Nation's existing transportation infrastructure. With this goal in mind, we will:

- Increase the number of metropolitan areas with integrated ITS infrastructure from 34 in 1997 to 50 in 2000.

DOT, NASA, the Defense Department, and private industry will work together on research to reduce the fatal aviation accident rate by a factor of five in 10 years. Research will focus on preventing equipment malfunctions, reducing human error, and ensuring the separation between aircraft and potential hazards.

Regulation of Transportation

Federal rules greatly influence transportation. In the past two decades, economic deregulation of the domestic railroad, airline, and interstate and intrastate trucking industries has reduced costs for consumers and shippers, while improving service.

The Federal Government also issues regulations that spur safer, cleaner transportation. The regulations—of cars, trucks, ships, trains, and airplanes—have substantially cut the number of transportation-related deaths and injuries, improved the safe handling of hazardous materials shipments, and helped reduce the number of oil spills.

Where regulations are used to meet our transportation safety, security, and environmental goals, the government aims for rulemakings that are cost-effective and make common sense. For example, in establishing security standards for passenger vessels and associated terminals, the Coast Guard listened to public comment and tailored the rulemaking to be consistent with international standards while giving operators the flexibility to customize their plans and choice of equipment.

Tax Expenditures

For the most part, employees do not pay income taxes on what their employers pay for parking and transit passes. These tax expenditures will cost the Government an estimated $1.7 billion for 2000. To finance infrastructure, State and local governments issue tax-exempt bonds. The Federal costs in lost revenues are included in the calculations for Function 450, "Community and Regional Development," and Function 800, "General Government."

21. COMMUNITY AND REGIONAL DEVELOPMENT

Table 21–1. FEDERAL RESOURCES IN SUPPORT OF COMMUNITY AND REGIONAL DEVELOPMENT

(In millions of dollars)

Function 450	1998 Actual	Estimate					
		1999	2000	2001	2002	2003	2004
Spending:							
Discretionary Budget Authority	10,263	8,884	8,902	8,902	8,902	8,902	8,902
Mandatory Outlays:							
Existing law	–407	–477	–602	–701	–734	–761	–815
Proposed legislation	....	....	29	116	194	223	231
Credit Activity:							
Direct loan disbursements	1,502	2,402	2,085	N/A	N/A	N/A	N/A
Guaranteed loans	1,427	2,165	3,144	N/A	N/A	N/A	N/A
Tax Expenditures:							
Existing law	1,150	1,275	1,365	1,290	1,210	1,090	1,080
Proposed legislation	....	....	12	195	376	465	543

N/A = Not available

Federal support for community and regional development helps build the Nation's economy, and helps economically distressed urban and rural communities secure a larger share of America's prosperity. The Federal Government spends over $10 billion a year, and offers about $1.4 billion in tax incentives to help States and localities create jobs and economic opportunity, and build infrastructure to support commercial and industrial development.

Federal programs have stabilized and revitalized many of these communities allowing them to expand their economic base and support their citizens, particularly those in need. Communities hard hit by natural disasters receive Federal assistance to rebuild infrastructure, businesses, and homes. States and localities also use these Federal funds to leverage private resources for their community revitalization strategies.

Department of Housing and Urban Development (HUD)

HUD provides communities with funds to promote commercial and industrial development, enhance infrastructure, and develop strategies for providing affordable housing close to jobs.

Community Development Block Grants (CDBG) provide funds for various community development activities directed primarily at low-and moderate-income persons. CDBG funds go to improving housing, public works and services, promoting economic development, and acquiring or clearing land. Seventy percent of CDBG funds go to over 950 central cities and urban counties, and the remaining 30 percent go to States to award to smaller localities. The Indian CDBG program focuses mainly on public infrastructure, community facilities, and economic development.

HUD's HOME program (which is described in the Income Security function) supports construction of new housing, rehabilitation of existing homes, acquisition of standard housing, assistance to home buyers, and assistance for tenant-based rental.

The 2000 goals for the CDBG and HOME programs include:

- Increasing the number of CDBG grantees who incorporate milestones with timetables in Consolidated Plans that can help demonstrate progress in improving locally defined conditions in their neighborhoods and communities;
- Developing a standardized HUD assessment of consolidated plans;
- Assisting 108,000 households and assisting 95,000 newly constructed units of affordable housing through HOME, helping to increase to 72 percent the number of worst case housing need households receiving Federal assistance;
- Providing housing assistance to almost 210,000 households though the CDBG program.

By the end of 2000, HUD will establish baseline measures against which to judge the contributions these programs make to community development and affordable housing.

Empowerment Zones (EZs) provide tax incentives and grants to carry out 10-year, community-wide strategic plans to revitalize designated areas. In 1994, the Administration designated nine EZs, two Supplemental EZs (which were designated full EZs in 1998) and 95 Empowerment Communities (ECs). These original EZs and related ECs have begun leveraging private investment, expanding affordable housing and homeownership opportunities, and helping create jobs. In December 1998, the Administration selected 15 new urban Zones and five new rural Zones (administered by the Agriculture Department) from more than 268 distressed areas that applied for new designations. These Zones, along with the 20 new rural ECs were selected in January 1999, and will begin implementing their comprehensive strategies to redevelop their areas.

The 2000 goals for the EZ and EC program include:

- Increase to 95 percent the share of urban EZs and ECs that show satisfactory progress toward locally defined benchmarks, as measured by the tracking system.

Department of Commerce

The Economic Development Administration (EDA) provides assistance to communities to help build capacity and address long-term economic challenges through its nationwide program delivery network. EDA's public works grants help build or expand public facilities to stimulate industrial and commercial growth, such as industrial parks, business incubators, access roads, water and sewer lines, and port and terminal developments. EDA, working with State and local governments and the private sector, has completed a total of 8,570 projects, creating or retaining over 783,000 private sector jobs, invested over $4.9 billion in grants, and generated over $49.5 billion in private investment. Between 1992 and 1998, EDA awarded 1,208 public works grants, totaling $1.2 billion, to economically distressed communities to build these types of infrastructure projects.

EDA's revolving loan fund (RLF) program enhances communities' capacity to invest in locally identified commercial development that creates jobs. Since 1976, when the RLF program was implemented, EDA has provided initial capital for over 550 local RLFs.

These funds have made more than 7,200 loans to private businesses and have leveraged more than $1.9 billion in private capital that upon repayment has tended to stay in the community for re-lending and further economic development activity.

The 2000 goals for EDA include:

- Creation or retention of a total of 66,753 jobs.

Department of the Treasury

The Community Development Financial Institutions (CDFI) Fund seeks to promote economic revitalization and community development in distressed areas by increasing the availability of capital and leveraging private sector funds. The CDFI Fund provides financial and technical assistance to a diverse set of specialized, private, for-profit and non-profit financial institutions known as community development financial institutions. CDFIs have a primary mission of community development and include community development banks, credit unions, loan funds, venture capital funds, and microenterprise loan funds.

The 2000 goals for the CDFI Fund include:

- Increasing the diversity of CDFIs that receive assistance so that all 50 States have at least one CDFI awardee; and
- Increasing the number of CDFIs that receive assistance to 135 from an estimated 125 in 1999.

Department of Agriculture (USDA)

USDA gives financial assistance to rural communities and businesses to boost employment and further diversify the rural economy. The Rural Community Advancement Program's grants, loans, and loan guarantees help build rural community facilities, such as health clinics and day care centers, and create or expand rural businesses. USDA also provides loans through the Intermediary Relending Program (IRP), which provides funds to an intermediary such as a State or local government that, in turn, provides funds for economic and community development projects in rural areas.

The 2000 goals for these USDA programs include:

- Creating 100,000 new jobs, compared to 82,000 in 1998, through the Business and Industry loans, IRP, and community facilities programs.

Department of the Interior

The Interior Department's Bureau of Indian Affairs (BIA) helps Tribes manage and generate revenues from mineral, agricultural and forestry resources. BIA also promotes Tribal and individual self-sufficiency by developing Tribal resources and obtaining capital investments. The Department of the Interior (DOI) is partnering with the Department of Commerce, the Small Business Administration and Tribal governments to fulfill the Administration's directive to develop a strategic plan and coordinate existing public and private sector economic development initiatives. BIA and the Department of Justice seek to lower crime rates on the 56 million acres of Indian lands that are held in trust for tribes by DOI, through the expansion of its joint law enforcement initiative begun in 1998. BIA maintains over 7,000 buildings, including 185 schools and 3,000 housing units; over 100 high-hazard dams; and (with the Transportation Department and State and local governments) about 50,000 miles of roads and 745 bridges. Finally the Department will strengthen its trust services program by facilitating more prudent land management and maintaining about 150 Tribal resource management plans, projects, co-management programs, and fishing access sites; supporting 15 irrigation projects; managing 46 million acres for farming and grazing; completing the first phase of a comprehensive environmental audit; and funding 20 water rights negotiation teams.

The 2000 goals for DOI include:

- Generating nearly $60 million in federally-guaranteed commercial loans on reservations. These loans, supported by a $5 million appropriation, will foster growth and development in Indian country;
- Reducing crime rates on Indian lands by increasing the number of police officers from 1.3 per 1,000 citizens, which is currently just over half the national average;
- Replacing at least two of BIA's oldest, most dilapidated schools, making major improvements and repairs to additional schools (including a joint demonstration project with the Department of Energy utilizing energy-efficient construction materials), and about 430 minor improvement projects. In addition, BIA will provide financial assitance to Tribes for participating in the Administration's school modernization initiative; and
- Obtaining about $250 million in timber sales revenue by helping Tribes manage 16 million acres of forest land.

Tennessee Valley Authority (TVA)

TVA operates integrated navigation, flood control, water supply, and recreation programs. Along with TVA's electric power program, these programs contribute to the economic prosperity of the seven-State region it serves. In 2000, TVA plans to pay for most of these programs in a new way, using proceeds from the agency's $6.8 billion power program, user fees and sources other than appropriations. The budget proposes appropriations of $7 million for TVA to manage the Land Between The Lakes National Recreation Area.

The 2000 goals for TVA include:

- Maximizing the number of days the Tennessee River is open to commercial navigation from Knoxville, Tennessee to Paducah, Kentucky, with a 2000 performance target of full availability 93 percent of the time; and
- Minimizing flood damage by operating the river system with flood control as a priority, and maintaining a 2000 target of 80 percent of flood storage availability.

Appalachian Regional Commission (ARC)

ARC targets its resources to highly distressed areas, focusing on critical development issues on a regional scale, and making strategic investments that encourage other Federal, State, local and private participation and dollars. From 1988 to 1996, Appalachian employment grew at the national rate of 10.6 percent.

The 2000 goals for ARC include:

- 5,000 people will retain or get jobs;
- 18,000 households will have access to new or improved water, sewerage and waste management systems;
- 7,000 people will benefit from business development services; and
- 140 physicians will be placed in the region's health professional shortage areas to provide another 700,000 patient office visits a year.

Disaster Relief and Insurance

The Federal Government provides financial help to cover a large share of the Nation's losses from natural disasters. Over the last five years, the two major Federal disaster assistance programs—the Federal Emergency Management Agency's (FEMA) Disaster Relief Fund and the Small Business Administration's (SBA) Disaster Loan program—have provided over $24.9 billion in emergency assistance. The Federal Government shares the costs with States for infrastructure rebuilding; makes disaster loans on uninsured losses to individuals and businesses; and provides grants for emergency needs and housing assistance, unemployment assistance, and crisis counseling.

In addition to its post disaster response activities, FEMA is working to establish 100 "disaster resistant communities" in each State by the end of 1999. In exchange for offering the only source of flood insurance available to property owners, participating communities must mitigate future losses by adopting and enforcing floodplain management measures that protect lives and new construction from flooding. FEMA is also modernizing its inventory of floodplain maps, and will be taking measures to mitigate properties experiencing repetitive flood damages.

The 2000 goals for FEMA include:

- Processing disaster declarations within eight days, making 50 percent of funding for emergency work projects available to States within 30 days of application approval, making 80 percent of public assistance funding determination within an average of 180 days, and closing 90 percent of disasters in the Public Assistance Program within two years of the declaration date; and
- increasing the number of flood insurance policies in force by five percent per year, on average.

The 2000 goals for the SBA Disaster Loan Program include:

- Increasing the number of disaster loan applications processed within 21 days of receipt from 77 percent in 1998 to 80 percent; and
- Establishing an effective field presence (being able to accept disaster loan applications) within three days of a disaster, for 98 percent of declared events.

Tax Expenditures

The Federal Government provides tax incentives to encourage community and regional development activities, including: (1) tax-exempt bonds for airports, docks, high-speed rail facilities, and sports and convention facilities (costing $3.6 billion from 2000 to 2004); (2) tax incentives for qualifying businesses in economically distressed areas that qualify as Empowerment Zones—including an employer wage credit, higher up-front deductions for investments in equipment, tax-exempt financing, and accelerated depreciation—as well as capital gains preferences for certain investments in the District of Columbia and incentives for first-time buyers of a principal residence in the District (costing $1.9 billion over the five years); (3) a 10-percent investment tax credit for rehabilitating buildings that were built before 1936 for non-residential purposes (costing $150 million over the five years); (4) tax exemptions for qualifying mutual and cooperative telephone and electric companies (costing $135 million over the five years); and (5) up-front deductions of environmental remediation costs at qualified sites (costing $135 million over the five years).

22. EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES

Table 22–1. FEDERAL RESOURCES IN SUPPORT OF EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES
(In millions of dollars)

Function 500	1998 Actual	Estimate					
		1999	2000	2001	2002	2003	2004
Spending:							
Discretionary Budget Authority	46,700	46,595	52,138	54,152	54,160	54,108	54,025
Mandatory Outlays:							
Existing law	12,418	14,031	14,876	13,905	13,090	15,113	16,088
Proposed legislation	....	–9	–1,716	–101	–342	–636	–397
Credit Activity:							
Direct loan disbursements	12,145	16,118	16,015	N/A	N/A	N/A	N/A
Guaranteed loans	21,966	23,171	24,557	N/A	N/A	N/A	N/A
Tax Expenditures:							
Existing law	29,885	37,580	40,035	42,025	43,975	45,885	49,035
Proposed legislation	....	165	1,577	3,656	2,674	2,527	2,550

N/A = Not available

A wide variety of Federal programs assist States and localities in providing essential education, training, employment and social services. These programs educate young people; offer training and employment services to all Americans, especially the low-skilled and jobless; assist youth and adults to overcome financial barriers to postsecondary education and training; provide essential assistance to poor Americans; and work with employers and employees to maintain safe and stable workplaces.

The Government spends over $65 billion a year on: grants to States and localities; grants, loans, and scholarships to individuals; direct Federal program administration; and subsidies leveraging nearly $41 billion in loans to individuals. It also allocates about $42 billion a year in tax incentives for individuals.

Education Department

Elementary and Secondary Education: Federal spending for elementary and secondary education targets important national needs, such as equal opportunity and the use of challenging academic standards to improve student achievement. Most low-performing children in high priority schools receive extra educational assistance through Title I-Education for the Disadvantaged. Other programs provide related support for children with disabilities and limited English proficient children; support teacher and administrator training; help finance and encourage State, school, and system reforms; help reduce class size; and support research and technical assistance. The Administration's long-term goal is to help all children, especially low-income and minority children, make steady educational achievement gains over time.

The Federal focus began to change in 1994 from supporting individual programs to emphasizing school-wide and school system reforms, through the President's Goals 2000 Educate America Act and his Improving America's Schools Act, of which Title I is a part. These laws support State and local standards-based reform efforts and speed the expansion of the use of technology in education to help raise learning gains. These new approaches freed States and schools from unnecessary Federal process restrictions, providing greater flexibility while requiring more accountability for results. Early results show that the new approaches are having a significant impact: for example, in the 1997–98 school year, all but one State had content standards in at least reading and math. About seven percent of schools based reading and math curricula on challenging academic standards, and 17 States had tests tied to challenging academic standards. Before Goals 2000, only a handful of States had challenging academic standards and tests in place. Minority students have made substantial gains in science, math, and reading since the 1970s, narrowing the gap between minority and Caucasian student achievement by about a third.

Title I: Citing Title I, as well as Head Start and child nutrition programs, a 1994 RAND study found that "the most plausible" way to explain big education gains of low-income and minority children in the past 30 years is "some combination of increased public investment in education and social programs and changed social policies aimed at equalizing educational opportunities." The budget provides $8.78 billion for Title I including $8 billion for grants to local education agencies.

As described in Chapter 3, "Investing in Education and Training," the 1994 reauthorization of Title I set in motion a series of new requirements on States for improving educational results for disadvantaged children, as a condition for receipt of Title I funds. Implementation has been uneven. For 2000, the Administration proposes a stronger emphasis on accountability for improved education results in Title I, financed with $200 million for a new Accountability Fund and will reinforce this approach with its 1999 reauthorization proposal for the Elementary and Secondary Education Act. States and districts will identify their worst performing schools (establishing a baseline for measurement), and take specific actions to improve those schools, while providing immediate extra educational assistance to the children in those schools.

- In 2000, Title I grants to school districts will provide educational services to over 12 million students in high poverty communities, 500,000 more children than in 1999.

The National Assessment of Education Progress (NAEP) will continue to be one of the data bases that indicates whether Title I is helping students catch up with their more advantaged peers. NAEP measures progress toward achieving the goal that rising percentages of all students will meet or exceed basic, proficient, and advanced performance levels in national and State assessments of reading, math, and other core subjects, and the goal that students in high-poverty schools will show improvement gains comparable to those for all students.

Improving Accountability: The budget provides $200 million to help accelerate States' implementation of accountability provisions in the Title I program.

- In 2000, States will identify their lowest performing schools, begin intervening with effective strategies to improve student outcomes, and begin periodic reporting on their results.

21st Century Community Learning Centers/Ending Social Promotion: The budget proposes to triple this program to $600 million, as part of a comprehensive approach to fix failing schools and help end social promotion the way successful schools do it—without harming the children. School districts will have a competitive advantage for these new funds if they combine before and after school and summer school programs with other resources that support State and school commitments to high educational standards, more qualified teachers, smaller classes that enhance learning, and accept accountability for increased student achievement.

