FISCAL YEAR 2003

BUDGET



OF THE U.S. GOVERNMENT

THE BUDGET DOCUMENTS

Budget of the United States Government, Fiscal Year 2003 contains the Budget Message of the President and information on the President's budget and management priorities, including assessments of agencies' performance.

Analytical Perspectives, Budget of the United States Government, Fiscal Year 2003 contains analyses that are designed to highlight specified subject areas or provide other significant presentations of budget data that place the budget in perspective.

The *Analytical Perspectives* volume includes economic and accounting analyses; information on Federal receipts and collections; analyses of Federal spending; detailed information on Federal borrowing and debt; the Budget Enforcement Act preview report; current services estimates; and other technical presentations. It also includes information on the budget system and concepts and a list of Federal programs by agency and account, as well as by budget function.

Historical Tables, Budget of the United States Government, Fiscal Year 2003 provides data on budget receipts, outlays, surpluses or deficits, Federal debt, and Federal employment over an extended time period, generally from 1940 or earlier to 2007. To the extent feasible, the data have been adjusted to provide consistency with the 2003 Budget and to provide comparability over time.

Budget of the United States Government, Fiscal Year 2003—Appendix contains detailed information on the various appropriations and funds that constitute the budget and is designed primarily for the use of the Appropriations Committee. The *Appendix* contains more detailed financial information on individual programs and appropriation accounts than any of the other budget documents. It includes for each agency: the proposed text of appropriations language, budget schedules for each account, new legislative proposals, explanations of the work to be performed and the funds needed, and proposed general provisions applicable to the appropriations of entire agencies or group of agencies. Information is also provided on certain activities whose outlays are not part of the budget totals.

Budget System and Concepts, Fiscal Year 2003 contains an explanation of the system and concepts used to formulate the President's budget proposals.

Budget Information for States, Fiscal Year 2003 is an Office of Management and Budget (OMB) publication that provides proposed State-by-State obligations for the major Federal formula grant programs to State and local governments. The allocations are based on the proposals in the President's Budget. The report is released after the budget.

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The information contained in these documents is available in electronic format from the following sources:

CD-ROM. The CD-ROM contains all of the budget documents and software to support reading, printing, and searching the documents. The CD-ROM also has many of the tables in the budget in spreadsheet format.

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GENERAL NOTES

1. All years referred to are fiscal years, unless otherwise noted.
2. Detail in this document may not add to the totals due to rounding.

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON 2002

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

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THE BUDGET MESSAGE OF THE PRESIDENT

THE BUDGET MESSAGE OF THE PRESIDENT

To the Congress of the United States:

Americans will never forget the murderous events of September 11, 2001. They are for us what Pearl Harbor was to an earlier generation of Americans: a terrible wrong and a call to action.

With courage, unity, and purpose, we met the challenges of 2001. The budget for 2003 recognizes the new realities confronting our nation, and funds the war against terrorism and the defense of our homeland.

The budget for 2003 is much more than a tabulation of numbers. It is a plan to fight a war we did not seek—but a war we are determined to win.

In this war, our first priority must be the security of our homeland. My budget provides the resources to combat terrorism at home, to protect our people, and preserve our constitutional freedoms. Our new Office of Homeland Security will coordinate the efforts of the federal government, the 50 states, the territories, the District of Columbia, and hundreds of local governments: all to produce a comprehensive and far-reaching plan for securing America against terrorist attack.

Next, America's military—which has fought so boldly and decisively in Afghanistan—must be strengthened still further, so it can act still more effectively to find, pursue, and destroy our enemies. The 2003 Budget requests the biggest increase in defense spending in 20 years, to pay the cost of war and the price of transforming our Cold War military into a new 21st Century fighting force.

We have priorities at home as well—restoring health to our economy above all. Our economy had begun to weaken over a year before September 11th, but the terrorist attack dealt it another severe blow. This budget advances a bipartisan economic recovery plan that provides much more than greater unemployment benefits: it is a plan to speed the return of strong economic growth, to generate jobs, and to give unemployed Americans the dignity and security of a paycheck instead of an unemployment check.

The plan also calls for maintaining low tax rates, freer trade, restraint in government spending, regulatory and tort reform, promoting a sound energy policy, and funding key priorities in education, health, and compassionate social programs.