- In 2000, 7,500 schools will receive 21st Century Community Learning Center grants. Most of these districts will have made commitments to use these funds as part of a comprehensive effort to improve learning in low performing schools. In future years, grantees will report their progress and receive continuation grants if they meet program terms.

America Reads: A student's most basic skill to master is reading. Although reading problems are particularly severe for disadvantaged students, students with reading difficulties represent a cross-section of American children. In 1994, only 30 percent of 4th graders scored at the proficient level in reading on NAEP, while only 59 percent scored at basic level. In 1998, the President launched the America Reads Challenge to provide extra help to meet the goal that every child will read well and independently by the end of the third grade, and obtained enactment of new legislation that will begin funding local programs on July 1, 1999. The budget provides $286 million for America Reads.

- In 2000, America Reads will continue to help increase the percentages of fourth-graders who meet basic, proficient, and advanced levels in reading on the 4th grade NAEP (administered in 1998 and every two years thereafter).
- By 2002, 68 percent of fourth grade public school students will score at or above the basic level of proficiency on the NAEP.

Education Technology: The Administration's education technology programs serve to make modern computers and technologies accessible to all students; connect classrooms to one another and to the outside world; make high-quality educational software an integral part of the curriculum; and enable teachers to effectively integrate technology into their instruction. The budget provides $801 million for education technology.

- The percentage of public schools with access to the Internet will increase to 95 percent by 2000, compared to 65 percent in 1996.
- In Fall 1996, 20 percent of public school teachers used advanced telecommunications for teaching. In 1994, 40 percent of the fourth graders and 17 percent of the eighth graders had teachers reporting use of computers to teach reading. In 1996, about 75 percent of fourth grade students and 46 percent of eighth grade students had teachers reporting use of computers for math instruction. In 2000, a higher percentage of teachers will integrate high-quality technology-based instruction into their curriculum.

Special Education: Under the Individuals with Disabilities Education Act (IDEA), the Education Department works with States to ensure that children with disabilities benefit from the Act's requirement for a "free appropriate public education" and are part of all accountability systems. As of July 1, 1998, all States were required to have performance goals and strategies in place for children with disabilities aged three to 21, and will report their progress toward meeting those goals on a biennial basis. The budget provides $5.45 billion for IDEA.

- In 2000, all States will include children with disabilities in State and district-wide regular assessments or provide alternate assessments to measure educational performance.

Bilingual Education: Federal funds help children and adults learn English while progressing in school, and help States train teachers to educate individuals who are limited English proficient. The budget provides $415 million for Bilingual Education with special emphasis on expanding teacher training.

- In 1999, Federal funds supported the training of 4,000 teachers. In 2000, funds will support training of 6,000 teachers to specialize in teaching limited English-proficient children.

Class Size Reduction: The budget proposes $4.1 billion, an increase of $200 million over 1999, as the second installment of the President's plan to help schools recruit, hire, and train 100,000 new teachers by 2005 and reduce class size in the early grades.

- States will annually reduce the average class size in grades one through three so that by 2005, the average class size nationally in the targeted grades is 18 students per classroom. In 1993–94, the average number of students in a grade one to three classroom was 22.

Public School Choice: The budget includes several initiatives to expand the availability of choice in public schools, including funding for private sector and school partnerships to create "Worksite Schools" in the more integrated setting of the workplace, and funding for inter-district Magnet Schools. The largest public school choice program is Charter Schools.

Charter schools introduce innovation and choice into public schools. In 1992, there was one charter school in operation, funded locally. In 1998, approximately 1,000 charter schools are operating around the nation, of which about 950 received Federal funding. The budget provides $130 million for charter schools.

- In 2000, nearly 2,000 charter schools will be operating, continuing progress toward the President's goal of 3,000 charter schools by 2002.

Safe and Drug-Free Schools and Communities: Since 1993, this program has provided a total of $3.7 billion to help 97 percent of all school districts implement anti-drug and anti-violence programs. The budget proposes $591 million, including $90 million in competitive grants for projects that use proven program designs in high-need areas; $50 million for the newly established School Drug Prevention Coordinators program to ensure that half of all middle schools have a director of drug and violence prevention programs to monitor local programs and link school-based programs to community-based programs; and $12 million for SERVE, a resource for responding to school violence incidents. In 1997, rates of alcohol use in schools were five percent for 8th graders and eight percent for 10th and 12th graders; 1997 rates of marijuana use in school were five percent, 11 percent and 10 percent for eighth, 10th and 12th graders respectively.

- By 2001, rates of annual alcohol use in schools will decline to four percent for eighth graders and seven percent for 10th and 12th graders; rates of annual marijuana use in school for the same time period will decline to three percent, 10 percent and nine percent for eighth, 10th, and 12th graders respectively.

Title VI Education Block Grant: This program provides general resources for education. It does not have clear, measurable goals and is not designed in law to produce specific results in terms of student achievement gains. Evaluations of the program show that school districts generally use the funds for routine activities that do not necessarily improve teaching and learning. As a result, the budget eliminates funding for this program in order to support other programs, such as Title I, for which there are stronger indicators of results in terms of student achievement gains.

Postsecondary Education: The economic returns to a college education are dramatic. Males working full time who are over 25 years old and have at least a bachelor's degree earned 89 percent more in 1993 than comparable workers with just a high school degree. Moreover, the benefits of college extend beyond the college graduates themselves. The resulting higher socioeconomic status of parents with college degrees leads to greater educational achievement by their children.

Since the GI Bill was enacted following World War II, the Federal Government has played a growing role in helping Americans go to college. From 1964 to 1993, Federal postsecondary programs have helped nearly triple college enrollment, increasing by a third the share of high school graduates who attended college, and raise college enrollment rates for minority high school graduates by nearly two-thirds.

- In 2000, the Education Department will provide financial aid to an estimated nine million students.

Hope Scholarships and Lifetime Learning Tax Credits: These tax benefits for postsecondary education were proposed by President Clinton in 1996 and enacted in 1997. They have helped make college more affordable for many American families.

- In 2000, 5.5 million students will receive over $4 billion in Hope tax credits, and 7.2 million students will receive almost $3 billion in Lifetime Learning tax credits.

College Completion Challenge Grants: This initiative will award $35 million in 2000 to colleges that submit high quality applications demonstrating how they will close the difference in the rates at which disadvantaged and other students complete college. Grants will be used to strengthen counseling, mentoring and related services, increase grant aid, or help finance summer programs. The gap between the persistence rates of low-income and at-risk students receiving services under this program and of students who do not receive need-based aid will decrease at school receiving grants.

Pell Grants: When President Clinton took office in 1993, the Pell Grant maximum award was $2,300—the same as it was when President Bush took office in 1989. Over the next five years, from 1994 to 1999, the maximum award increased 36 percent to $3,125. Currently 76 percent of Pell Grant funds go to students below 150 percent of the poverty level. The budget provides $7.5 billion for Pell Grants.

- An estimated 3.9 million needy students will receive Pell Grants in 2000, for which the budget proposes a maximum award of $3,250, an increase of $125 over 1999.

Work-Study: The Work-Study program helps needy undergraduate and graduate students finance postsecondary education through part-time employment. In 1996, the President set a goal of supporting one million work-study students each year by 2000. The budget includes $934 million, an increase of $64 million over 1999.

- In 2000, Work-Study will add 56,000 students and reach the President's goal of supporting one million students.

GEAR-UP: The budget proposes doubling funding for GEAR-UP, the early intervention program based on the President's High Hopes proposal, to $240 million in 2000. GEAR-UP provides funds for States and local partnerships to help students in high-poverty schools prepare for and attend college.

- Program participants will successfully complete college preparatory curricula at higher rates than comparable non-participants.
- Program participants will enroll in postsecondary education programs at higher rates than comparable non-participants.

Initial data should be available in 2001.

Teacher Quality: A new teacher recruitment program will provide grants to partnerships of high-need school districts and institutions of higher education to provide scholarships to college students who commit to teaching in high-poverty communities upon graduation. The President proposes $115 million for teacher quality enhancement grants, including $35 million for teacher recruitment in 2000.

- In districts with grantees, the percentage of individuals who teach in low-income communities who satisfy all State licensure requirements will increase each year. Baseline data will be collected in 2000.

Modernization of the Student Aid Delivery System: The Education Department manages the delivery of student aid benefits to nearly nine million students in approximately 6,200 postsecondary schools, and oversees the direct and guaranteed loan systems affecting 37 million individuals, 4,100 lenders, and 36 guarantee agencies. The Department has made modernization of student financial aid management one of its highest priorities. Through the Higher Education Amendments of 1998, the Administration and Congress authorized the Department to establish the Government's first ever Performance-Based Organization (PBO). This new organization will have unprecedented flexibility in procurement, operations and management of Federal student financial assistance programs. Major parts of the effort include improving customer service at lower cost through better contracting practices and using new information technology. For example, students can now apply for student financial aid electronically and access their direct student loan information over the Internet. The PBO is one of the Vice President's High Impact Agencies (see Section IV, "Improving Performance Through Better Management"). Among its goals are:

- By October 2000, increase the annual number of students applying for Federal aid electronically to three million, up from 1.9 million in 1997 and 2.3 million in 1998.
- By October 2000, enable students and families applying for Federal aid electronically to have their eligibility determined in four days, cutting in half the current processing time;
- By December 1999, make the Department's website the most comprehensive and efficient source of information on Federal student aid and program require-

ments, reducing hard copies of materials that now must be printed and mailed by at least a third;

- By July 2000, test a multi-year promissory note for student loans to streamline application procedures, minimize delays in receiving funds, and provide better consumer information for borrowers; and
- By December 1999, establish, with its partners in the financial aid community, mutually agreed upon industry-wide standards for data exchanges needed in administering student aid.

Student Loan Defaults: In recent years, the Education Department has made great progress in reducing defaults and increasing collections from defaulters. The national student loan cohort default rate used for institutional eligibility dropped for the sixth straight year to 9.6 percent for 1996, down from 10.4 percent for 1995 and from 22.4 percent in 1990. This dramatic reduction is due, in large part, to the Education Department's improved institutional oversight that has led to the removal of 1700 schools from all student aid programs and 300 additional schools from only the loan programs. In addition, the department has implemented rigorous recertification standards for institutions to participate in the student aid programs. As a result, it has rejected about a third of initial applications to participate in the student aid programs over the last three years—twice the rate in 1990.

- In 2000, the default rate will remain below 10 percent.

Student Aid Income Verification: In 1999, in accordance with the Higher Education Amendments of 1998, the Secretary of Education and the Secretary of Treasury will begin development of methods by which Education can reduce fraud and improve eligibility determinations through access to IRS data. In addition, the 2000 budget proposes a new debt collection initiative through use of the New Hire Data Base (in HHS) that will increase collections by approximately $1 billion over five years.

Direct Loan Consolidations: By relying more on performance-based contracting, the Education Department is ensuring the availability of this option to borrowers in repayment to consolidate multiple loans into single loans at lower interest rates and with greatly reduced paperwork. The Department is also improving the loan consolidation process by improving the accuracy of its data, strengthening managerial controls through better tracking and reporting, increasing the number and expertise of consolidation contractor staff, and speeding up the loan certification process. As a result of new procedures, the department now averages just under 60 days to complete a loan consolidation application.

- In 2000, the average time to complete a loan consolidation application will continue to be no more than 60 days.
- In 2000, surveys of borrowers will show that the majority of applicants for loan consolidation are highly satisfied with the timeliness and accuracy of the loan consolidation process. In 1998, 60 percent of applicants were highly satisfied.

Adult Education: Federal adult education programs assist adults to become literate and obtain the knowledge and skills necessary to attain employment and self-sufficiency, to be better parents, and to complete their secondary education. The new Adult Education and Family Literacy Act places a strong emphasis on performance and accountability, and States must now establish annual performance targets for the educational achievement of participating adults. States that meet or exceed their targets in adult education and other Federal workforce development programs are eligible to receive special incentive grants. The budget proposes $575 million for adult education, an increase of $190 million over 1999.

- By 2000, 40 percent of the adults in beginning level adult basic education, adult secondary education, and English as a second language (ESL) programs will achieve basic skill proficiency, earn a diploma or General Educational Development (GED) credential, or achieve basic English proficiency. In 1998, 28 percent of the adults in basic education, 38 percent of those in secondary education, and 27 percent of those in ESL programs achieved basic skill proficiency, earned a diploma or GED, or achieved basic English proficiency.

- By 2000, 300,000 participating adults will enroll in further academic education and/or vocational training compared with 175,000 in 1998. Also by 2000, 300,000 participating adults will get a job or retain or advance in their current job, compared with 268,000 in 1998.

Vocational Rehabilitation Services: The Vocational Rehabilitation program provides funds to States to help individuals with disabilities prepare for and obtain gainful employment. In 1997, the program helped to rehabilitate 211,520 individuals with disabilities. The program has not had consistent performance goals and measures of progress. The budget includes $2.7 billion for Vocational Rehabilitation. Starting in 1999, as a result of the program's reauthorization in 1998, all States will develop challenging State-specific goals based on a comprehensive assessment of the vocational rehabilitation needs of individuals with disabilities in the State, describe the strategies it will use to address those needs, and report on progress made towards those goals. State agencies will begin reporting progress toward achieving those goals in 2000.

- In 2000, about 750,000 individuals will be served, approximately the same number as in 1999.

Labor Department

Elementary, secondary, and postsecondary investments enable Americans to acquire the skills to get good jobs in an increasingly competitive global economy. In addition, most workers acquire more skills on the job or through billions of dollars that employers spend each year to enhance worker skills and productivity. However, some workers also need special, targeted assistance. In addition to Pell Grants, student loans, and tax credits, the Federal Government spends nearly $7 billion a year through Department of Labor (DOL) programs that finance job training and related services. Workers who want to learn about job openings can use the State Employment Service and One-Stop Career Center System and DOL's popular America's Job Bank (AJB) website, which lists over 900,000 job vacancies every day and has over six million job searches each month.

The Workforce Investment Act (WIA) of 1998: The WIA takes full effect on July 1, 2000 as the Job Training Partnership Act is repealed and all States will be implementing the requirements of the WIA. The WIA reflects the principles the President sought in his GI Bill for America's Workers proposal including: the streamlining of services; empowering individuals with the information and resources they need to choose the training that is right for them; providing universal access to a core set of employment services such as job search assistance; increasing accountability; ensuring a strong role for the private sector and the local boards who develop and over-see programs; facilitating State and local flexibility; and improving the quality of youth job training services.

DOL has launched several longitudinal evaluations of its job training programs over the past two decades, including major impact evaluations of the Job Corps and Dislocated Worker Assistance programs. Past studies have found mixed, but generally positive results.

While impact evaluations are the best measure of program effectiveness, DOL also sets annual performance goals for its major job training programs. Performance goals for 2000 will continue to emphasize placement in unsubsidized employment, employment retention, and earnings levels.

Reemployment Services: This budget includes funding for new initiatives to ensure that (1) every displaced worker would receive training he or she want and need; (2) every person who lost his or her job due to no fault of his or her own could get the re-employment services; and (3) every American would have access to One-Stop Career Centers.

WIA's Dislocated Worker Employment and Training Activities: This program will provide training and employment services to about 840,000 displaced workers in 2000. The budget proposes $1.6 billion for dislocated workers, an increase of $190 million over 1999.

- In 2000, about 74 percent of those who receive services will be working three months after leaving the program, earning an average hourly wage that represents

93 percent of the wage in their previous job.

Employment Service/One-Stop Career Centers: The Employment Service provides a free labor exchange for all workers and job seekers, and is growing more effective through implementation of One-Stop Career Centers. The budget proposes $1.048 billion for these activities.

- In 2000, continue to expand the One-Stop Career Center System to include 60 percent of all local employment service and WIA offices, compared to 16 percent in 1997, and to increase the number of employers listing jobs with the American Job Bank (AJB) website by 19 percent over the 1998 level while expanding the basic One-Stop concept. The new concept for 2000 will include access through a toll-free number, access to AJB for the blind, mobile One-Stops, and on-line job information made available at Community-Based Organizations.

Work Incentive Assistance Grants: In order to enhance the prospects of employment for individuals with disabilities, the budget includes $50 million for competitive grants to partnerships or consortia in each State to provide new services and information sources for people with disabilities who want to return to work. These partnerships would work with the One-Stop system to augment its capabilities to provide timely and accurate information that people with disabilities need to get jobs and to learn about the benefits available to them when they return to work. In addition, the partnerships would help improve local service delivery by coordinating the various State and local agencies and disability organizations which help ensure persons with disabilities are prepared to enter or reenter the workforce. Performance goals and measures will be developed with the grantees.

WIA's Adult Employment and Training Activities: This program currently helps about 380,000 low-income individuals get training, support services, and job placement assistance. The budget proposes $955 million for adult programs.

- In 2000, about 64.8 percent of those who receive services will be working three months after leaving the program, with weekly earnings averaging $361.

Right Track Partnership: The budget includes $100 million for this new initiative designed to prevent youth from dropping out of school and encourage those who already have to return to school and complete their high school education.

- In 2000, the Right Track Partnership program will provide grants to serve 100,000 economically disadvantaged and Limited English Proficiency youth ages 14–21. From baseline data developed for each grantee, RTP will increase the rate at which these youth reenter, complete, and excel in high school through integrated Federal, State, local, public and private sector efforts.

Youth Opportunity Grants: The Youth Opportunity Grants initiative addresses the special problems of out-of-school youth, especially in inner-cities and other areas where unemployment rates are high. The budget provides $250 million for this program.

- The Department will develop with each successful applicant a goal for a substantial increase in the rate of employment for youth in the program area, as well as improvement in the rate at which participants return to high school, go on to college, receive vocational training that leads to a good job, or go in to the military.

Job Corps: The Corps provides skill training, academic and social education, and support services in a structured, residential setting to approximately 70,000 very disadvantaged youth a year at 121 centers:

- In 2000, about 85 percent of graduates will get jobs or pursue further education. This compares with 75 percent in 1999. In addition, 70 percent of those students will still have a job or will be pursuing education 90 days after their initial placement date.

School-to-Work: All States are implementing school-to-work systems, using the five-year Federal venture capital grants to devise new collaborations between schools and the private sector. By June 1997, over 805,000 students in 2,200 high schools throughout the nation, as well as 200,000 employers, participated in School-to-Work systems.

- In 2000, the final year of school-to-work funding, all States will have completed the portion of their Statewide systems financed with Federal funds. Two million youth will be actively engaged in school-to-work activities, 500,000 more than in 1999, and 40 percent of high schools will offer key school-to-work components, an increase of five percent over 1999.

Workplace Protections: DOL regulates compliance with various laws that give workers certain workplace protections—a minimum wage for virtually all workers, prevailing wages and equal employment opportunity for workers on government contracts, overtime pay, restrictions on child labor, and time off for family illness or childbirth. In these areas, the Federal Government is working to increase industry's compliance with labor protections through voluntary compliance initiatives (coupled with continued strong enforcement), outreach to new and small business, and targeted enforcement in specific industries, with specific measurable goals.

- In 2000, increase compliance by five percent (compared to baseline) among employers who were previously violators and the subject of repeat investigations in targeted health care, garment, and identified agricultural commodities.

International Child Labor: The budget proposes $52 million in additional funding to continue the Administration's commitment increasing opportunity to improving work conditions for children and raising international labor standards.

- Increase the implementation of core labor standards in five countries in 2000.

Welfare-to-Work: Moving people from welfare to work is a primary goal of Federal welfare policy. In addition to the $16.5 billion per year provided through the Temporary Assistance for Needy Children Program, the President obtained $3 billion to help achieve this goal through Welfare-to-Work (WtW) grants in fiscal years 1998 and 1999. These grants provide welfare recipients with the job placement services, transitional employment, and job retention and support services they need to achieve economic self-sufficiency. The budget includes $1 billion to extend WtW in 2000.

- In 2000, an estimated 56 percent of participants will be placed in unsubsidized employment.

Department of Health and Human Services

Head Start: Head Start gives low-income children a comprehensive approach to child development, stressing language and cognitive development, health, nutrition, and social competency. Head Start is administered by the Administration for Children and Families (ACF) in the Department of Health and Human Services. ACF is one of the Vice President's High Impact Agencies (see Section IV). The 2000 budget provides $5.3 billion for Head Start, a $607 million increase over the 1999 level.

- In 2000, Head Start will serve an additional 42,000 children, for a total of 877,000 children. The Head Start program goal established by the President is to serve one million children annually by 2002.

- Within the overall total of children served, in 2000 an additional 7,000 children under age three will participate in the Early Head Start component, for a total of nearly 45,000. The President established the goal of doubling the number of children below age three served in Head Start by 2002, within the goal of one million total children.

National evaluation studies of both the regular Head Start program and the Early Head Start component are under way to increase outcomes for Head Start families, including child growth and development. Preliminary results are expected in late 1999 for the regular Head Start program and in 2001 for the early Head Start component.

Foster Care and Adoption Assistance: The Administration for Children and Families (ACF), a high impact agency (see Section IV), administers a number of programs that focus on preventing maltreatment of children, protecting children from abuse and neglect, and finding permanent placements for children who cannot safely return to their homes. The budget proposes a $265 million initiative to support the transition from foster care to independent living in addition to the new Foster Care Medical benefits described in Chapter 3. As part of the comprehensive effort to develop performance measures for the child welfare system, ACF is developing specific performance goals for the Independent Living Program that will establish goals for increasing the proportion of children that have graduated from high school, or received a GED within one year of aging out of foster care.

- In 2000, the Foster Care, Adoption Assistance and Independent Living Programs will support over 600,000 youth monthly at an annual cost of $5.5 billion.

Aging Services Programs: The Administration on Aging (AoA) administers information and assistance, home and community-based support services for older people and support programs that protect the rights of vulnerable, at-risk older people. In 2000, the budget proposes $1 billion for AoA programs. The budget includes $125 million for a new state grant program that will assist families who are caring for frail elderly relatives. The goal of this National Family Care Giver Support Program is to help sustain the efforts of family care givers by providing information, education and counseling, and respite services. AoA will develop performance measures for activities supported through the program's formula and competitive grants. The budget includes $147 million, an increase of $35 million, 30 percent, for the Home-Delivered Meals Program.

- In 2000, AoA will increase the number of meals served under the Home-Delivered Meals Program to 146 million, compared to 119 million meals in 1996.

National Service

The Corporation for National and Community Service supports programs providing service opportunities Nation-wide for Americans of all ages and backgrounds. Through Corporation-supported projects, over 1.5 million participants work to address the Nation's unmet, critical needs. The Corporation organizes its programs into three streams of service, with various annual performance goals.

AmeriCorps: In 1999, there were 53,000 participants in AmeriCorps.

- In 2000, AmeriCorps will engage 69,000 Americans of all ages and backgrounds in community service, and provide education awards in return for such service with a goal of 100,000 participants in AmeriCorps by 2002.
- In 2000, AmeriCorps participants will recruit and organize 53,000 community volunteers to serve in elementary school reading programs.

Learn and Serve America: This program provides opportunities for students to improve their academic learning while participating in service-learning projects in schools, universities, and communities.

- In 2000, 20,000 high school students who have provided outstanding community service will receive Presidential Service Scholarships—compared with 15,000 students in 1999.

National Senior Service Corps: The Corps, comprising over 500,000 people age 55 and older, encourages seniors to use their experience, skills and talents while serving as Foster Grandparents, Senior Companions, and the Retired and Senior Volunteers.

- In 2000, Foster Grandparents and Senior Companions will serve 160,000 special needs youth and frail elderly, while 9,375 retired senior volunteers and volunteer leaders will work in furtherance of the goals of America's Promise and the America Reads Challenge.

Cultural Agencies

The Smithsonian Institution and other Cultural Agencies: The Smithsonian Institution, the National Gallery of Art, the U.S. Holocaust Memorial Museum, and the John F. Kennedy Center for the Performing Arts all have advancement of knowledge and sharing that knowledge with the American public as part of their mission. In order to accomplish their missions, each institution must maintain its physical infrastructure and provide access to its unique assets.

- In 2000, each agency will provide new and updated exhibits and performances, including the conservation of the Star Spangled Banner in a special laboratory at the Smithsonian's National Museum of American History; the National Gallery of Art's exhibit entitled "Art Nouveau: Sources and Cities, 1890–1914"; the implementation of a state-of-the-art memorial interpretation program at the John F. Kennedy (JFK) Center; and the "Flight and Rescue" exhibit at the U.S. Holocaust Memorial Museum.

- In 2000, each agency will protect its unique assets through implementing its comprehensive plans for repair and renovation, including continuation of capital renovation at the Smithsonian's National Museum of Natural History; analysis and preliminary design work to repair or replace the National Gallery of Art's mechanical, electrical, and plumbing systems; a building-wide sprinkler system and new fire alarm system at the JFK Center; and completion of the security bollards project at the U.S. Holocaust Memorial Museum.

The National Endowment for the Arts and the National Endowment for the Humanities: The budget proposes $150 million, each, for the National Endowment for the Arts and the National Endowment for the Humanities to provide support for important cultural, educational and artistic programs for communities across America. The budget also proposes $188.5 million for the Institute of Museum and Library Services (IMLS) to support museums and libraries. In 2000, the Endowments and IMLS will fund education and lifelong learning as well as projects designed to increase public access to performances, exhibitions, and our Nation's cultural treasures held by museums, libraries, archives, and historical organizations. Special attention will be afforded underserved areas and to the use of the arts and humanities to strengthen community and family life.

- In 2000, NEA, through its new Challenge America program, will award more than 1,200 grants through direct grants or in partnerships with the States, to communities across America to address Arts Education, Access to the Arts, Youth-at-Risk, Cultural Heritage and Preservation, and Community Arts Partnerships.

- In 2000, NEH will help improve the quality of humanities education offered to hundreds of thousands of American school children and college students; provide opportunities for citizens from all walks of life to engage in a lifetime of learning about the Nation's history and culture; preserve and democratize access to millions of brittle books and other important cultural and intellectual resources; and dramatically expand access to humanities programming for millions of citizens in rural areas, communities, and cities across America.

- In 2000, IMLS will promote access to learning and information resources held by museums and libraries through electronic linkages, helping all 55 State library agencies expand materials available electronically and increase Internet access. IMLS will help museums develop and support regional electronic networks, providing technical support to thousands of museums in putting collection information online, and supporting after-school programs located in museums.

Tax Incentives

The Federal Government helps individuals, families, and employers (on behalf of their employees) plan for and buy education and training through numerous tax benefits, which will cost an estimated $42 billion in 2000. Along with the Hope Scholarship and Lifetime Learning tax credits for college costs, the tax code provides other ways to pay for education and training. State and local governments, for instance, can issue tax-exempt debt to finance student loans or to build the facilities of non-profit educational institutions. Interest from certain U.S. Savings Bonds is tax-free if the bonds go solely to pay for education. Many employers provide education benefits that do not count as income. Starting in 1998, many taxpayers can deduct the interest on student loans. Finally, the tax code gives employers a Work Opportunity Tax Credit and a Welfare-to-Work Tax Credit, letting them claim a tax credit for part of the wages they pay to certain hard-to-employ people who work for them for a minimum period.

New tax provisions for education in the President's budget include proposals to modify the current exclusion for employer-provided educational assistance by extending it for another year and including graduate as well as undergraduate courses; to eliminate the 60-month limit on the student loan interest deduction to provide longer-term relief to low-and middle-income taxpayers with large educational debt; to eliminate the tax owed when certain student loans are forgiven after 25 years of repayment; and to provide a tax credit for employer-provided workplace literacy and basic education programs. In addition, the budget proposes exclusion from income for repayment or cancellation of a student loan under the AmeriCorps Education Award Program.

23. HEALTH

Table 23–1. FEDERAL RESOURCES IN SUPPORT OF HEALTH
(In millions of dollars)

Function 550	1998 Actual	Estimate					
		1999	2000	2001	2002	2003	2004
Spending:							
Discretionary Budget Authority	26,386	30,070	30,611	30,971	30,846	30,836	30,836
Mandatory Outlays:							
Existing law	106,588	115,481	122,769	131,625	141,724	152,964	165,038
Proposed legislation	....	8	–52	693	828	890	683
Credit Activity:							
Direct loan disbursements	....	....	....	N/A	N/A	N/A	N/A
Guaranteed loans	94	73	48	N/A	N/A	N/A	N/A
Tax Expenditures:							
Existing law	80,545	85,810	91,795	97,885	104,410	111,640	119,660
Proposed legislation	....	....	59	1,235	1,281	1,423	1,577

N/A = Not available

In 2000, the Federal Government will spend about $152 billion and allocate about $92 billion in tax incentives to provide direct health care services, promote disease prevention, further consumer and occupational safety, conduct and support research, and help train the Nation's health care work force. Together, these Federal activities will contribute to considerable progress in extending life expectancy, cutting the infant mortality rate to historic lows, preventing and eliminating infectious diseases, improving treatment and quality of care, and improving the quality of life for individuals suffering from chronic diseases and disability. Estimated life expectancy reached a record-high of 76.5 years for those born in 1997, and infant mortality has reached a record low of 7.1 infant deaths per 1,000 live births, an eight-percent reduction from the previous year. Age-adjusted death rates associated with HIV/AIDS fell 47 percent from 1996 to 1997, and the 1997 rate of 5.9 deaths per 100,000 is the lowest since mortality data have been available.

The Department of Health and Human Services (HHS), the Federal Government's lead agency for health, aims: "to enhance the health and well-being of Americans by providing for effective health and human services and by fostering strong, sustained advances in the sciences underlying medicine, public health, and social services." This mission is supported by the following strategic goals: (1) Reduce the major threats to health and productivity of all Americans; (2) Improve the economic and social well-being of individuals, families, and communities in the United States; (3) Improve access to health services and ensure the integrity of the Nation's health entitlement and safety net programs; (4) Improve the quality of health care and human services; (5) Improve public health systems; and (6) Strengthen the Nation's health sciences research enterprise and enhance its productivity.

Health Care Services and Financing

Of the estimated $152 billion in Federal health care outlays in 2000, 88 percent finances or supports direct health care services to individuals.

Medicaid: This Federal-State health care program served about 33 million low-income Americans in 1998, the latest year for which statistics are currently available The Federal

Government spent $101 billion, 57 percent of the total, on the program in 1998 while States spent $76 billion, or 43 percent. States that participate in Medicaid must cover several categories of eligible people, including certain low-income elderly, women, and children, and people with disabilities, as well as several mandated services, including hospital care, nursing home care, and physician services. States also may cover optional populations and services. Under current law, Federal experts expect total Medicaid spending to grow an average of 7.7 percent a year from 2000 to 2004.

Medicaid covers a fourth of the Nation's children and is the largest single purchaser of maternity care as well as of nursing home services and other long-term care services; the program covers almost two-thirds of nursing home residents. The elderly and disabled made up less than a third of Medicaid beneficiaries in 1997, but accounted for almost two-thirds of spending on benefits. Other adults and children made up over two-thirds of recipients, but accounted for less than a third of spending on benefits. Medicaid serves at least half of all adults living with AIDS (and up to 90 percent of children with AIDS), and is the largest single payer of direct medical services to adults living with AIDS. Medicaid pays for over one-third of the nation's long-term care services. Medicaid spends more on institutional care today than it does for home care, but the mix of payment will be almost equal in 10 years.

Enrollment in Medicaid managed care arrangements rose from 7.8 million in 1994 to approximately 15 million in 1997. In 1998, the Federal Government proposed regulations to improve the quality of care and patient protections for Medicaid beneficiaries enrolled in managed care plans.

Because the Health Care Financing Administration (HCFA) and States jointly administer Medicaid, HCFA must consult with State Medicaid agencies to develop and test national performance goals for Medicaid. Understanding that Federal and State Medicaid funding must result in improved health conditions and quality of care for children and low-income families, the State agencies are working with HCFA to define performance goals and measures that are measurable. The States and HCFA have agreed to increase immunization rates among needy children, to increase the number of children enrolled in the Children's Health Insurance program and Medicaid, and to increase enrollment of dually-eligible Medicare beneficiaries, for example. State cooperation with the Federal GPRA program will produce quantifiable national goals and measures during 1999, for 2000 and beyond.

Children's Health Insurance Program: More than 11 million American children lack health insurance. To increase the number of children with insurance, the Children's Health Insurance Program (CHIP) was established in 1997 to provide $24 billion over five years for States to expand health insurance coverage to low-income, uninsured children. CHIP provides States with broad flexibility in program design while protecting beneficiaries through basic Federal standards. In the program's first year, States have expanded Medicaid, created separate State programs, and developed programs that combine the two.

A State receives CHIP funding after HCFA approves its child health plan. Nearly every State submitted and received approval of its State CHIP plan in 1998. These plans describe the strategic objectives, performance goals, and performance measures used to assess the effectiveness of the plan. In addition, HCFA is working with the States to develop baselines and targets for the CHIP/Medicaid goal as well as to develop additional goals for CHIP:

- Decrease the number of uninsured children by working with States to implement CHIP and by enrolling children in Medicaid. In 1999, HCFA will work with the States to establish performance measurement baselines and performance targets.

Other Health Care Services: HHS supplements Medicare and Medicaid with a number of "gap-filling" grant activities to support health services for low-income or specific populations, including Consolidated Health Center grants, Ryan White AIDS treatment grants, the Maternal and Child Health block grant, Family Planning grants, and the Substance Abuse block grant. In addition, the Indian Health Service (IHS) delivers direct care to about 1.4 million American Indians and Alaska Natives. In 2000, the following agencies will work to meet the following goals:

- *IHS:* Increase the proportion of women who have annual pap screening to 55 percent, from the 1997 baseline of 43 percent.
- *Substance Abuse and Mental Health Services Administration (SAMHSA):* Reverse the upward trend and cut monthly marijuana use among 12 to 17-year-olds by 25 percent, from the 1995 baseline of 8.2 percent to 6.2 percent by the end of 2002.
- *Health Resources and Services Administration (HRSA):* Increase the number of AIDS Drug Assistance Program (ADAP) clients receiving appropriate anti-retroviral therapy (consistent with clinical guidelines) through State ADAPs during at least one month of the year, to a projected monthly average of 82,200 by the year 2000. This would constitute a 49 percent increase over the 1998 baseline of 55,000.
- *HRSA:* Increase the number of women served by family planning clinics by at least two million over the 1995 baseline of 4.5 million women served.
- *Agency for Health Care Policy and Research:* Release and disseminate Medical Expenditure Panel Survey (MEPS) data and associated products to the public within nine to 12 months of data collection.
- *Consumer Product Safety Commission (CPSC):* CPSC, an independent agency, will reduce product-related head injuries to children by 10 percent in 2000, from a 1997 level of 650,000.

Public Health Initiative for the Uninsured: HHS has established a new initiative to increase the capacity and effectiveness of the Nation's health care safety-net in ways that increase the number of uninsured people receiving needed health care and improve the quality of care that is received.

HHS has set the following performance goals for the year 2000 and beyond:

- Increase the number of new integrated health services networks that are providing care using report card information to integrate and improve health services for the uninsured.
- Increase the number of uninsured people receiving primary care, mental health, substance abuse, and other health services and expand the number of services supported.
- Reduce, where appropriate, hospital admissions for ambulatory care-sensitive conditions for uninsured people living in project service areas.

Strengthening Graduate Medical Education at the Nation's Children's Hospitals: The budget includes a significant new investment in training pediatric care-givers at the Nation's free-standing children's hospitals. In 2000, this program has the following two goals:

- Increase the number of pediatric care-givers receiving training; and Increase the number of children with acute illnesses receiving appropriate care in their communities.

Prevention Services: Measures to protect public health range from providing sanitation to prevent bacteria from developing resistance to antibiotics. State and local health departments traditionally lead such efforts, but the Federal Government—through HHS' Centers for Disease Control and Prevention (CDC)—also provides financial and technical support.

- Working with HCFA, CDC will continue to help States ensure that at least 90 percent of all U.S. children by age two receive each recommended basic childhood vaccine.
- With FDA and SAMHSA, CDC will work to reduce the number of children in grades nine through twelve who smoke from 36.4 percent to 21 percent by 2010 by conducting education campaigns, providing funding and technical assistance to state programs, and working with nongovernmental entities.
- CDC will increase purchase of vaccines in support of the World Health Organization's goal to eliminate polio globally by December 31, 2000.