It is a bold plan—and it is matched by a bold agenda for government reform. From the beginning of my Administration, I have called for better management of the federal government. Now, with all the new demands on our resources, better management is needed more sorely than ever. Just as the No Child Left Behind Act of 2001 asks each local school to measure the education of our children, we must measure performance and demand results in federal government programs.

Where government programs are succeeding, their efforts should be reinforced—and the 2003 Budget provides resources to do that. And when objective measures reveal that government programs are not succeeding, those programs should be reinvented, redirected, or retired.

By curtailing unsuccessful programs and moderating the growth of spending in the rest of government, we can well afford to fight terrorism, take action to restore economic growth, and offer substantial increases in spending for improved performance at low-income schools, key environmental programs, health care, science and technology research, and many other areas.

We live in extraordinary times—but America is an extraordinary country. Americans have risen to every challenge they have faced in the past. Americans are rising again to the challenges of today. And once again, we will prevail.

George W. Bush

February 4, 2002

A NOTE TO READERS

Once in a long time, an established publication presents itself in a new format, and the occasion requires an explanation to readers grown accustomed to the old form. The President's 2003 Budget represents such a change.

The first differences you may notice are merely presentational, all aimed at enhancing readability. This budget attempts to simplify information, to reduce the use of jargon, and to illustrate its contentions more liberally with charts, tables, and real-life examples. Color and photographs appear for the first time.

But these changes are incidental compared to a fundamental difference in emphasis. The President's Budget for 2003 seeks to inaugurate an era of accountability in the conduct of the nation's public business. It takes the first step toward reporting to taxpayers on the relative effectiveness of the thousands of purposes on which their money is spent. It commences the overdue process of seriously linking program performance to future spending levels. It asks not merely "How much?"; it endeavors to explain "How well?"

These changes have been called for by good government advocates for decades. A 1949 commission headed by the 31st President, Herbert Hoover, first introduced the term "performance-based budgeting." Subsequent Presidents launched efforts to get better results from government. During the 1990s, the Congress passed several statutes aimed at enhancing government's attention to performance. The Government Performance and Results Act (GPRA) in 1993 directed the executive branch to undertake the measurement of effectiveness and to reflect the answers in budget choices. As Senator John Glenn said several years later, "The ultimate goal of GPRA is to use program performance information to guide resource allocation decisions. I repeat that. Use program performance information to guide resource allocation decisions. That is the important connect."

In an initial and admittedly exploratory way, this document responds to these longstanding demands, proposing to reinforce provably strong programs, and to redirect funds in many cases from programs that demonstrably fail, or cannot offer evidence of success.

Real scrutiny of results and real accountability in government were long overdue, in any case. But they are absolutely essential at a time when national security requirements mandate significant new spending. Defeating international terrorism and defending Americans in our homeland are imperative duties of the federal government, above and beyond all its other activities. We must provide for these increases and fund other necessary programs without letting total spending rise unacceptably. We must demand proof of value from programs of lesser priority.

The information on which program ratings are based is far from perfect, and some conclusions may prove erroneous over time. The Administration invites a spirited discussion and welcomes additional data, as well as suggestions about how to measure performance better throughout the federal government.

Bringing accountability to government goes beyond performance-based budgeting. President Bush has ordered that his appointees take responsibility for improving the day-to-day management of the government with which they are entrusted.

To that end, the President directed the creation of a reform agenda, aimed at attacking the worst shortcomings of the government he inherited. This budget includes the first agency report cards, assessing the starting point of each department in these problem areas. Reports on the progress of each agency in improving from these baselines will be provided regularly to the President and to the public.

Finally, the 2003 Budget parts ways with Washington's six year experiment with 10 year forecasting. Previous budgets' attempts to look out a decade in the future have varied wildly from year to year. But 2001 showed finally how unreliable and ultimately futile such estimates are.

The economic slowdown was already well underway, but its severity could not be known when the last budget was transmitted. The tragic events of September 11th ensured that the downturn became a recession, and added the inescapable new spending requirements of a two-front war. Unemployment rolls at home rose at the same time that long-neglected military needs required attention to begin what will be an ongoing campaign against terror.