Public Health Electronic Surveillance: Increase the number of State and local health departments that have integrated their electronic surveillance systems for infectious disease, food safety, and bioterrorism, and have electronic linkages to the medical community.

Bioterrorism: While research and product regulation are primarily Federal roles, enhancing surveillance, epidemiologic capabilities, and laboratory capacities, and medical response systems, are activities where the Federal government can work in partnerships with states, providing leadership and funding early in this multi-year effort. States should be expected to assume more responsibility for their share of partnership expenses over time.

- Implement the plan developed in 1999 to ensure ready availability of a national pharmaceutical stockpile to respond to terrorist use of potential biological or chemical agents, including the ability to protect four million civilians from an anthrax attack.
- Develop blood and urine analytical chemistry methods that will rapidly measure 50 chemicals likely to be used in chemical terrorism.
- Create a network of twelve state or major city laboratories to provide rapid and accurate diagnostic and/or reference support for 10–15 select biologic agents.

Biomedical Research: The National Institutes of Health (NIH) supports and conducts research to gain knowledge to help prevent, detect, diagnose, and treat disease and disability. NIH conducts research in its own laboratories and clinical facilities; supports research by non-Federal scientists in universities, medical schools, and hospitals across the Nation, and helps train research investigators. NIH supports over 50,000 grants to universities, medical schools, and other research and research training institutions while conducting over 1,200 projects in its own laboratories and clinical facilities. Examples of recent research advances include new discoveries of genes associated with diseases, including a form of Parkinson's disease that occurs early in life; discovery that a drug used to treat breast cancer can also reduce breast cancer in high-risk women; and the use of high-energy X-rays to visualize how HIV begins to attack the body's immune system. NIH performance goals for the next century of research, include:

- increasing the rate of sequencing to 190 million base pairs a year in 2000 in order to complete the human genome sequencing project by 2003; and
- promoting private sector participation and investment in applications of novel research discoveries by increasing the number of executed cooperative development agreements by five percent over the 1998 level.

Additionally, NIH is leading the national effort to meet the President's goal of developing an AIDS vaccine by 2007.

Public Health Regulation and Safety Inspection: The Food and Drug Administration (FDA) spends $1 billion a year to promote public health by helping to ensure that foods are safe, wholesome, and sanitary; human and veterinary drugs, biological products, and medical devices are safe and effective; and cosmetics and electronic products that emit radiation are safe. It leads Federal efforts to ensure the timely review of products and ensure that regulations enhance public health, and not serve as an unnecessary regulatory burden. In addition, the FDA supports research, consumer education, and the development of both voluntary and regulatory measures to ensure the safety and efficacy of drugs, medical devices, and foods.

To speed the review process, FDA has set the following performance goals for 2000:

- review and process 90 percent of complete new drug applications within a year of submission;
- review and process 85 percent of new medical device applications (know as pre-market applications) within 180 days, compared to 79 percent in 1997. To give the public useful health information, FDA has set the following performance goal:
- Ensure that, by the year 2000, 75 percent of consumers receiving new drug prescriptions will get more useful and readable information about their product.

The Food Safety and Inspection Service (FSIS) in the U.S. Department of Agriculture uses $600 million annually to inspect the Nation's meat, poultry, and egg products, ensuring that they are safe, wholesome, and not adulterated. In 1996, FSIS began implementing a modernized inspection system, Hazard Analysis and Crisis Control Point (HACCP) system, that will begin shifting responsibility for ensuring meat and poultry safety from FSIS to the industry. Together with FSIS, HHS has the following food safety goals:

- By 2000, 99 percent of Federally-inspected meat and poultry plants will comply with the HACCP.
- 80 percent of the domestic seafood industry will be operating preventive controls for safety as evidenced by functioning HACCP systems.
- Increase the frequency of inspection of high-risk domestic food establishments to once every year, from once every three to four years.
- More than double the number of inspections conducted of foreign food processors from 100 to 250.
- Establish and enhance eight active FoodNet food-borne surveillance sites. Expand state health department capacity to subtype and rapidly exchange information using PulseNet for E.coli (currently 29 labs) and Typhimurium Salmonella (currently 15 labs) to 40 labs for each.
- Increase the number of outbreaks of diarrheal and/or food borne illness that will be detected and investigated to 24.

Workplace Safety and Health

The Federal Government spends $620 million a year to promote safe and healthy workplaces for over 100 million workers in six million workplaces, mainly through the Labor Department's Occupational Safety and Health Administration (OSHA) and Mine Safety and Health Administration (MSHA). Regulations that help businesses create and maintain safe and healthy workplaces have significantly cut illness, injury, and death from exposure to hazardous substances and dangerous employment. In 1997, workplace injuries and illnesses fell to the lowest rate on record.

- To improve workplace safety and health for all workers, by September 30, 2000, OSHA will: (1) reduce injury/illness rates 20 percent in at least 50,000 of the most hazardous workplaces; and (2) initiate investigation of 95 percent worker complaints within one working day or conduct an on-site inspection within five working days.
- MSHA will, in 2000, reduce fatalities and lost workdays in all mines to below the average number recorded for the previous five years. From 1993–1997, there was an average of 95.8 fatalities and 4.29 lost workdays.

Federal Employees Health Benefit Program (FEHBP)

Established in 1960, the FEHBP is America's largest employer-sponsored health benefit program, providing $17 billion in health care benefits a year to about nine million Federal workers, annuitants, and their dependents. About 85 percent of all Federal employees participate in the FEHBP, and they select from nearly 300 health care plans. The Office of Personnel Management administers the FEHBP. By the year 2000, the FEHBP will be fully compliant with the President's Patients' Bill of Rights. The Patients' Bill of Rights is an Administration initiative to provide health care consumers with rights of information disclosure, choice of providers and plans, access to emergency services, participation in treatment decisions, respect and nondiscrimination, confidentiality of health information, and rights of complaint and appeal.

Tax Expenditures

Federal tax laws help finance health insurance and care. Most notably, employer contributions for health insurance premiums are excluded from employees' taxable income. In addition, self-employed people may deduct a part (60 percent in 1999, rising to 100 percent in 2003 and beyond) of what they pay for health insurance for themselves and their families. Total health-related tax expenditures, including other provisions, will reach an estimated $91.8 billion in 2000, and $525 billion from 2000 to 2004. The exclusion for employer-provided insurance and related benefits (including deductions by the self employed) accounts for most of these costs ($79 billion in 2000 and $455 billion from 2000 to 2004).

24. MEDICARE

Table 24–1. FEDERAL RESOURCES IN SUPPORT OF MEDICARE
(In millions of dollars)

Function 570	1998 Actual	Estimate					
		1999	2000	2001	2002	2003	2004
Spending:							
Discretionary Budget Authority	2,723	2,989	2,926	2,926	2,926	2,926	2,926
Mandatory Outlays:							
Existing law	190,233	202,037	214,944	229,182	233,195	251,244	265,201
Proposed legislation	....	....	–1,243	–1,496	–1,526	–1,673	–1,824

Created by the Social Security Amendments of 1965, and expanded in 1972, Medicare is a Nation-wide health insurance program for the elderly and certain people with disabilities. The program, which will spend an estimated $217 billion in 2000 on benefits and administrative costs, consists of two complementary but distinct parts, each tied to a trust fund: (1) Hospital Insurance (Part A) and; (2) Supplementary Medical Insurance (Part B).

Over 30 years ago, Medicare was designed to address a serious, national problem in health care—the elderly often could not afford to buy health insurance, which was more expensive for them than for other Americans because they had higher health care costs. Medicare was expanded in 1972 to address a similar problem of access to insurance for people with disabilities. Through Medicare, the Federal Government created one insurance pool for all of the elderly and eligible disabled individuals while subsidizing some of the costs, thus making insurance much more affordable for almost all elderly Americans and for certain people with disabilities.

Medicare has very successfully expanded access to quality care for the elderly and people with disabilities, but at an increasing cost. The Balanced Budget Act (BBA) of 1997 improved Medicare's financial outlook for the near future, yet its trust funds face financing challenges as the Nation moves into the 21st Century. Along with legislative proposals discussed elsewhere in the budget, the Health Care Financing Administration (HCFA), which runs Medicare, is working to improve Medicare through its regulatory authority and demonstration programs.

Because it serves almost 40 million Medicare beneficiaries, HCFA has been designated as a High Impact Agency by the National Partnership for Reinventing Government. To meet the challenges of the changing health care system and increase responsiveness to its constituencies, HCFA has begun a process of management reform (see Section IV). Included in this reform are increased management and program flexibilities, increased accountability to constituencies, structural reforms, and legislative changes to promote competition and increase efficiency in Medicare contracting.

The Department of Health and Human Services (HHS), which houses HCFA, is the Federal Government's lead agency for health programs. HHS' Strategic Plan states the agency mission as: "to enhance the health and well-being of Americans by providing for effective health and human services and by fostering strong, sustained advances in the sciences underlying medicine, public health, and social services." Medicare supports HHS' second, third, fourth and sixth strategic goals, as described in Chapter 23, "Health."

Part A

Part A covers almost all Americans age 65 or older, and most persons who are disabled for 24 months or more and who are entitled to Social Security or Railroad Retirement benefits. People with end-stage renal disease (ESRD) also are eligible for Part A coverage. Part A reimburses providers for the inpatient hospital, skilled nursing facility, home health care related to a hospital stay, and hospice services provided to beneficiaries. Part A's Hospital Insurance (HI) Trust Fund receives most of its income from the HI payroll tax—2.9 percent of payroll, split evenly between employers and employees.

Part B

Part B coverage is optional, and it is available to almost all resident citizens age 65 or older and to people with disabilities who are entitled to Part A. About 94 percent of those enrolled in Part A have chosen to enroll in Part B. Enrollees pay monthly premiums that cover about 25 percent of Part B costs, while general taxpayer dollars subsidize the remaining costs. For most beneficiaries, the Government simply deducts the Part B premium from their monthly Social Security checks.

Part B pays for medically necessary physician services; outpatient hospital services; diagnostic clinical laboratory tests; certain durable medical equipment (e.g., wheelchairs) and medical supplies (e.g., oxygen); home health care; physical and occupational therapy; speech pathology services; and outpatient mental health services. Part B also covers kidney dialysis and other services for ESRD patients.

Fee-for-Service vs. Managed Care

Beneficiaries can choose the coverage they prefer. Under the traditional fee-for-service option, beneficiaries can go to virtually any provider in the country. Medicare pays providers primarily based on prospective payment, an established fee schedule, or reasonable costs. About 85 percent of Medicare beneficiaries now opt for fee-for-service coverage.

Alternatively, beneficiaries can enroll in a Medicare managed care plan, and the 15 percent who do are concentrated in several geographic areas. Generally, enrollees receive care from a network of providers, although Medicare managed care plans may offer a point-of-service benefit, allowing beneficiaries to receive certain services from non-network providers. Additional kinds of managed care plans, including provider sponsored organizations and preferred provider organizations, will be phased in for Medicare beneficiaries over the next few years as part of Medicare + Choice.

Most managed care plans receive a monthly, per-enrollee capitated payment that covers the cost of Part A and B services. As of March 1998, 72 percent of all Medicare beneficiaries lived in a county served by at least one Medicare managed care plan.

Successes

Medicare has dramatically increased access to health care for the elderly—from slightly over 50 percent of the elderly in 1966 to almost 100 percent today. According to a recent Medicare Payment Advisory Commission report, 97 percent of Medicare fee-for-service beneficiaries (94 percent for managed care) reported no trouble obtaining care. Further, 88 percent of fee-for-service Medicare beneficiaries (92 percent for managed care) reported having a physician or physician's office as a usual source of care. Medicare beneficiaries have access to the most up-to-date medical technology and procedures.

Under the BBA and other recent legislation, Medicare beneficiaries now have expanded access to many important preventive care services including mammographies, prostate and colorectal cancer screening, bone mass measurements and diabetes self-management services. These benefits will help prevent or reduce the complications of disease for millions of beneficiaries.

Medicare also gives beneficiaries an attractive choice of managed care plans, which can provide coordinated care that is focused on prevention and wellness. As of December 1, 1998, over six million beneficiaries have enrolled in 346 Medicare managed care plans. During the 12-month period ending December 1, 1998, enrollment in the capitated managed care plans called "risk contracts" grew by 16 percent.

In addition, Medicare is working to protect the integrity of its payment systems. Building on the success of Operation Restore Trust, a five-State demonstration aimed at cutting fraud and abuse in home health agencies, nursing homes, and durable medical equipment suppliers, Medicare is increasing its efforts to root out fraud and abuse. Recent legislation provides mandatory Federal funds and greater authority to prevent inappropriate payments to fraudulent providers, and to seek out and prosecute providers who continue to defraud Medicare and other health care programs. Since 1993 the Federal Government has assigned more Federal prosecutors and FBI agents to fight health care fraud. As a result, it has increased prosecutions by over 60 percent, convictions by 240 percent, and saved $20 billion in health care claims. The budget also proposes legislation that can save Medicare another $2 billion over the next five years.

Spending and Enrollment

Net Medicare outlays will rise by an estimated 31 percent from 1999 to 2004—from $201 billion to $264 billion.[1] Part A outlays will grow by an estimated 30 percent over the period—from $130 billion to $169 billion—or an average of 5.4 percent a year. Part B outlays will grow by an estimated 33 percent—from $71 billion to $95 billion—or an average of six percent a year.

Medicare is consuming a growing share of the budget. In 1980, Federal spending on Medicare benefits was $31 billion, comprising 5.2 percent of all Federal outlays. In 1995, Federal spending on Medicare benefits was $156.6 billion, or just over 10 percent of all Federal outlays. By 2004, assuming no changes in current law, Federal spending on Medicare benefits will total an estimated $264 billion, or almost 14 percent of all Federal outlays.

Medicare enrollment will grow slowly until 2010, then explode as the baby boom generation begins to reach age 65. From 1995 to 2010, enrollment will grow at an estimated average annual rate of 1.5 percent, from 37.6 million enrollees in 1995 to 46.9 million in 2010. But after 2010, average annual growth will almost double, with enrollment reaching an estimated 61.3 million in 2020.

[1] These figures cover Federal spending on Medicare benefits, but do not include spending financed by beneficiaries' premium payments or administrative costs.

The Two Trust Funds

HI Trust Fund: As noted earlier in this chapter, the HI Trust Fund is financed by a 2.9 percent payroll tax, split evenly between employers and employees. In 1995, HI expenditures began to exceed the annual income to the Trust Fund and, as a result, Medicare began drawing down the Trust Fund's accounts to help finance Part A spending. Prior to the BBA, the Government's actuaries predicted that the HI Trust Fund would become insolvent in 2001. The BBA, however, extended the solvency of the Trust Fund until 2008.

Medicare Part A still faces a long-term financing challenge. Since current benefits are paid by current workers, Medicare costs associated with the retirement of the baby boomers starting in 2010, will be borne by the relatively small number of people born after the baby boom. As a result, only 2.3 workers will be available to support each beneficiary in 2030—compared to today's four workers per beneficiary. The President plans to work with Congress and the bipartisan Medicare Commission to develop a long-term solution to this financing challenge.

SMI Trust Fund: The SMI Trust Fund receives about 75 percent of its income from general Federal revenues and about 25 percent from beneficiary premiums. Unlike HI, the SMI Trust Fund is really a trust fund in name only; the law lets the SMI Trust Fund tap directly into general revenues to ensure its annual solvency.

Balanced Budget Act Implementation

HCFA continues to implement the many changes in Medicare payment methodologies and provider options that were mandated in the BBA. Although HCFA has been forced to delay some provisions due to the year 2000 (Y2K) computer problem, the agency has issued major rules that implement the new Medicare + Choice program, PSO solvency standards, an interim payment system for home health services and a prospective payment system for skilled nursing facilities. According to the Board of Trustees for the Part A Trust Fund, the reform measures enacted in the BBA extended the solvency of the Part A Trust Fund from 2001 to 2008 and lowered its projected 75-year deficit by about one-half.

Performance Plan

HCFA has developed a set of performance goals to measure its progress in ensuring that Medicare beneficiaries receive the highest quality health care. HCFA's performance goals relate to four critical areas: quality assurance; access to care for the elderly and disabled; administrative efficiency; and a reduction in fraud and abuse. For example, HCFA's 2000 goals include:

- Increasing the percentage of Medicare beneficiaries who receive a mammogram once every two years from 55 percent in 1994 to 60 percent in 2000;
- Increasing the number of Medicare beneficiaries over age 65 receiving vaccinations for influenza from 55 percent in 1995 to 60 percent in 2000;
- Increasing the percentage of Medicare beneficiaries who have at least one managed care choice from 70 percent in 1997 to 80 percent in 2000.
- Decreasing the one-year mortality rate among Medicare beneficiaries hospitalized for heart attacks from 31.4 percent in 1995 to 27.4 percent in 2000.
- Reducing the telephone busy rate for Medicare carriers, for which measurement will begin in 2000. By 2001, the number of Medicare carriers who answer calls within two minutes and the number who answer 80 percent of calls within one minute will increase.
- Reducing the payment error rate under Medicare's fee-for-service program from 14 percent in 1996 to seven percent in the year 2000 and five percent by the year 2002; and
- Ensuring that all systems necessary for continuity of HCFA payments and other mission critical outputs through and beyond 2000 will be Y2K computer compliant. Specifically, all systems will be certified compliant (mission-critical certified by the independent contractor and others by appropriate HCFA personnel) prior to the need for those systems to process new dates.

The budget includes legislative proposals relating to the Patients' Bill of Rights, long term care, and several proposals expanding Medicare access. Appropriate performance measures will be developed as legislation is enacted and implemented.