Revised economics alone knocked 30 percent from the hoped-for 10 year surplus. Recognizing the uncertainty of long-term projections, the Administration in its 2002 Budget had set aside $1 trillion, or 18 percent, of the estimated surplus as a contingency reserve, but even this precaution was not enough to cover the drop in forecasted revenue caused by the poor economy.

For continuity purposes, the 2003 Budget updates 10 year estimates at the overall level, but puts the appropriate focus on five year figures. Beginning with this budget, agency totals and supporting details are projected for the five years that the law requires.

Taken together, the above changes produce a very different sort of budget, one the Administration hopes will inform its readers in new ways, while broadening the healthy debate that always attends this document. Going forward, let the question we debate be not just "What will the federal government spend?" but also "What will the federal government achieve?"

BUDGET HIGHLIGHTS

A Budget to Fight War and Recession:

- Places highest priority on war against terrorism overseas and at home;
- Incorporates the bipartisan approach to economic stimulus that assists unemployed workers and fosters job creation;
- Reforms the budget to focus on results instead of dollars spent; and
- Funds high-priority initiatives while moderating growth in the rest of government.

Protecting the Homeland

- Equips and trains first responders (firefighting, law enforcement, emergency medical personnel) to respond to potential future threats ($3.5 billion in grants).
- Counters the threat of bioterrorism with enhancements in hospitals and other public health systems ($1.2 billion), research and development ($2.4 billion), pharmaceutical and vaccine stockpile ($400 million), and a national information network for better detection of biological attacks, as well as natural disease outbreaks ($392 million).
- Secures our borders through improved tracking of the entry and exit of non-U.S. citizens (+$350 million), more than doubles the number of Border Patrol agents on the northern border, and enhances Customs Service and Coast Guard operations and equipment.
- Meets aviation security requirements by continuing the renewed commitment to federal air marshals, hiring 30,000 new federal airport security workers, and installing explosive detection equipment ($4.8 billion).

Winning the War on Terrorism Abroad

- Supports 250,000 forward-deployed troops and the 1.1 million here at home with a total defense budget of $369 billion (a 12 percent increase), plus $10 billion more if the war against terrorism requires it.
- Meets new threats by making investments in transformational activities such as unmanned combat aerial vehicles ($146 million), precision munitions ($1.2 billion), and intelligence enhancements.
- Aids countries fighting terrorism abroad ($3.5 billion), expands anti-terrorism and security training for other countries ($121 million), and expands efforts to diminish the threat of the proliferation of nuclear and biological weapons ($1.5 billion).

Returning to Economic Vitality

- Re-proposes a bipartisan approach to economic stimulus that assists unemployed workers and provides tax incentives to boost economic growth.
- Moderates the growth of discretionary spending, excluding national and homeland security requirements, to two percent.
- Balances the budget by 2005 without endangering the war against terrorism and homeland security efforts and without raising taxes.

Governing with Accountability

- Incorporates the President's five management reforms into agencies' budgets and plans: strategic management of human capital, competitive sourcing, E-Government, financial management, and budget and performance integration.
- Includes a Management Scorecard to measure progress on these five management reforms.
- Shifts the budget's focus from how much is being spent to what is being accomplished.
- Begins integration of performance measures in the budget process, rates programs based on their effectiveness, and shifts resources to more effective programs.
- Incorporates the President's Freedom to Manage Initiative and seeks reprogramming and reorganization authority to better align programs and resources.

Funds Other Priority Initiatives while Moderating the Growth in Spending

- *Education.* Funds the No Child Left Behind Act, including $1 billion for the Reading First Initiative and a $1 billion increase to help low-income students meet new reading and math standards. Also funds a historically high level of funding for special education ($8.5 billion).
- *National Institutes of Health (NIH).* Meets commitment to double funding from 1998 levels, proposing $27.3 billion in 2003.
- *Community Health Centers.* Funds 1,200 new or expanded sites to serve an additional 6.1 million patients by 2006.
- *Medicare Prescription Drugs.* Provides a prescription drug benefit in a modernized Medicare program, and takes immediate steps to begin improving Medicare benefits, including assistance with prescription drug costs and better coverage options for seniors (+$190 billion over 10 years).
- *Health Insurance.* Initiates a refundable tax credit to subsidize up to 90 percent of the cost for low and middle income Americans who do not have employer coverage ($89 billion over 10 years).
- *Breast and Cervical Cancer Screening.* Includes a $9 million increase for the Center for Disease Control and Prevention's breast and cervical cancer program to expand screening services for low-income women.
- *Compassion.* Funds the President's Compassion and Faith-Based Initiatives ($6 billion annually when fully phased-in of new charitable giving tax credits, $100 million for the Compassion Capital Fund, $10 million for Maternity Group Homes, $25 million for Mentoring Children of Prisoners, and $20 million for a Responsible Fatherhood Initiative).

- *WIC.* Serves 7.8 million women and children through the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) program ($4.8 billion in 2003).
- *Food Stamps.* Restores eligibility for many legal immigrants.
- *Low-income weatherization.* Assists an additional 18,000 low-income families ($277 million in 2003—a 20 percent increase).
- *Job Corps.* Supports 122 residential training centers ($1.5 billion in 2003).
- *Housing.* Includes a new tax credit for low and middle income Americans for up to 50 percent of the cost of constructing a new home or rehabilitating an existing home.
- *USA Freedom Corps.* Funds the President's new USA Freedom Corps Initiative.
- *Stewardship.* Fully funds the Land and Water Conservation Fund (over $900 million) and maintains commitment to eliminate the National Park Service maintenance backlog by 2006. Provides record high funding for National Wildlife Refuges (+$54 million).
- *Environmental Protection.* Provides record funding levels for the Environmental Protection Agency's operating budget and its state program grants.
- *Science and Technology.* Provides a record high request for science and technology efforts at $57 billion (a nine percent increase).
- *Agriculture*. Funds a farm bill that will provide a solid safety net for all farmers and ranchers, expand markets abroad, and increase resource conservation to enhance our environment (+$73.5 billion over 10 years).
- *Energy.* To reduce dependence on imported oil, funds a new Freedom CAR and a new Coal Research Initiative and proposes $9.1 billion in tax incentives over 10 years to develop alternative technologies, including renewable electricity generation, residential solar energy systems, and hybrid and fuel cell vehicles.
- *International Drug Control.* To destroy the crops and labs that produce cocaine at its sources, funds the Andean Counterdrug Initiative ($731 million).
- *Drug Treatment.* Supports 52,000 additional drug abuse treatment slots.
- *Election Reform.* In line with the recommendations made by former Presidents Carter and Ford, provides $1.2 billion over three years to assist states with the acquisition of new voting machines, voter education, and poll worker training.
- *Tax-Filing.* Improves the convenience and eliminates the cost of electronic filing for citizens with simple tax forms.

SECURING AMERICA'S FUTURE

SECURING AMERICA'S FUTURE

The war against terrorism is a war unlike any other in American history. It is a war that must be fought at home as well as abroad, a war waged on the financial, diplomatic, and intelligence fronts as much as on the battlefield. We did not choose this war—but we will not shrink from it. And we will mobilize all the necessary resources of our society to fight and to win.

Fortunately, our resources are great. Yet the challenge before us is great, as well. The terrorists threaten us not with mighty armies or fleets, but with unpredictable attacks on our civilian population and critical infrastructure. Therefore, we must protect our nation by defending our homeland against new dangers from new sources. We will win the war at home and abroad by destroying terrorist organizations and discrediting their ideology of terror.

Our new war will be costly. Some of those costs will not show up on the government's books. Terrorism has already inflicted considerable losses on the private economy, and now entrepreneurs and employers will have to shoulder the expense of still-tighter security at points of vulnerability. These are real and heavy burdens for our society. The Administration's tax reductions adopted by the Congress in the spring of 2001 will help lighten the load—but more compensatory tax relief will be needed if our economy is to grow as rapidly as it could.

Government, too, will have new bills to pay. Since the end of the Cold War, defense has been a dwindling priority in our national budget. By the end of the 1990s, the United States was spending less of its national income on defense than at any time since the attack on Pearl Harbor. That will have to change—and the 2003 Budget reflects the new reality. Future budgets will need to do likewise.

We have new duties, and we will be judged by how we meet them. We are at war, and we must pay the price to fight a war.