25. INCOME SECURITY

Table 25–1. FEDERAL RESOURCES IN SUPPORT OF INCOME SECURITY
(In millions of dollars)

Function 600	1998 Actual	Estimate					
		1999	2000	2001	2002	2003	2004
Spending:							
Discretionary Budget Authority	29,748	32,819	32,652	36,396	36,196	36,196	36,196
Mandatory Outlays:							
Existing law	192,303	202,410	214,844	223,419	232,353	240,912	250,073
Proposed legislation	....	....	829	1,879	2,205	2,164	2,816
Credit Activity:							
Direct loan disbursements	35	21	7	N/A	N/A	N/A	N/A
Guaranteed loans	24	88	85	N/A	N/A	N/A	N/A
Tax Expenditures:							
Existing law	117,906	132,388	135,291	138,642	141,850	144,946	147,757
Proposed legislation	....	27	277	817	807	779	656

N/A=Not available

The Federal Government provides about $248 billion a year in cash or in-kind benefits to individuals through income security programs, including about $164 billion for programs in this chapter generally defined as part of the "social safety net." Since the 1930s, these safety net programs, plus Social Security, Medicare, Medicaid, and housing assistance (each discussed in other chapters in this Section), have grown enough in size and coverage so that even in the worst economic times, most Americans can count on some form of minimum support to prevent destitution.

The remaining $84 billion for income security programs include retirement and disability insurance (excluding Social Security, which is described in Chapter 26), Federal activity related to private pensions and Federal employee retirement and disability programs.

Major Public Benefit Programs

The largest means-tested income security programs are Food Stamps, Supplemental Security Income (SSI), Temporary Assistance for Needy Families (TANF), and the Earned Income Tax Credit (EITC). The various kinds of low-income housing assistance are discussed in Chapter 19, "Commerce and Housing Credit." These programs, along with unemployment compensation (which is not means-tested), form the backbone of cash and in-kind "safety net" assistance in the Income Security function.

The major income security programs are managed by four of the High Impact Agencies (see Section IV, "Improving Performance through Better Management"), agencies designated as such because they interact the most with the American people and businesses. These agencies are the Food and Nutrition Service, the Administration on Children and Families, the Social Security Administration, and the Internal Revenue Service.

Nutrition Assistance

Federal nutrition assistance programs are managed by the Department of Agriculture's Food and Nutrition Service (FNS). The largest of all means-tested income security programs is the Food Stamp Program. In addition, FNS administers the Special Supplemental Nutrition Program for Women, Infants and

Children, and the National School Lunch and Breakfast Programs.

Food Stamps: Food Stamps help most low-income people get a more nutritious diet. In an average month in 1998, 19.8 million people, or 8.2 million households, received benefits and that year, the program provided total benefits of $17 billion. In 2000, the program will provide an average projected benefit of $75 to 20.1 million persons each month. Food Stamps is the only Nation-wide, low-income assistance program available to essentially all financially-needy households that does not impose non-financial criteria, such as whether households include children or elderly persons. (The new welfare law limits the eligibility of non-citizens as well as the number of months that childless, able-bodied individuals can receive benefits while unemployed.)

- In 2000, FNS will expand the number of States using Electronic Benefits Transfer (EBT) to issue Food Stamp benefits to 42 percent, compared to 36 percent in 1998, improving the delivery of benefits, and increasing the ability to track benefits redemption as a fraud prevention tool.

Nutrition Program for Women, Infants and Children (WIC): WIC provides nutrition assistance, nutrition education and counseling, and health and immunization referrals to low-income women, infants and children. The program reached an average of 7.4 million people each month in 1998. The budget proposes $4.1 billion to serve 7.5 million people through 2000 fulfilling the President's goal of full participation in WIC.

- In 2000, FNS, together with State public health agencies, will increase the incidence of breast-feeding among WIC mothers to 36 percent, compared to 34 percent in 1998.

Child Nutrition Programs: The National School Lunch and Breakfast Programs provide free or low-cost nutritious meals to children in participating schools. In 2000, the programs will serve an estimated 27.3 million lunches daily.

- In 2000, FNS' goal is that school districts will have reduced the average percent of calories from saturated fat in school lunches to 10 percent, compared to 11 percent in elementary schools and 12 percent in secondary schools in 1998.

Income Assistance to Aged, Blind, and Disabled Individuals

The SSI program, administered by the Social Security Administration (SSA), provides benefits to needy aged, blind, and disabled adults and children. In 1998, 6.3 million individuals received $27.3 billion in benefits. In 2000, an estimated 6.3 million individuals will receive a total of $28.7 billion in SSI benefits. Eligibility rules and payment standards are uniform across the Nation. Average monthly benefit payments range from $242 for aged adults to $430 for blind and disabled children. Most States supplement the SSI benefit.

- In 2000, SSA will process 66 percent of initial SSI aged claims within 14 days of the filing date. SSA estimates that only 54 percent of these claims met this goal in 1998. In future years, the agency's goal is to continue to increase the proportion of SSI aged claims processed within 14 days.

Income Assistance to Families

Major income assistance for low-income families is provided through the TANF program, administered by the Department of Health and Human Service's Administration for Children and Families (ACF) and the Earned Income Tax Credit, administered by the Internal Revenue Service. In addition, ACF administers the Child Support Enforcement Program and the Child Care and Development Fund. Other income security programs run by ACF include refugee assistance and low-income home energy assistance.

Temporary Assistance for Needy Families: In the 1996 welfare reform law, the President and Congress enacted TANF as the successor to the 60-year-old Aid to Families with Dependent Children (AFDC) program. TANF, for which the Federal Government allocates about $16.5 billion each year, is designed to meet the President's goal of dramatically changing the Nation's welfare system into one that requires and rewards work in exchange for time-limited assistance. The TANF program gives States broad flexibility to set eligibility criteria and to determine the types of assistance they provide.

- The strong work focus of welfare reform and the economy have enabled ACF to meet its goal of moving one million welfare recipients into new employment before its 2000 goal date. Using new program data, ACF will continue to develop measures of high performance in the areas of job retention and earnings gains.

Individual Development Accounts (IDAs): The budget includes $20 million for IDAs, to empower low-income individuals to save for a first home, post-secondary education, or to start a new business. ACF will select sites to administer this program in 1999. Performance measures will be developed based on the design of these programs.

Child Support Enforcement: The Child Support Enforcement Program establishes and enforces the support obligations owed by noncustodial parents to their children. In 1998, the Federal Government provided $2.6 billion to State and local governments to help them run this program. The Federal Government retained more than $1.3 billion in TANF-related collections from the States, making the net cost of this program to the Federal Government $1.2 billion. In 2000, estimated Federal costs net of TANF collections will be $1.9 billion. In 2000, the budget provides an additional $6.5 million to the Departments of Health and Human Services and Justice to investigate and prosecute noncustodial parents who owe large sums of child support.

- By October 2000, ACF will increase parents' financial support for their children by increasing the amount of total child support collections to $20.8 billion, an increase of 40 percent over 1998 and 160 percent over 1992. The agency's goal is to maximize child support collections for all families served in the program.

Child Care: The Child Care and Development Fund provides grants to States for the purposes of providing low-income families with financial assistance for child care, improving the quality and availability of child care, and establishing, expanding or conducting early childhood development programs and before- and after-school programs. Federal child care funding has risen by 80 percent under this Administration, providing child care services for 1.25 million children from low-income working families or whose parents are moving from welfare to work.

In addition to the $173 million increase for child care quality already provided by Congress for 2000, the President also proposes a 2000 increase of $1.2 billion for child care subsidies as well as a new $600 million Early Learning Fund for grants to communities to improve early childhood education and the quality and safety of child care for children under five years old. For the proposed Early Learning Fund, ACF will measure the type of quality and safety activities funded and will work to establish performance measures that focus on language development, emergent literacy, and other child development outcomes and aspects of school readines.

Access to high-quality, affordable child care is critical to the achievement of self-sufficiency by TANF recipients and low-income working families. ACF is currently developing performance measures and baseline data for the program's twin goals of increasing access to affordable care and improving the quality of care to promote children's development.

- In 2000, the Child Care and Development Fund, including new funds, will provide child care assistance to an additional 500,000 low-income children over 1999.

Earned Income Tax Credit: The EITC, a refundable tax credit for low-income workers, has two broad goals: (1) to encourage families to move from welfare to work by making work pay; and (2) to reward work so parents who work full-time do not have to raise their children in poverty. In 1998, the EITC provided $29.6 billion in credits for low-income tax filers, including spending on both tax refunds and reduced tax receipts. For every dollar that low-income workers earn—up to certain limits—they receive between seven and 40 cents as a tax credit. In 1998, the EITC provided an average credit of nearly $1,584 to nearly 20 million workers and their families. In 2000, an estimated 20 million families will receive an average credit of $1,644.

Unemployment Compensation

Unemployment Compensation, administered by the Department of Labor's Employment and Training Administration, provides benefits, which are taxable, to individuals who are temporarily out of work and whose employer has previously paid payroll taxes to the program. The State payroll taxes finance the basic benefits out of a dedicated trust fund. States set benefit levels and eligibility criteria, which are not means-tested. Regular benefits are typically available for up to 26 weeks of unemployment. In 1998, about 7.1 million persons claimed unemployment benefits that averaged $191 weekly. In 2000, an estimated 8.3 million persons will receive an average benefit of $210 a week.

Benefits are available to experienced workers who lose their jobs through no fault of their own. Thus, unemployment compensation does not cover all of the unemployed in any given month. In 1998, on average, the "insured unemployed" represented about 36 percent of the estimated total number of unemployed. Those who are not covered include new labor force entrants, re-entrants with no recent job experience, and those who quit their jobs voluntarily without good cause and, thus, are not eligible for benefits. However, others do not receive benefits because State laws restrict eligibility or because the unemployed worker is not aware of the program.

- In 2000, DOL's goal is that all States will meet the Secretary's standard for promptness in paying worker claims by providing 87 percent of initial intrastate payments and 70 percent of interstate payments within 14 days in States with a waiting period and within 21 days in States without a waiting period. In 1998, 78 percent of States met the interstate standard and 90 percent met the intrastate standard.

Effects of Income Security Programs

Federal safety net programs have a major effect on reducing poverty. Chapter 26, "Social Security," explores the impact of Social Security alone on the income and poverty of the elderly. This section looks at the cumulative impact across the major programs.

For purposes of this discussion, Government benefits includes both means-tested and social insurance benefits. Means-tested benefits include AFDC, SSI, certain veterans pensions, Food Stamps, child nutrition meals subsidies, rental assistance, and State-funded general assistance. Medicare and Medicaid greatly help eligible families who need medical services during the year, but experts do not agree about how much additional income Medicare or Medicaid coverage represents to the covered. Consequently, those benefits are not included in the analysis that follows. Social insurance benefits include Social Security, railroad retirement, veterans compensation, unemployment compensation, Pell Grants, and workers' compensation. The definition of income for this discussion (cash and in-kind benefits), and the notion of pre- and post-Government transfers, do not match the Census Bureau's definitions for developing official poverty statistics. Census counts income from cash alone, including Government transfers.

Reducing Numbers of People in Poverty: Based on special tabulations from the March 1998 Current Population Survey (CPS), 56.4 million people were poor in 1997 before accounting for the effect of Government programs. After accounting for Government transfer programs and taxes, the number of poor fell to 29.8 million, a drop of 47 percent.

Reducing the Poverty Gap: The poverty gap is the amount by which the incomes of all poor people fall below the poverty line. Before counting Government benefits, the poverty gap was $205.7 billion in 1997. Benefits from Government programs cut it by $139 billion, or 68 percent.

Employee Retirement Benefits

Federal Employee Retirement Benefits: The Civil Service Retirement and Disability Program provides a defined benefit pension for 1.9 million Federal civilian employees and 800,000 U.S. Postal Service employees. In 1998, the program paid $43 billion in benefits to 1.7 million retirees and 600,000 survivors. Along with the defined benefit, employees can participate in a defined contribution plan—the Thrift Savings Plan (TSP). Employees hired since 1983 are also covered by

Social Security. The budget proposal to increase pension portability includes provisions that would allow newly-hired Federal employees to participate immediately in, and to roll over private sector accounts into, the TSP. (For a discussion of military retirement programs, see Chapter 27, "Veterans Benefits and Services." For a discussion of performance measures for this program, see Chapter 29 "General Government.")

Private Pensions: The Department of Labor's Pension and Welfare Benefits Administration (PWBA) establishes and enforces safeguards to protect the roughly $3.5 trillion in pension assets. Also at the Department of Labor, the Pension Benefit Guaranty Corporation (PBGC) protects the pension benefits of about 42 million workers and retirees who earn traditional (i.e., "defined benefit") pensions. Through its early warning program, PBGC also works with solvent companies to more fully fund their pension promises, and has protected the benefits of more than 1.6 million people since its inception eight years ago. The budget proposes a new, simplified defined benefit plan for small businesses that PBGC will insure. The budget also proposes new rules to improve the audits of private pension plans to ensure that promised benefits are secure. In 2000:

- PWBA will more speedily process the exemptions that allow certain financial transactions that are needed by pension plans, reducing the time taken by 5.6 percent from the 1998 average of 179 days.
- PBGC will more quickly replace the initial calculation with the final dollar levels of its pension benefits, reducing the time taken by about 13 percent from seven to eight years, which is the 1998 level.

Tax Treatment of Retirement Savings: The Federal Government encourages retirement savings by providing income tax benefits. Generally, earnings devoted to workplace pension plans and to many traditional individual retirement accounts (IRAs) receive beneficial tax treatment in the year earned and ordinarily are taxed only in retirement, when lower tax rates usually prevail. Moreover, taxpayers can defer taxes on the interest and other gains that add value to these retirement accounts. For the newer Roth IRA accounts, contributions are made from after-tax earnings, with no tax deduction. However, account earnings are free from tax when the account is used in retirement. These tax incentives amount to $99 billion in 2000—one of the three largest sets of preferences in the income tax system.

26. SOCIAL SECURITY

Table 26–1. FEDERAL RESOURCES IN SUPPORT OF SOCIAL SECURITY
(In millions of dollars)

Function 650	1998 Actual	Estimate					
		1999	2000	2001	2002	2003	2004
Spending:							
Discretionary Budget Authority	3,205	3,164	3,226	3,225	3,225	3,225	3,225
Mandatory Outlays:							
Existing law	376,119	389,157	405,231	423,519	443,918	464,915	487,192
Proposed legislation	....	....	3	78	141	177	186
Tax Expenditures:							
Existing law	22,770	23,415	24,650	25,930	27,395	28,990	30,660

The Old-Age, Survivors, and Disability Insurance (OASDI) programs, popularly known as Social Security, will spend $408 billion in 2000 to provide a comprehensive package of protection against the loss of earnings due to retirement, disability, or death.

Social Security provides monthly benefits to retired and disabled workers who gain insured status and to their eligible spouses, children, and survivors. The Social Security Act of 1935 provided retirement benefits, and the 1939 amendments provided benefits for survivors and dependents. These benefits now comprise the Old Age and Survivors Insurance (OASI) program. Congress provided benefits for disabled workers by enacting the Disability Insurance (DI) program in 1956 and added benefits for the dependents of disabled workers in 1958.

The Government will collect $473 billion in Social Security taxes in 2000. These taxes will be credited to the OASI and DI trust funds, along with $57 billion of interest on Treasury securities held by the trust funds.

In 1998, Social Security paid out $372 billion to 42 million beneficiaries. These payments included $250 billion in benefits to more than 30 million retired workers and their families. Along with retirement benefits, Social Security also provides income security for survivors of deceased workers. In 1998, Social Security paid about $73 billion in benefits to more than seven million survivors. The DI program provides income security for workers and their families in the event the family's primary wage earner becomes disabled. In 1998, Social Security paid about $48 billion in benefits to more than six million disabled workers and their families.

Social Security is a crucial source of income for millions of Americans and their families. Without Social Security, elderly retirees and disabled workers would face a significantly higher risk of poverty. The OASDI programs will serve 45 million beneficiaries in 2000.

The Social Security Administration (SSA)

To operate a program of this magnitude, both in terms of the dollar amounts involved and the size of the population served, requires an efficient and responsive administrative structure. SSA, which administers the OASI and DI programs, touches the lives of millions of Americans every year. SSA also runs the Supplemental Security Income (SSI) program for low-income aged and disabled individuals, which is part of the Income Security function (see Chapter 25). In addition, the agency provides services that support the Medicare program on behalf of the Health

Care Financing Administration, which is part of the Medicare function (see Chapter 24). Because SSA interacts extensively with the American public, the Vice President's National Partnership for Reinventing Government designated SSA as a High Impact Agency.

SSA's caseload has grown markedly in recent decades, while its staffing levels have declined. The agency serves over 11 million more people today than it did 14 years ago, with 19,000 fewer full-time equivalent staff. More than 44 percent of the caseload growth has occurred in disability claims, which are substantially more complicated to administer than other types of claims. To maintain and improve performance under these conditions requires the agency to continuously increase productivity and efficiency.

SSA undertakes a variety of activities in administering its programs. These activities include issuing Social Security numbers, maintaining earnings records for wage earners and self-employed individuals, taking claims for benefits and determining eligibility, updating beneficiary eligibility information, educating the public about the programs, combating fraud, and conducting research, policy analysis and program evaluation. These activities are largely integrated across the various programs, allowing the agency to minimize duplication of effort and provide one-stop service to customers.

SSA's Performance Plan for 2000 includes a number of performance indicators that reflect the agency's goals of responsive programs, good customer service, efficiency and program integrity, and strengthening public understanding of Social Security. Like the agency's administrative activities, these goals cut across programs. SSA's commitments and performance measures for 2000 include the following.

Promoting responsive programs: SSA recognizes that Social Security programs must reflect the interests of beneficiaries and society as a whole. Programs must evolve to reflect changes in the economy, demographics, technology, medicine, and other areas. Many DI and SSI beneficiaries with disabilities, for example, want to be independent and work. Many of them can work, despite their impairments, if they receive the support they need. Yet less than one percent of disabled beneficiaries in any given year actually leave SSA's programs due to work. One of SSA's strategic objectives is to shape the disability program in a manner that increases self-sufficiency.

The budget proposes a new program to encourage DI beneficiaries and SSI disabled recipients to enter the workforce. Currently, SSA refers these beneficiaries to State employment service providers. Under this proposal, beneficiaries can choose their own employment service provider—and the provider can keep a share of the DI and SSI benefits that the Federal Government will no longer pay to these individuals once they leave the rolls. The budget also includes a demonstration project that reduces an individual's DI benefits by $1 for each $2 earned above a specified level. Under current law, a DI beneficiary in the extended period of eligibility receives no cash benefit if he or she earns more than $500 in a month.