President Bush has called the war against terrorism a "new kind of war." The lessons of history are clear, and we are not immune to old mistakes. In the mid-1960s, the United States government refused to adjust its spending to account for the costs of the war in Vietnam. It insisted on having both "guns and butter" and got instead inflation that lasted through almost two decades and contributed to four recessions, including two of the most severe in modern times.

President Franklin Roosevelt made wiser choices during World War II. As war approached, he husbanded the resources of the nation—and concentrated them upon the nation's supreme priority: victory. In fact, President Roosevelt's 1944 Budget noted that expenditures not related to the war effort were reduced by more than 20 percent between 1939 and 1942.

President Roosevelt's vision preserved freedom, and prepared the way for almost a quarter-century of robust economic growth in the United States and throughout the world. We can show ourselves worthy of that accomplishment by following that example.

PROTECTING THE HOMELAND

Together, we will confront the threat of terrorism. We will take strong precautions aimed at preventing terrorist attacks and prepare to respond effectively if they might come again. We will defend our country; and while we do so, we will not sacrifice the freedoms that make our land unique.

President George W. Bush
October 8, 2001

Overview

Our nation learned a terrible lesson on September 11th—America has evil, cold-blooded enemies capable of unprecedented acts of mass murder and terror. The characteristics of American society that we cherish—our freedom, our openness, our great cities, our modern transportation systems—make us vulnerable to terrorism of catastrophic proportions. This vulnerability will exist even after we bring justice to those responsible for the events of September 11th. Indeed, the threat of mass-destruction terrorism has become a reality of life in the 21st Century. It is a permanent condition to which not just America, but the entire world must adjust.

The federal government has an absolute obligation to secure the homeland from future terrorist attacks. This will involve major new programs and significant reforms by the federal government, several of which are described in this budget. But it will also involve new or expanded efforts by state and local governments, private industry, non-governmental organizations, and ordinary citizens. The higher priority we all now attach to homeland security has already begun to ripple through the land.

Homeland security is a challenge of monumental scale and complexity. It will not be cheap, easy, or quick. Achieving our homeland security objectives will require vast sums of money, strenuous labor, and many years. Our work has already begun, and it will continue. The American people should have no doubt that ultimately we will succeed in weaving a proper and permanent level of security into the fabric of America.

This budget reflects not just our absolute commitment to achieving a much more secure homeland, but also our determination to do so in a manner that preserves liberty and strengthens our economy.

September 11th and Our Response

The September 11th terrorist attacks on the World Trade Center and the Pentagon have presented an unprecedented challenge to our nation. The response has been, and must continue to be, equal to that challenge.

The President's Budget devotes a total of $38 billion to a host of federal agencies that will develop a new level of security to protect Americans at home. Throughout this volume, this Minuteman appears at the bottom of pages where a discussion on homeland security begins.



In the immediate aftermath of the attacks, Congress swiftly appropriated $40 billion to aid reconstruction, wage war against terrorism, and strengthen our defenses at home.

In the months since September 11th, the $10.6 billion of the $40 billion dedicated to homeland security purposes has helped to:

- dramatically increase the number of sky marshals riding on our airlines;
- support the largest criminal investigation in U.S. history;
- acquire enough medicine to treat up to 10 million more people for anthrax or other bacterial infections;
- investigate the sources of terrorist funding, and then freeze the financial assets of more than 150 individuals and organizations connected to international terrorism;
- deploy hundreds of Coast Guard cutters, aircraft, and small boats to patrol the approaches to our ports and protect them from internal or external threats;
- acquire equipment for certain major mail sorting facilities to find and destroy anthrax bacteria and other biological agents of terror; and
- station 8,000 National Guards troops at baggage-screening checkpoints at 420 major airports.



Aftermath of terrorist attack on the World Trade Center.

Now we will take the next step. When the President established a new Office of Homeland Security, under the leadership of Governor Tom Ridge, he directed the Office "to develop and coordinate the implementation of a comprehensive national strategy to secure the United States from terrorist threats or attacks."