SSA plans to set numerical goals for increasing the number of working DI and SSI disabled beneficiaries. The goals will be set once baseline data is available.

Improving customer service delivery: Roughly three-quarters SSA's total administrative budget is devoted to the day-to-day work generated by requests for service from the general public. Much of this work takes the form of determining eligibility and processing claims for benefits. The time required to process claims for benefits is affected by the design of the eligibility determination procedure, as well as by the level of resources earmarked for claims-processing activities and the number of claims received.

- In 2000, the average processing time for initial disability claims will be 100 days, maintaining SSA's current performance level on this measure.

The budget provides sufficient administrative funding to meet this goal. SSA also is investigating ways to streamline its disability eligibility determination process. Because any benefits from process changes would not materialize until after 2000, the performance goal is based on the current process. Once SSA has made decisions on how to redesign its disability determination process, it will specify long-term performance goals for claims processing time that are relevant to the redesigned process. Improving the disability determination process is one of the Administration's PMO's for 2000.

- SSA will maintain its current performance level of processing 83 percent of OASI claims by the time the first regular payment is due or within 14 days from the effective filing date, if later.
- SSA will maintain its current performance level of ensuring that callers gain access to the toll-free 800 number within five minutes of their first call 95 percent of the time. Ninety percent of callers will get through on their first attempt.

Increasing operational efficiency and program integrity: The budget includes approximately $1.7 billion for activities undertaken by SSA to ensure the integrity of records and payments. These activities include reviewing claimants' eligibility for continued benefits, collecting debt, detecting overpayments, and investigating and deterring fraud.

SSA is in the midst of a seven-year effort to eliminate the backlog of Continuing Disability Reviews (CDRs) that built up prior to 1996. To stay on schedule for eliminating the backlog by the end of 2002, SSA will conduct 1.9 million CDRs in 2000. SSA completed 26 percent of its plan in 1998 and expects to reach 44 percent completion by the end of 1999. This concentrated effort is helping increase public confidence in the integrity of SSA's disability programs by ensuring that only people who continue to be disabled receive benefits. CDRs conducted in 1998–2002 will produce an estimated five-year savings of $5.3 billion in the DI program and $3 billion in the SSI program. The budget includes the funds necessary to keep the plan on schedule.

- In 2000, SSA will complete 63 percent of its plan for eliminating the backlog of Continuing Disability Reviews.

In a program the size of SSI, a small percentage error translates into large dollar amounts. Consequently, SSA has committed to improving the SSI payment accuracy rate to at least 96 percent by 2002. The goal for 2000 equates to a reduction in overpayment errors of $160 million below the 1996 level; the goal for 2002 equates to a $535 million overpayment error reduction.

- SSA will improve the SSI payment accuracy rate to 95 percent in 2000, up from 94.5 percent in 1996.

The best tool for improving the accuracy of SSI payments is the redetermination process, which assesses the income and resources affecting beneficiaries' eligibility and payment amounts. SSA saves $7 in for every $1 spent on redeterminations. The budget includes $75 million for an additional 400,000 high-error profile redeterminations, bringing the total number of non-disability redeterminations to 2.2 million.

Strengthening public understanding of Social Security programs: The budget includes more than $100 million for the development, production and distribution of products to educate the public about the benefits available through Social Security, as well as Social Security's larger impact on society. SSA will conduct a survey in 1999 to measure the current level of public understanding, which will be used as baseline data to measure progress toward this strategic goal.

Part of the public education is the issuance of Personal Earnings and Benefit Estimate Statements (PEBES), which provide workers with an estimate of their potential future Social Security benefits based on their earning history to date. Starting in 2000, SSA is required by law to issue PEBES every year to all eligible workers age 25 and over.

- SSA will issue 126 million PEBES in 2000, reaching all eligible workers age 25 and over as required by law.

Tax Expenditures

Social Security recipients pay taxes on their Social Security benefits only when their overall income, including Social Security, exceeds certain income thresholds. The exclusion of Social Security income below these thresholds reduces total income tax revenue by $25 billion in 2000 and $138 billion from 2000 to 2004.

27. VETERANS BENEFITS AND SERVICES

Table 27–1. FEDERAL RESOURCES IN SUPPORT OF VETERANS BENEFITS AND SERVICES
(In millions of dollars)

Function 700	1998 Actual	Estimate					
		1999	2000	2001	2002	2003	2004
Spending:							
Discretionary Budget Authority	18,943	19,282	19,282	19,279	19,274	19,292	19,293
Mandatory Outlays:							
Existing law	23,280	24,322	24,680	25,313	25,851	26,981	27,628
Proposed legislation	....	....	269	644	964	569	947
Credit Activity:							
Direct loan disbursements	1,344	1,959	672	N/A	N/A	N/A	N/A
Guaranteed loans	39,862	32,635	31,244	N/A	N/A	N/A	N/A
Tax Expenditures:							
Existing law	2,990	3,120	3,265	3,415	3,560	3,715	3,875

N/A = Not available

The Federal Government provides benefits and services to veterans and their survivors of conflicts as distant as the Spanish-American War and as recent as the Persian Gulf War, recognizing the sacrifices of war- and peacetime veterans during military service. The Federal Government spends over $42 billion a year on veterans benefits and services, and provides over $3 billion in tax benefits to compensate veterans and their survivors for service-related disabilities; provide medical care to low-income and disabled veterans; and help returning veterans prepare to reenter civilian life through education and training. In addition, veterans benefits provide financial assistance to needy veterans of wartime service and their survivors.

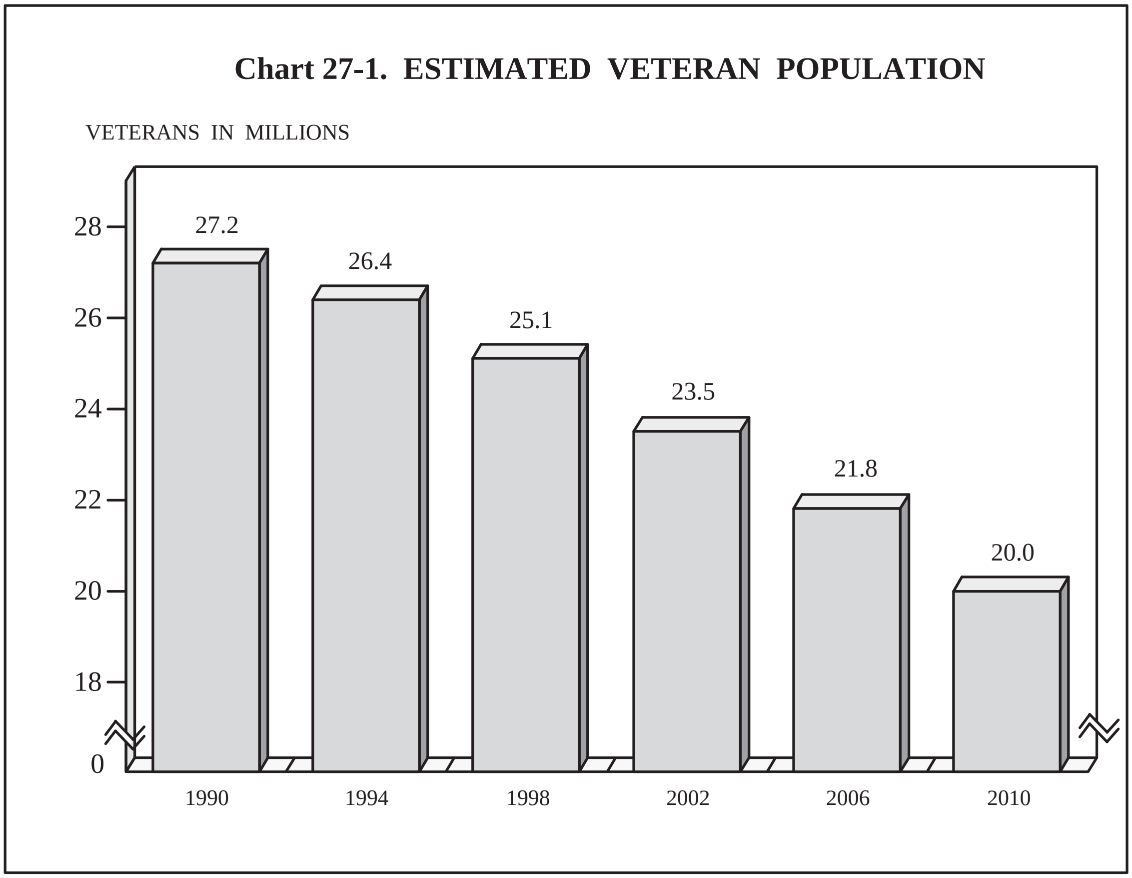
About seven percent of veterans are military retirees who can receive both military retirement from the Department of Defense (DOD) and veterans benefits from the Department of Veterans Affairs (VA). Active duty military personnel are eligible for veterans housing benefits, and they can contribute to the Montgomery GI Bill (MGIB) program for education benefits that are paid later. VA employs 21 percent of the Federal Government's non-DOD workforce—approximately 240,000 people, about 192,000 of whom deliver or support medical services to veterans.

VA's mission is "to administer the laws providing benefits and other services to veterans and their dependents and the beneficiaries of veterans. To serve America's veterans and their families with dignity and compassion and be their principal advocate in ensuring that they receive medical care, benefits, social support, and lasting memorials promoting the health, welfare and dignity of all veterans in recognition of their service to this Nation."

The veteran population continues to decline and age (see Chart 27–1). The types of benefits and services needed by veterans likely will change as the population ages. Further, as the veteran population shrinks and technology improves, access to, and the quality of, service should continue to improve.

Medical Care

VA provides health care services to 3.2 million veterans through its national system of 22 integrated health networks, consisting of 166 hospitals, 544 ambulatory clinics, 132



nursing homes, 40 domiciliaries[1], and 206 vet centers. VA is an important part of the Nation's social safety net because over half of its patients are low-income veterans who might not otherwise receive care. It also is a leading health care provider for veterans with substance abuse problems, mental illness, HIV/AIDS, and spinal cord injuries because private insurance usually does not fully cover these conditions.

VA's core mission is to meet the health care needs of veterans who have compensable service-connected injuries or very low incomes. By law, these "core" veterans are the highest priority for available Federal dollars for health care. However, VA may provide care to lower-priority veterans if resources allow after it meets the needs of higher-priority veterans.

In recent years, VA has reorganized its field facilities from 172 largely independent medical centers into 22 Veterans Integrated Service Networks, charged with providing veterans the full continuum of care. Recent legislation eased restrictions on VA's ability to contract for care and share resources with DOD hospitals, State facilities, and local health care providers.

To improve veterans health care further, VA will continue to enhance the efficiency of, access to, and quality of care. Between 1997 and 2002, VA is pursuing its "30/20/10" goal to:

- reduce the cost per patient by 30 percent from the 1997 level of $5,458 (by 18 percent in 2000);
- increase the number of patients treated by 20 percent from the 1997 level of 3,142,065 (by 16 percent in 2000); and
- increase resources from outside sources (primarily private insurers) to 10 percent of the total operating budget from less than one percent in 1997 (to five percent in 2000).

[1] Domiciliaries serve homeless veterans and veterans rehabilitation with special needs.

Also, VA formed partnerships with the National Committee on Quality Assurance, the American Hospital Association, the American Medical Association, the American Nurses Association, and other national associations to ensure quality patient care. The Chronic Disease Care Index measures VA physicians' adherence to established industry practice guidelines for key diseases affecting veterans. Similarly, the Prevention Index measures adherence to disease prevention and screening guidelines. VA plans to:

- increase the scores on the Chronic Disease Care Index to 95 percent by 2001 from the 1997 level of 76 percent (to 93 percent in 2000); and
- increase the scores on the Prevention Index to 95 percent by 2003 from the 1997 level of 67 percent (to 89 percent in 2000).

The budget includes a legislative proposal to authorize VA to cover the cost of out-of-network emergency care for enrolled veterans with compensable disabilities related to military service. Under law, these veterans have top priority for VA medical services. This legislation would ensure that these veterans have access to emergency care when treatment in VA facilities is not an option.

The budget also proposes a new smoking cessation program for any honorably discharged veteran who began smoking in the military. In addition, increased funding is proposed for evaluting, testing, and treating Hepatitis C in the veteran population and for programs that directly assist homeless veterans.

Medical Research: VA's research program provides $316 million to conduct basic, clinical, epidemiological, and behavioral studies across the spectrum of scientific disciplines, seeking to improve veterans medical care and health and enhance our knowledge of disease and disability. In 2000, VA will focus its research efforts on aging, chronic diseases, mental illness, substance abuse, sensory loss, trauma-related impairment, health systems research, special populations (including Persian Gulf War veterans), and military occupational and environmental exposures.

- In 2000, at least 99 percent of funded research projects will be reviewed by appropriate peers and selected through a merit-based competitive process (1997 base of 99 percent).

Health Care Education and Training: The Veterans Health Administration (VHA) is the Nation's largest trainer of health care professionals. About 91,000 students a year get some or all of their training in VA facilities through affiliations with over 1,200 educational institutions. The program trains medical, dental, nursing, and related health professionals to ensure an adequate supply of clinical care providers for veterans and the Nation. The program will continue to realign its academic training and update its curriculum, focusing more on primary care to meet more effectively the needs of the VHA and its patients, students, and academic partners.

- By 2000, 46 percent of VA's residents will be trained in primary care and, in 2004, that figure will increase to 48 percent (from the 1997 level of 39 percent).

Veterans Benefits Administration (VBA)

VBA processes veterans' claims for benefits in 58 regional offices across the country. As the veteran population declines, the number of new claims and appeals is expected to decline. VBA is implementing a "balanced scorecard," a tool that will help management to weigh the importance of and measure progress toward meeting VBA's strategic goals, which include:

- improving responsiveness to customers' needs and expectations;
- improving service delivery and benefit claims processing; and
- ensuring best value for the available taxpayers' dollar.

VBA monitors its performance in deciding disability benefits claims through measures of accuracy, customer satisfaction, processing timeliness, and unit cost. The following key measures have been established for disability claims requiring a rating:

- In 2000, VA will process rating-related disability claims in 95 days, improving to 74 days by 2004 (from 128 days in 1998).

- In 2000, VA will improve its rating accuracy (for core rating work) to 81 percent, improving to 96 percent by 2004 (from 64 percent in 1998).

Income Security

Several VA programs help veterans and their survivors maintain their income when the veteran is disabled or deceased. The Federal Government will spend over $23 billion for these programs in 2000, including the funds the Congress approves each year to subsidize life insurance for veterans who are too disabled to get affordable coverage from private insurers. Veterans may receive these benefits in addition to the income security benefits available to all Americans, such as Social Security and unemployment insurance. VBA is developing strategic goals for the compensation and pension programs.

Compensation: Veterans with disabilities resulting from, or coincident with, military service receive monthly compensation payments based on the degree of disability. The payment does not depend on a veteran's income or age or whether the disability is the result of combat or a natural-life affliction. It does depend, however, on the average fall in earnings capacity that the Government presumes for veterans with the same degree of disability. Survivors of veterans who die from service-connected injuries receive payments in the form of dependency and indemnity compensation. Compensation benefits are indexed annually by the same cost-of-living adjustment (COLA) as Social Security, which is an estimated 2.4 percent for 2000.

The number of veterans and survivors receiving compensation benefits will total an estimated 2.6 million in 2000. While the veteran population will decline, the compensation caseload is expected to remain relatively constant due to changes in eligibility and better outreach efforts. COLAs and increased payments to aging veterans will increase compensation spending by about $3 billion from 2000 to 2004.

Pensions: The Government provides pensions to lower-income, wartime-service veterans or veterans who became permanently and totally disabled after their military service. Survivors of wartime-service veterans may qualify for pension benefits based on financial need. Veterans pensions, which also increase annually with COLAs, will cost over $3 billion in 2000. The number of pension recipients will continue to fall from an estimated 650,000 in 2000 to less than 585,000 in 2004 as the number of veterans drops.

Insurance: VA has provided life insurance coverage to service members and veterans since 1917 and now directly administers or supervises eight distinct programs. Six of the programs are self-supporting, with the costs covered by policyholders' premium payments and earnings from Treasury securities investments. The other two programs, designed for service-disabled veterans, require annual congressional appropriations to meet the claims costs. Together, these eight programs will provide $460 billion in insurance coverage to over 4.5 million veterans and service members in 2000. The program is designed to provide insurance protection and best-in-class service to veterans who cannot purchase commercial policies at standard rates because of their service-connected disabilities. To reach this goal, the program is designed to provide disbursements (e.g., death claims, policy loans, and cash surrenders) quickly and accurately, meeting or exceeding customers' expectations.

Veterans' Education, Training, and Rehabilitation

Several Federal programs support job training and finance education for veterans and others. The Department of Labor runs several programs for veterans. In addition, several VA programs provide education, training, and rehabilitation benefits to veterans and military personnel who meet specific criteria. These programs include the Montgomery GI bill (MGIB)—which is the largest—the post-Vietnam-era education program, the Vocational Rehabilitation and Counseling (VR&C) program, and the Work-Study program. Spending for all these VA programs will total an estimated $1.5 billion in 2000. One of the program's strategic goals is:

- In 2000, VA will increase to 50 percent the number of VR&C participants who acquire and maintain suitable employment and are considered to be rehabilitated, and further increase it to 55 percent in 2004 (from the 1998 level of 41 percent).

The Montgomery GI Bill: The Government originally created MGIB as a test program, with more generous benefits than the post-Vietnam-era education program, to help veterans move to civilian life and to help the Armed Forces with recruitment. Service members who choose to enter the program have their pay reduced by $100 a month in their first year of military service. VA administers the program and pays basic benefits once the service member leaves the military. Basic benefits now total over $19,000 per recipient.

MGIB beneficiaries receive a monthly check based on whether they are enrolled as full- or part-time students. They can get 36 months worth of payments, but they must certify monthly that they are in school. DOD may provide additional benefits to help recruit certain specialties and critical skills. Nearly 284,000 veterans and service members will use these benefits in 2000. The MGIB also provides education benefits to reservists while they are in service. DOD pays these benefits, and VA administers the program. In 2000, over 72,000 reservists will use the program. Over 90 percent of MGIB beneficiaries use their benefits to attend a college or university. In 1999, MGIB beneficiaries, dependents, and survivors got a one-time 20 percent increase in their benefit rate. VA has set the following goal:

- In 2000, VA will increase the usage rate of eligible veterans in the MGIB from to 57 percent, and increase the figure to 70 percent in 2004 (from 53 percent in 1997).

Veterans' Housing

Along with the mortgage assistance that veterans can get through the Federal Housing Administration insurance program, in 2000 the VA-guaranteed loan program will help an estimated 280,000 veterans get mortgages totaling almost $31.2 billion. The Federal Government will spend an estimated $264 million on this program in 1999, reflecting the Federal subsidies implicit in loans issued during the year. Slightly over 40 percent of veterans who have owned homes have used the VA loan guaranty program. To increase veteran home ownership and the program's efficiency, VA will cut its administrative costs. Improving loan servicing to avoid veteran foreclosures also is a key goal.

- In 2000, of the loans headed for foreclosure, VA will be successful 40 percent of the time in ensuring that veterans retain their homes (from the 1998 level of 37 percent).

National Cemetery Administration (NCA)

VA provides burial in its national cemetery system for eligible veterans, active duty military personnel, and their dependents. VA manages 119 national cemeteries across the country and will spend over $97 million in 2000 for VA cemetery operations, excluding reimbursements from other accounts. Over 76,700 veterans and their family members were buried in national cemeteries in 1998. In addition, VA has jointly funded 38 state veterans cemeteries through its State Cemetery Grants Program (SCGP). The program will open four new national cemeteries in 1999 and 2000, expand existing cemeteries, make more effective use of available burial space, and encourage States' participation in the SCGP. VA has established this measure:

- In 2000, VA will increase the percentage of veterans served by a burial option within a reasonable distance of the veteran's place of residence to 77 percent (from the 1998 level of 69 percent).

Related Programs

Many veterans get help from other Federal income security, health, housing credit, education, training, employment, and social service programs that are available to the general population. A number of these programs have components specifically designed for veterans. Some veterans also receive preference for Federal jobs.

Tax Incentives

Along with direct Federal funding, certain tax benefits help veterans. The law keeps all cash benefits that VA administers (i.e., disability compensation, pension, and MGIB benefits) free from tax. Together, these three exclusions will cost about $3.2 billion in 2000. The Federal Government also helps veterans obtain housing through veterans bonds that State and local governments issue, the interest on which is not subject to Federal tax. In 2000, this provision will cost the Government an estimated $40 million.

28. ADMINISTRATION OF JUSTICE

Table 28–1. FEDERAL RESOURCES IN SUPPORT OF ADMINISTRATION OF JUSTICE
(In millions of dollars)

Function 750	1998 Actual	Estimate					
		1999	2000	2001	2002	2003	2004
Spending:							
Discretionary Budget Authority	24,840	26,177	26,376	26,754	26,915	26,734	26,833
Mandatory Outlays:							
Existing law	682	1,042	796	611	574	546	2,062
Proposed legislation	....	....	....	....	....	....	–1,522

While States and localities bear most of the responsibility for fighting crime, the Federal Government also plays a critical role. Along with supporting State and local activities, the Federal Government investigates and prosecutes criminal acts that require a Federal response. In 1999, anti-crime expenditures will consume 4.6 percent of all Federal discretionary spending, compared with about two percent in 1989.

Total Federal, State, and local resources devoted to the administration of justice—including law enforcement, litigation, judicial, and correctional activities—grew from $82 billion in 1990 to an estimated $153 billion in 1999—an 87-percent increase (see Chart 28–1). During this period, the Federal law enforcement component, including transfer payments to State and local law enforcement activities, more than doubled, from $12.4 billion in 1990 to $26.2 billion in 1999. Nevertheless, Federal resources account for only 17 percent of total governmental spending for administration of justice.

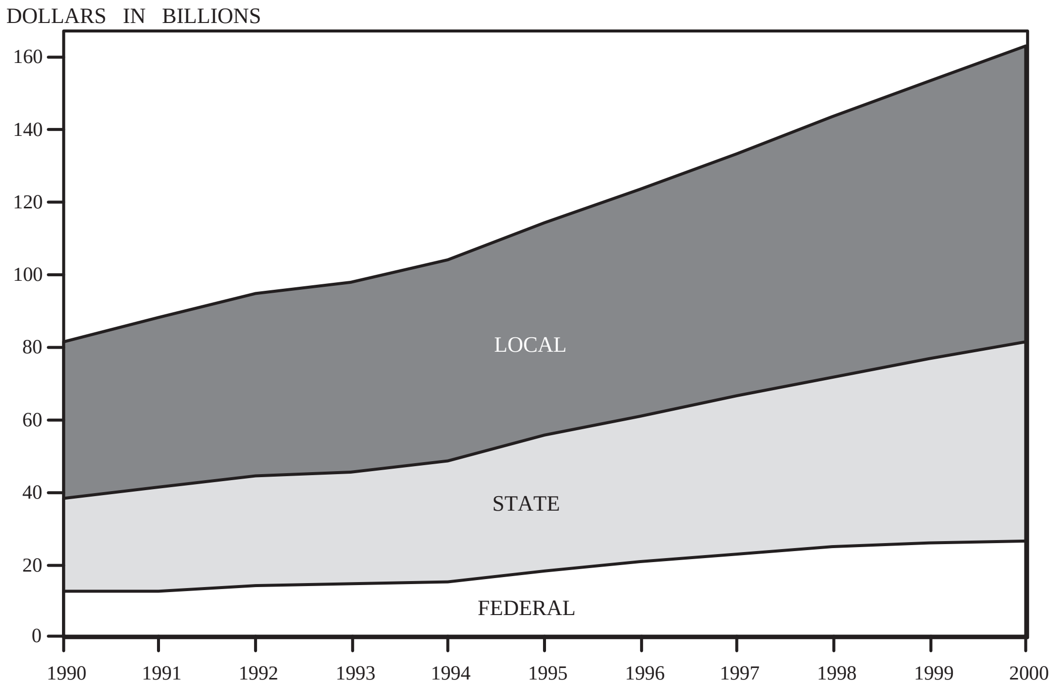
The number of criminal offenses that law enforcement agencies reported fell by two percent from 1996 to 1997—marking the sixth straight year that the crime rate has fallen. The number reported in the first six months of 1998, the most recent period for which figures are available, was five percent lower than in the same period in 1997. The drop in crime, when compared with increases in anti-crime spending during the same period, suggests a causal relationship, although crime is affected by varying factors. The budget builds upon this record of success by continuing to provide substantial funding for proven anti-crime programs.

Funding for the Administration of Justice function includes: (1) law enforcement activities; (2) litigative and judicial activities; (3) correctional activities; and (4) assistance to State and local entities (see Chart 28–2). In 1999, 69 percent of these funds went to the Justice Department (DOJ), while most of the rest went to the Treasury Department and the Judicial Branch.

Law Enforcement

The Department of Justice (DOJ): The 2000 budget enables DOJ to enforce a wide range of laws. The FBI and Drug Enforcement Administration (DEA) enforce diverse Federal laws dealing with violent crime, terrorism, white collar crime, drug smuggling, and many other criminal acts. The Immigration and Naturalization Service (INS) protects the U.S. border from illegal migration while providing services to legal aliens. Federal agencies also work with State and local law enforcement agencies, often through joint task forces, to address drug, gang, and other violent crime prob-

Chart 28-1. ADMINISTRATION OF JUSTICE EXPENDITURES



Note: Federal data includes discretionary expenditures only.

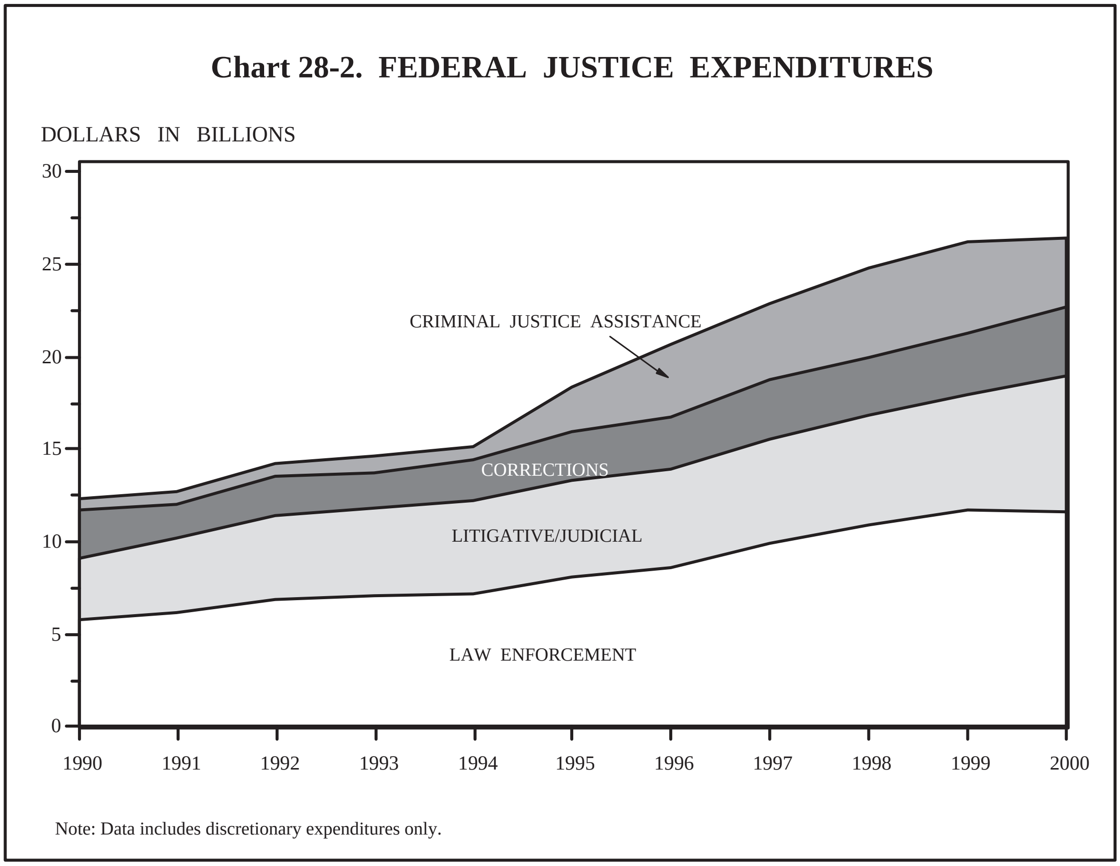
lems. In 2000, with respect to violent crime, the Justice Department will:

- maintain the Federal Government's commitment to reduce the incidence of violent crime below the 1997 level of 611 offenses per 100,000 population.
- reduce specific areas of organized crime and its influence on unions and industries from the 1998 level, while intensifying efforts to prevent emerging organized crime enterprises from gaining a foothold in particular areas.
- apprehend 80 percent of violent offenders within one year of a warrant's issuance, and reduce the fugitive backlog by five percent from 1999 levels. At the end of 1998, there were 10,677 outstanding fugitive warrants.

With respect to immigration and border control, DOJ will:

- increase the number of removals of aliens who are illegally in the United States from 114,386 in 1997 to approximately 165,800 in 2000.
- identify over 38,500 unauthorized alien workers, thereby opening up potential jobs for U.S. citizens and other legally authorized workers.
- in conjunction with the Treasury and Agriculture Departments, increase the percent of legitimate air passengers cleared through primary inspection in 30 minutes or less from 35 percent in 1998 to 65 percent in 2000; and work to process legitimate land border travelers through the primary inspection process on the Mexico border in 30 minutes or less in 2000.
- reduce the average time between application and naturalization of qualified candidates from an estimated 20 months in 1998 to six to nine months by the end of 2000.

The Treasury Department: Within the Treasury Department, the U.S. Customs Service, Bureau of Alcohol, Tobacco and Firearms



(ATF), United States Secret Service, and other bureaus enforce laws related to drug and contraband at our borders; commercial fraud; firearms trafficking; arson and explosives crime; and financial crimes, including money laundering, counterfeiting, and credit card fraud. In addition, the Customs Service regulates the importation and exportation of goods; ATF regulates the alcohol, tobacco, firearms, and explosives industries; and the Secret Service protects the President, Vice President, and visiting foreign dignitaries. The Federal Law Enforcement Training Center (FLETC) provides basic and advanced training to Treasury and other law enforcement personnel. In 2000, the Treasury Department will:

- help solve violent crimes and reduce firearms trafficking by tracing up to 285,000 firearms used in criminal activities, compared to 191,378 in 1997;
- ensure the physical protection of the President, Vice President, visiting foreign dignitaries, and others protected by the Secret Service.
- maintain or improve upon its 99 percent collection rate for trade revenue (duties, taxes, and user fees).
- enhance trade data quality by improving importers' compliance with trade laws (e.g., quotas, trademarks, classification, etc.) from 83 percent in 1997 to 86 percent in 2000.

Federal Drug Control Activities: The Office of National Drug Control Policy (ONDCP) has lead the Federal drug control agencies in the development of a comprehensive set of aggressive societal goals for anti-drug programs, recognizing that achieving National Drug Control Strategy Objectives depends critically on the actions of not only the Federal Government, but of State, local, and foreign governments, the private sector and on the behavior of individuals. At the core of these crosscutting goals are 12 Impact Targets that define what the drug control community is trying to achieve by 2002 and 2007. Following are three of these goals for 2002:

- reduce the overall rate of illegal drug use in the United States by 25 percent, from the 1996 baseline of 6.1 percent to 4.6 percent.
- reduce the rate of crime associated with drug trafficking and use by 15 percent. (Collection and reporting of 1996 data is in progress.)
- reduce by 10 percent the health and social costs associated with drug use. (Collection and reporting of 1996 data is in progress.)

Civil Rights Laws: Federal responsibility to enforce civil rights laws in employment and housing arises from Titles VII and VIII of the Civil Rights Act of 1964, as well as more recent legislation, including the Age Discrimination in Employment Act and the Americans with Disabilities Act. The Department of Housing and Urban Development (HUD) enforces laws that prohibit discrimination on the basis of race, color, sex, religion, disability, familial status, or national origin in the sale or rental, provision of brokerage services, or financing of housing. The Equal Employment Opportunity Commission enforces laws that prohibit employment discrimination on the basis of race, color, sex, religion, disability, age, and national origin. DOJ's Civil Rights Division enforces a variety of criminal and civil statutes that protect the constitutional and statutory rights of the Nation's citizens. The performance goals for this area are as follows:

- The Equal Employment Opportunity Commission will reduce the backlog of private sector complaints from 57,000 at the end of 1998 to 28,000 at the end of 2000.
- As part of a three year, 60 community initiative, HUD will ensure that its grantees in an additional 20 communities (for a total of 40 undertake fair housing audit-based enforcement, using a HUD-developed standardized methodology, to develop local indices of discrimination, to identify and pursue violations of fair housing laws, and to promote new fair housing enforcement initiatives at the local level.

Litigation and Judicial Activities

After law enforcement agencies such as the FBI, DEA, and ATF have investigated and apprehended perpetrators of Federal crimes, the United States must prosecute them. This task falls primarily to the 93 United States Attorneys and the 4,700 Assistant United States Attorneys. Along with prosecuting cases referred by Federal law enforcement agencies, the U.S. Attorneys work with State and local police and prosecutors in their efforts to bring to justice those who have violated Federal laws—whether international drug traffickers, organized crime ringleaders, or perpetrators of white collar fraud. The U.S. Marshals Service protects the Federal courts and their officers; apprehends fugitives; and maintains custody of prisoners involved in judicial proceedings.

In addition, DOJ contains several legal divisions specializing in specific areas of criminal and civil law. These divisions—including the Civil, Criminal, Civil Rights, Environment and Natural Resources, Tax, and Antitrust Divisions—work with the U.S. Attorneys to ensure that violators of Federal laws are brought to justice. The Federal Government, through the Legal Services Corporation, also promotes equal access to the Nation's legal system by funding local organizations that provide legal assistance to the poor in civil cases. In 2000, the Justice Department will seek to:

- increase the number of hate crime cases prosecuted, compared with 1999. In 1998, there were 17 cases prosecuted.
- ensure that no judge, witness, or other court participant is the victim of an assault stemming from his or her involvement in a Federal court proceeding.

The Judiciary's growth in recent years arises from increased Federal enforcement efforts and Congress' continued expansion of the Federal courts' jurisdiction. Accounting for 13 percent of total administration of justice spending, the Judiciary comprises the Supreme Court and 12 circuit courts of appeals, 94 district courts, 90 bankruptcy courts, 94 federal probation offices, the Court of Appeals for the Federal Circuit and the Court of International Trade. The Federal Judiciary is overseen by 2,196 Federal judges and nine Supreme Court justices.

Correctional Activities

The budget proposes $3.8 billion for corrections activities. As of December, 1998, there were more than 124,000 inmates in the Federal Prison System, more than double the number in 1989. This growth, which is expected to continue, is due to tougher sentencing guidelines, the abolition of parole, minimum mandatory sentences, and higher spending on law enforcement. The total U.S. inmate population, of which the Federal Prison System represents less than one tenth, has increased as well. State inmate populations have grown, in part, due to sentencing requirements tied to Federal prison grant funds. In the Federal system, 62 percent of inmates serving time were convicted on drug-related charges. In 2000, the Federal Bureau of Prisons will:

- keep the overcrowding rate below 32 percent by expanding its bed capacity and continuing to construct additional prisons within performance, schedule and budget targets.
- operate the Federal prison system in an efficient manner, in part by maintaining the 1997 daily per capita cost of $59.83.