This strategy will meet four key tests:

- The strategy for homeland security will be comprehensive and will integrate the full range of homeland security activities into a single, mutually supporting plan.
- The strategy will be a national strategy, not a federal government strategy. The threat posed by terrorism does not fall neatly within the jurisdiction of the federal government. To defeat terrorism, the federal government must work with states and localities and the private sector.
- The strategy will commit the federal government to a long-term plan and a long-term budget to improve homeland security.
- Finally, the strategy will include benchmarks and other performance measures by which we can evaluate progress and allocate resources. These objectives will set the goals for federal departments and agencies. They will also give guidance to state and local governments and the private sector.

At the same time as we craft our national strategy, we will begin work immediately on four urgent and essential missions for the defense of our homeland:

- ensuring state and local first responders (firemen, police, and rescue workers) are prepared for terrorism;
- enhancing our defenses against biological attacks;
- securing our borders; and
- sharing information and using information technology to secure the homeland.

The President's Budget for 2003, including Department of Defense spending, provides $21 billion to fulfill these four missions. Including other programs, total spending for homeland security would rise to $38 billion in 2003—an $18 billion increase over 2002, a virtual doubling of the pre-September 11th levels.

The task of homeland security, however, is extraordinarily broad. The national strategy, therefore, will go well beyond these four initiatives. The nation's response to the terrorist attacks, although impressive in many respects, revealed substantial shortcomings in our ability to prevent, mitigate, and investigate such events. The sheer size and wealth of America means that we present many targets to terrorists. Similarly, our freedom and openness makes our society vulnerable. Terrorists can strike at any place, at any time, with virtually any weapon. But America's free and open society has been challenged before and we can meet this new threat without abandoning these fundamental American principles.

Mission One: Supporting First Responders

When disaster strikes, the first people on the scene are our "first responders"—firefighters, local law enforcement, rescue squads, ambulances, and emergency medical personnel. These brave and dedicated men and women, many of them volunteers, are our first line of defense when terrorists attack. More than 300 first responders were killed in the September 11th attacks on the World Trade Center and the Pentagon. While others ran out of burning, collapsing buildings, they charged in, risking their own lives to save others.



Local fire, police, and rescue workers are the first to arrive at catastrophes, such as the September 11th attacks.

In this war on terrorism against our homeland, first responders are the infantry, protecting our lives and freedoms 24 hours a day. What they do in the first minutes after an attack can mean the difference between life and death for the terrorist's victims. We ask much from them, and they always deliver. Now it's time to come through for them.

The President's Budget provides $3.5 billion to support first responders, a more than twelvefold increase over 2002. The funds would be used to buy personal protective equipment, emergency medical equipment, biological and chemical detection equipment, communications, and other items

that local first responders tell us they need. It would help first responders acquire the latest technology and training that can shave critical minutes or hours off of response time, but due to the cost may have been out of reach for many localities. For example, this funding could be used to acquire diagnostic test equipment that can reduce the time required to test for anthrax from 40 hours to a matter of minutes.

In the hours and days that followed the terrorist attacks on September 11th, communications between local police, fire, and rescue units and federal agencies providing assistance was extremely unpredictable, and in some cases, virtually impossible. The collapse of the two World Trade Center buildings knocked out antennas used for cellular telephones, threatened emergency communications systems, and damaged landline switches in nearby buildings. The limited interoperability of emergency responders' communications equipment, and the inherent complications for line-of-sight communications in densely built-up Manhattan, caused further problems. If rescue workers cannot talk to one another, they cannot do their jobs.

The funds will also be used to conduct more frequent regional terrorism drills and rehearsals, enabling first responders to work together and identify gaps in their responses. The funds would be used to upgrade emergency communications systems throughout the nation, enabling more first responders and their agencies to talk with one another in "real time." Finally, a portion of this funding will be dedicated to a new Homeland Security Corps that will be coordinated by the Federal Emergency Management Agency (FEMA) and be a key component of the USA Freedom Corps.

The role of first responders, who are largely under state or local control, is a reminder that our war on terrorism is a national, not a federal, effort. Under the budget, first responders will have increased freedom to determine their own needs and how best to meet them. FEMA will work closely with state and local officials to ensure their planning, training, and equipment needs are addressed. FEMA will also be charged with improving the federal government's coordination with state and local governments and reducing duplication within federal agencies.

Mission Two: Enhancing Our Defense Against Biological Attacks

On October 4, 2001, a Florida man named Robert Stevens was diagnosed with inhalation anthrax. The source of the anthrax attacks is still unknown. But the effects of the attacks are clear: five people murdered; hundreds treated; thousands tested; and a new American vulnerability laid bare. The consequences of new, larger, more sophisticated attacks could be much worse. We must have no illusions about the threat of germ terror.

We learned that we must strengthen effective means to detect and react quickly to bioterrorism—and that a failure to do so endangers our people and our nation. So the President's 2003 Budget requests $5.9 billion to enhance our defenses against bioterrorism, principally in the following four major areas:

Disease has long been the deadliest enemy of mankind. Infectious diseases make no distinctions among people and recognize no borders. We have fought the causes and consequences of disease throughout history and must continue to do so with every available means. All civilized nations reject as intolerable the use of disease and biological weapons as instruments of war and terror.

President George W. Bush
November 1, 2001

- First, the President proposes spending $1.2 billion in 2003 to increase the capacity of state and local health delivery systems to respond to bioterrorism attacks. The largest share of this funding, $591 million, would be provided to hospitals for infrastructure improvements such as communications systems and decontamination facilities, comprehensive planning on a regional basis to maximize coordination and mutual aid, and training exercises that will help the public health and emergency response communities work together better. The budget also includes $210 million for states to assess their existing ability to respond to such attacks, and then strengthen their capacity to do so. An additional $200 million would be used to increase state laboratory capacity and related systems to permit rapid collection and identification of potential biological agents.
- Second, the President's Budget includes an aggressive $2.4 billion research and development program to develop technologies that will strengthen our bioterrorism response capabilities in the mid- and long-term. Almost $1.7 billion would be provided to the National Institutes of Health to perform fundamental research leading to the development of vaccines, therapeutics, diagnostic tests, and reliable biological agent collection, rapid identification and monitoring technologies, and to create a safe and reliable anthrax vaccine. Another $420 million is proposed for the Department of Defense (DoD) to study the technology and tactics of bioterrorists and devise countermeasures to the use of biological agents as weapons. The budget also includes $100 million to improve security at the nation's biological research laboratories and $75 million for the Environmental Protection Agency to develop improved techniques and procedures to cope with future biological or chemical incidents.
- Third, the President's bioterrorism initiative includes $851 million to improve federal capabilities to respond to bioterrorist events. The National Pharmaceutical Stockpile will contain a sufficient amount of antibiotics to provide treatment for 20 million people by the end of 2002. The budget includes $300 million to manage this stockpile, increase the supply of chemical antidotes, and conduct the proper planning and training to ensure that states can effectively receive and distribute stockpile allotments. It also includes $100 million to improve our ability to distribute and effectively use the nation's supply of smallpox vaccine and $99 million for the Food and Drug Administration to enhance the safety of the nation's food supply.
- Fourth, the budget proposes spending $392 million to strengthen our ability to detect and react quickly through improved communications to a biological attack. A key component of this ability is information management and exchange. The budget includes $202 million to create a national information management system that links emergency medical responders with public health officials, enables early warning information to be distributed quickly, and permits emergency medical care and public health care providers to share diagnostic and treatment information and facilities. The budget also includes $175 million to assist state

and local public health providers begin to acquire the necessary hardware and assistance to access this information.

Mission Three: Securing Our Borders

America's borders must be made secure—and they must remain open. To achieve both these goals, the border system of the future must gain a new ability to identify low- and high-risk traffic, speeding low-risk traffic on its way, while focusing the attention of border security personnel on high-risk traffic. Accomplishing this separation in a quick and reliable manner is an enormously difficult task. It will require more sophisticated use of data and close cooperation with private industry and other governments, especially Canada, Mexico, and our other large trading partners.

As it is, nearly a dozen federal agencies are charged with patrolling or inspecting along the border. The State Department issues visas. The Justice Department's Immigration and Naturalization Service (INS) inspects them. The Treasury Department's Customs Service checks any bags the visa-holder may bring with him. DoD and the National Guard patrol our skies. The Coast Guard, which reports to the Secretary of Transportation, patrols our seas. The Department of Agriculture regulates imports of food, the Commerce Department monitors imports of manufactured goods, the Food and Drug Administration polices imports of legal drugs, and the Drug Enforcement Administration tries to halt imports of illegal ones. The intelligence agencies and the new Transportation Security Administration have important roles as well.