Criminal Justice Assistance for State and Local Governments

Community Policing and Preventing Gun Violence: The budget proposes $4 billion to help State and local governments fight crime including $424 million to assist crime victims. The 2000 budget builds on the success of the Community Oriented Policing Services (COPS) program and includes $1.3 billion for the 21st Century Policing Initiative. This program expands the concept of community policing to include community prosecution, law enforcement technology assistance, and prevention. To address the continuing problem of gun violence, the Administration supports a new effort under the Brady Law to keep guns out of the hands of criminals and to make America's streets safer. As part of this effort, the Justice Department, working with the States, is now conducting computerized background checks on all firearm purchases. The instacheck system has been used to block more than 100 illegal gun sales a day since the program was implemented. In 2000, DOJ will:

- provide funding to communities to hire over 6,000 additional officers.
- in conjunction with the Treasury Department, review over nine million prospective gun sales to prevent felons, fugitives, stalkers and other prohibited purchasers from buying guns.

Stopping Violence against Women: To combat the significant problem of violence against women, the budget proposes $462 million to enhance the States' abilities to respond, and to further expand access to previously under-served rural, Indian, and other minority populations.

- As a result of grants that encourage arrests, DOJ will seek to increase by 145 percent over the 1997 baseline estimate of 50, the number of grantees reporting a decrease in domestic violence calls in 2000.

Combating Juvenile Delinquency: To prevent young people from becoming involved in the juvenile justice system, the budget includes $289 million for juvenile justice programs, including those that provide supervised afternoon and evening activities for youth. In 2000, compared with 1999 levels, DOJ will seek to:

- reduce the incidence of juveniles illegally carrying guns.
- reduce the number of juvenile gun-related crimes.

29. GENERAL GOVERNMENT

Table 29–1. FEDERAL RESOURCES IN SUPPORT OF GENERAL GOVERNMENT
(In millions of dollars)

Function 800	1998 Actual	Estimate					
		1999	2000	2001	2002	2003	2004
Spending:							
Discretionary Budget Authority	12,071	13,200	12,722	13,509	13,181	13,259	13,224
Mandatory Outlays:							
Existing law	1,437	2,445	1,443	1,153	1,064	1,117	1,324
Proposed legislation	....	....	73	87	101	110	118
Tax Expenditures:							
Existing law	56,805	59,175	61,570	64,140	66,865	69,715	72,900
Proposed legislation	....	....	24	46	71	106	141

The General Government function encompasses the central management activities of the executive and legislative branches. Its major activities include Federal finances (tax collection, public debt, currency and coinage, Government-wide accounting), personnel management, and general administrative and property management.

Four agencies are responsible for these activities: the Treasury Department (for which the budget proposes $12.5 billion), the General Services Administration ($161 million), the Office of Personnel Management ($198 million), and the Office of Management and Budget in the Executive Office of the President ($63 million).

Department of the Treasury

Treasury is the Federal Government's financial agent. It produces and protects the Nation's currency; helps set domestic and international financial, economic, and tax policy; enforces economic embargoes and sanctions; regulates financial institutions and the alcohol, tobacco, and firearms industries; manages the Federal Government's financial accounts; and protects citizens and commerce against those who counterfeit money, engage in financial fraud, violate our border, and threaten our leaders. Treasury's law enforcement functions are included in Chapter 28, "Administration of Justice."

In 2000 Treasury will seek to collect an estimated $1.8 trillion in tax and tariff revenues due under law; pay electronically more than 75 percent of the 903 million payments that it makes; issue $2 trillion in marketable securities and savings bonds to finance the Government's operations and promote citizens' savings; and produce nine billion Federal Reserve Notes, 15 billion postage stamps, and 17.9 billion coins.

The Internal Revenue Service (IRS): The IRS is the Federal Government's main revenue collector. The Service's newly revised mission is to provide America's taxpayers with top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all. To carry out its new customer service oriented mission, IRS will reorganize into four operating divisions, each focused on serving a group of taxpayers with similar needs (i.e., wage and investment, small business/self-employment/supplemental income, middle market/large corporate, and tax exempt).

The IRS is introducing a new system in 1999 to assess organizational performance and identify opportunities for improvement.

The IRS is realigning management processes and activities to ensure that they support the Service's mission and incorporate the principles of a balanced measurement system. Organizational performance measures will balance business results (including quality and quantity measures), customer satisfaction, and employee satisfaction. In addition to the new measurement system, IRS is undertaking a study to improve its methodology for estimating taxpayer compliance burden.

Some performance targets will not be available for the IRS' new measures until the IRS establishes baselines. However, in 2000, the targets for the following critical areas of the Service's performance are:

- continue to improve customer service through its toll-free assistance, answering 80 to 90 percent of calls, (89.9 percent in 1998), with an accuracy rate of 85 percent for tax law questions;
- receive 25.0 percent of individual returns filed electronically, up from 19.8 percent in 1998, with seven to eight million using Telefile, which allows taxpayers to file a simple tax return on the telephone in 10 minutes;
- receive 78.0 percent of tax revenues electronically (up from 41 percent in 1997); and
- process 98 percent of refunds for electronic returns within 21 days.

The Financial Management Service (FMS): The FMS mission is to improve the quality of Federal Government financial management by providing financial services, information and advice to Federal program agencies and other clients. In 2000, FMS will:

- increase the percentage of Federal payments and associated information transmitted electronically from 58 percent in 1997 to 75 percent in 2000; and
- increase electronic collections as a percentage of total collections from 52 percent in 1997 to 75 in 2000.

The Bureau of Public Debt (BPD): BPD conducts all public debt operations for the Federal government and promotes the sale of U.S. savings-type securities. In 2000, BPD will:

- issue at least 95 percent of over-the-counter bonds within three weeks of their purchase; and
- announce auction results within one hour 95 percent of the time.

The U.S. Mint: The U.S. Mint produces the Nation's coinage and manufactures numismatic products for the public. In 2000, the U.S. Mint will:

- introduce a new dollar coin and the second five-State series in the 50 States Commemorative Quarter Program; and
- maintain high levels of customer service by shipping commemorative coins within four weeks and recurring coins within three weeks of order placement.

The Bureau of Engraving and Printing (BEP): BEP produces all U.S. currency, about half of U.S. postage stamps, and other government securities. In 2000, the BEP will:

- introduce the newly-designed $10 and $5 notes with enhanced security features; and
- meet all currency shipment requirements for the Federal Reserve.

General Services Administration (GSA)

GSA provides policy leadership and expertly managed space, products, and services to support the administrative needs of Federal agencies. In 2000, revenues from GSA's various business lines will approach $14 billion. GSA is responsible for more than $50 billion a year in Federal spending for property management and administrative services, and management of assets valued at nearly $500 billion.

In recent years, GSA has worked to develop a new Federal management model, focusing on performance measurement, accountability for agencies and employees, and the effective use of technology in changing work environments. GSA has established inter-agency groups to advise it on the policies, best practices, and performance benchmarks appropriate for each administrative service and information system. GSA's ultimate goal is a Federal Government in which agencies receive the administrative services they need according to the best practices known and at the least cost.

As a provider of many administrative services, GSA seeks to exceed all Government-wide performance goals and industry benchmarks for these services as such benchmarks are developed or identified. Its overall goals as a service provider are to exceed its customer agencies' expectations for price, service and quality. In 2000:

- the Public Buildings Service will deliver 80 percent of its construction and repair projects on schedule and within budget, up from 78 percent in 1998;
- the Federal Technology Service projects a monthly line charge for local telephone service of $19.84, a 31-percent cut from 1994 rates; and
- the Federal Supply Service will lease automobiles and other motor vehicles to Federal agencies at rates that average 20 percent below comparable commercial lease rates.

Because GSA provides services on a reimbursable basis, agency budgets fund most of GSA's activities. In 2000, for example, the budget proposes an appropriation of $161 million for GSA, primarily for the Office of Government-wide Policy and the Office of the Inspector General. However, the budget projects obligations of nearly $14 billion through GSA's revolving funds. In addition, GSA will administer contracts through which agencies will buy more than $19 billion in goods and services outside of GSA's revolving funds.

Office of Personnel Management (OPM)

OPM provides human resource management leadership and services, based on merit principles, to Federal agencies and employees. It provides policy guidance, advice, and direct personnel services and systems to the agencies; operates a Worldwide job information and application system; and provides fast, friendly, accurate, and cost-effective retirement, health benefit, and life insurance services to Federal employees, annuitants, and agencies.

In 2000, OPM will:

- maintain the average time to process an annuity application of 23 days (which exceeds the 1999 goal of 35 days—down from 83 days in 1994) and reduce survivor pay processing time from 20 days in 1998 to nine days;
- handle about 1,072,000 annuity inquiries, a 10-percent increase in volume, and increase its customer satisfaction rate to 95 percent;
- increase the percentage of health benefits program customer phone calls answered and completed within the performance standard of 1.5 minutes from 85 percent in 1998 to 90 percent; and
- reduce annuity rolls processing time from 4.5 days 1998 to 4.0 days.

OPM administers the Federal civil service merit systems, covering nearly 1.5 million employees. In 1998, OPM conducted nationwide reviews of eight major agencies, finding few serious problems and discovering many "best practices" it shared with other agencies. In 1999, OPM will conduct seven reviews. In 2000, additional reviews will expand to non-Title 5 agencies (e.g., personnel in the Executive Branch who are not covered by Title 5 of the U.S. Code) and more small agencies, increasing site visits from 120 to 134.

OPM plays a proactive role in diversity initiatives. In 1998, OPM issued a strengthened nine-point plan to increase Hispanic employment, an initiative for improving African-American representation at higher grade levels, and targeted recruitment guidance for women and for persons with disabilities. OPM will build upon these efforts by institutionalizing the successful outreach strategies employed in the Presidential Management Intern program, and utilizing competency-based assessment tools to identify high quality, diverse candidates for professional and administrative careers.

Office of Management and Budget (OMB)

OMB helps the President create policy relating to receipts and expenditures, regulations, information, and legislation; and manage the Executive Branch in the faithful execution of laws, policies, and programs. OMB also provides the President with the highest-quality analysis and advice on a broad range of topics.

OMB advocates the appropriate allocation and effective use of Government resources. OMB helps the President prepare the Federal budget and oversee its execution in the departments and agencies. In helping formulate the President's spending plans, OMB examines the effectiveness of agency programs, policies, and procedures; assesses competing funding demands among agencies; and provides policy options. OMB works to ensure that proposed legislation, and agency testimony, reports, and policies are consistent with Administration policies. OMB focuses particular attention on managing the processes for coordinating and integrating policies for interagency programs. On behalf of the President, OMB often presents and justifies major policies and initiatives related to the budget and Government management before Congress.

OMB has a central role in developing, overseeing, coordinating, and implementing Federal procurement, financial management, information, and regulatory policies. OMB helps to strengthen administrative management, develop better performance measures, and improve coordination among Executive Branch agencies.

In 2000, OMB will produce the annual budget for 2001 using a state-of-the art off-site secure data center, to improve efficiency and timeliness, improve services to agency customers, and ensure Y2K compliance.

Tax Incentives

The Federal Government provides significant tax benefits for State and local governments. It permits tax-exempt borrowing for public purposes, costing $20.4 billion in Federal revenue losses in 2000 and $104.3 billion over five years, from 2000 to 2004. (The budget describes tax-exempt borrowing for non-public purposes in the chapters on other Government functions.) In addition, taxpayers can deduct State and local income taxes against their Federal income tax, costing $37.0 billion in 2000 and $210 billion over five years. Corporations with business in Puerto Rico and other U.S. possessions receive a special tax credit, costing an estimated $4.6 billion in 2000 and $21 billion over five years. This tax credit is phasing out and will expire at the end of 2005. Finally, up to certain limits, taxpayers can credit State death taxes against Federal estate taxes, costing $28.4 billion over five years.

33. REGULATION: COSTS AND BENEFITS

Along with taxing and spending, the Federal Government makes policy through regulating—that is, generally, through Executive Branch actions to interpret or implement legislation. The Administration's approach to regulation is careful design and implementation at the least cost. The Office of Management and Budget (OMB), the White House office that sets regulatory policy, has adopted the following objective in its Strategic Plan: maximize social benefits of regulation while minimizing the costs and burdens of regulation.

The Government is still learning how to accurately estimate regulatory costs, such as how much the private sector spends to comply with regulations, and benefits, such as safer cars and food. For more than 20 years, a series of Executive Orders has charged OMB with reviewing regulations and providing information on their costs and benefits. The President's September 1993 Executive Order, "Regulatory Planning and Review," directs agencies to assess the costs and benefits of available regulatory alternatives and to issue only regulations that maximize net benefits (benefits minus costs), unless a law requires another approach.

Developing and evaluating the best possible data on benefits and costs are central to the Government's ability to assess how well the regulatory system functions to fulfill public needs. To meet that goal, OMB works with the agencies to improve the quality of the data and analyses they use in making regulatory decisions for both new and existing regulations, and to promote the use of standardized assumptions and methodologies uniformly across regulatory programs.

Difficulties in Estimation: Estimating regulatory costs and benefits is hard for a variety of reasons, two of the most important of which are the "baseline" problem and the "apples and oranges" problem.

To estimate how regulations affect society and the economy, the Government must determine the baseline against which to measure costs and benefits; that is, what would have happened if the Government had not issued the regulation? But, several problems arise. First, no one can craft such a hypothetical baseline with certainty. Second, measures of costs and benefits often vary, depending on who is measuring. Agencies generally support their regulatory programs and, thus, may understate costs or overstate the likely benefits; at the same time, businesses and others who bear the costs will likely do the opposite. Third, the timing of estimates also may make a difference. Most estimates are made before the regulation takes effect, but evidence exists that once regulations are in place, the affected entities find less costly ways to comply.

The "apples and oranges" problem derives from the nature and diversity of regulation itself. Over 60 Federal agencies regulate over 4,000 times a year for a wide array of public purposes. OMB itself reviews about 500 proposed and final rules per year. The Government must make decisions about the chemicals introduced into commerce, the accessibility of public transportation, and safety of the Nation's food supply. Estimating the costs of such diverse activities is hard; estimating the benefits is even harder. The Government is working on these problems and is making steady progress on methodology and data collection.

Costs and Benefits of Regulation: OMB's second survey, *Report to Congress on the Costs and Benefits of Federal Regulations, 1998,* presents new estimates of the aggregate costs and benefits of Federal regulation and regulatory programs, as well as the costs and benefits of major individual regulations issued during the last three last years. The report continues progress toward developing a system to track OMB performance in minimizing costs while achieving social benefits.

The report uses information on costs and benefits published in peer-reviewed journals, or published for public comment by agencies and reviewed by OMB, to estimate aggregate costs and benefits for four categories of social regulation: environmental, transportation, labor, and other social regulations, such as food safety (see Table 33–1).

The estimates in Table 33–1 are presented in wide ranges to emphasize their inherent uncertainty, particularly with the benefit estimates. Moreover, only costs and benefits that could be quantified and assigned a dollar value are included in the estimates. The estimates indicate that regulation has most likely produced very large net benefits for society, especially for the environment and transportation. The benefits of environmental regulations reflect the value that society places on improved health, recreational opportunities, quality of life, preservation of ecosystems, biodiversity, and so on. The broadening of the upper end of the range in the benefit estimates for the environment is largely due to an Environmental Protection Agency (EPA) report that, due to a court-ordered deadline did not go through an interagency review, and which estimates that the annual benefits of the Clean Air Act might be as high as $3.2 trillion. The OMB report discusses the key assumptions behind these estimates and specifically notes that the results appear to be sensitive to choices made concerning the baseline for the analysis and the translation of improvements in air quality to human health benefits.

The benefits of transportation, labor, and other social regulation mainly include the value provided by improved safety and health. Generally, the costs are the expenses incurred in compliance, based on engineering designs and current prices, although sometimes they properly include the opportunity costs of foregoing the benefits of what would have been produced in the absence of the regulation.

Although Table 33–1 shows that, in total and for important categories, Federal regulations have provided more benefits than costs, it says little about current regulatory policy or how to improve it. To address these issues, the Government needs estimates of the costs and benefits of the incremental changes to recent regulations. In its report, OMB also provided estimates of the costs and benefits of 34 final regulations that it reviewed from April 1, 1995, to March 31, 1998, for which it had relatively complete monetized estimates. These 34 rules represent about 25 percent of the "major" rules—rules that are expected to have an economic impact on the economy of over $100 million —and about five percent of all the rules reviewed by OMB over this period.

The 34 rules are estimated to provide $30 billion to almost $100 billion in annualized benefits to society for about $28 billion in annualized costs, suggesting net benefits even at the lower benefit estimate. Three rules dominate these estimates: a 1996 Health and Human Services rule that places restrictions on the sale of tobacco and the two 1997 EPA rules revising the National Ambient Air Quality Standards for ozone and particulate matter.

Table 33–1. Estimates of the Total Annual Benefits and Costs of Social Regulations

(In billions of 1996 dollars as of 1998, Q1)

	Benefits	Costs
Environmental	[1] 93 to 3,300	120 to 170
Transportation	84 to 110	15 to 18
Labor	28 to 30	18 to 19
Other	53 to 58	17 to 22
Total	260 to 3,500	170 to 230

Source: OMB, *Report to Congress On the Costs and Benefits of Federal Regulations, 1998.*

[1] The upper end of the range is based on an EPA report.

Further Action: The Government needs better data and analysis to determine whether proposed regulations maximize social benefits while minimizing cost. But agencies have legitimate reasons for their often incomplete estimates. In some cases, they face significant technical problems in assessing costs and benefits. In others, legal or judicial deadlines force the agencies to act within time frames that do not allow for adequate analysis. In still others, agencies may need to allocate their limited financial and human resources to higher priorities. Finally, in cases of emergencies, the public expects its elected leaders to respond without the delay that careful analysis would entail.

OMB is committed to improving the indicators to assess its performance in meeting the goal of ensuring that it is faithfully executing and managing regulatory policy. It will continue to lead an inter-agency effort to raise the quality of analyses that agencies use in developing regulations, such as by offering technical outreach programs and training sessions on using OMB's "Best Practices" on economic analysis, and to make recommendations for better estimation techniques to value costs and benefits.

OMB also will:

- continue to develop a database on benefits and costs of major rules, using consistent assumptions and better estimation techniques to refine agency estimates of incremental costs and benefits; and
- work on developing appropriate methodologies to evaluate whether to reform or eliminate existing regulatory programs or their elements.

Regulation and regulatory reform can do much good for society, depending on whether the Government has the needed information and analysis for wise decision-making. The steps outlined above are designed to continue the Government's efforts to improve its ability to make better regulatory decisions.