This complex arrangement has evolved over many years, but thanks to the dedicated professionals who staff it, often produces superb results—including the thwarting of al Qaeda's Millennium plot against American targets in 2000.

All of the 19 September 11th hijackers had entered the United States legally but three had overstayed legal visas. The Immigration and Naturalization Service estimates that approximately 40 percent of persons currently in the United States illegally have overstayed legally obtained visas.

Although border security has been strengthened as a result of the terrorist attacks, the INS must do a better job of targeting illegal traffic while welcoming legitimate travelers. Therefore, the President's Budget includes $380 million to establish a reliable system to track the entry and exit of immigrants, particularly those who might pose a security threat to the United States. The new system will leverage advanced technology and construction funding to ensure timely and secure flow of traffic. The Administration's goal is to complete implementation of this new, comprehensive initiative by the end of 2004.

Additional funds will be spent to make passports and other documents of North American nations more compatible with one another and more easily read by one another's computers—and to develop other identification techniques to halt illegal entrants and speed and smooth the way for lawful travelers and cargoes.

The northern border, in particular, has become an attractive route for potential terrorists. Until very recently, many northern entry points into the United States were not staffed around the clock; entry into the United States was sometimes controlled by no more than orange cones in the middle of the road. Such measures stop only honest people.



A car waits at an unattended northern border point of entry, blocked only by orange traffic cones in the middle of the road.

Ending this vulnerability is an urgent priority that must build on the long history of cooperative border management between the United States and Canada, partners in the largest trading relationship in the world. In December 2001, the United States and Canada declared a mutual commitment to create a "smart border" that could safeguard against terrorist activity while ensuring the free flow of people and goods. The President's Budget provides funds to implement this agreement.

The President's Budget would more than double the number of Border Patrol agents and inspectors across the northern border. It supports deployment of force-multiplying equipment, including remote operated infrared cameras, to monitor isolated areas where illegal entry may have once occurred. The budget also provides resources to integrate once-separate information systems to ensure timely, accurate, and complete enforcement data is available in the field.

Mission Four: Sharing Information and Using Technology to Secure the Homeland

After September 11th, it became evident that important information about the hijackers' activities was available through a variety of federal, state, and local databases. It also became clear that there is no comprehensive system for sharing information relevant to our security across jurisdictional lines.

The President's Budget proposes $722 million for improvements to information-sharing within the federal government and between the federal government and other jurisdictions.

These improvements are often highly technical—and yet are crucial to the successful protection of our society from terrorist attack. Technology investments will improve the performance of agencies in preparing for, detecting and responding to homeland security threats. So we will:

- ensure that federal agencies with homeland security responsibilities have needed access to threat information throughout the federal government;
- establish a process to provide for appropriately secure communications with state and local officials so they may receive homeland security information in a timely manner;
- ensure that crisis communications for federal, state, and local officials is reliable and secure; and

- unify federal government security and critical infrastructure protection initiatives, and make strong security a condition of funding for all federal investments in information-technology systems.

Sheikh Omar Abdel Rahman, the "blind sheikh" involved in the 1993 car bombing of the World Trade Center, not only entered the United States legally but was granted permanent resident alien status despite a terrorist past that dated to the assassination of Egyptian President Anwar Sadat. Improved information-sharing could make a repeat of such tragic mistakes unlikely.

Other Initiatives

These four missions lead our homeland security agenda—but they are not the whole of it. We must also finish the job of securing our airways. In 2003, the new Transportation Security Administration (TSA) will strive to meet the tight deadlines and rigorous aviation security requirements set by Congress. The TSA is responsible for screening passengers and baggage at each U.S. airport with commercial air service. The budget requests $4.8 billion for TSA, a 210 percent increase on aviation security over 2002. It includes funds to:

- complete the hiring of approximately 30,000 new federal airport security workers to check passenger identities and inspect carry-on and checked baggage;
- accelerate the installation of explosive detection technology so that all baggage loaded in aircraft is safe; and
- implement other measures to enhance passenger safety and facilitate air travel.

We also propose a robust expansion in domestic law-enforcement work. The Attorney General has instructed all department bureaus to shift their primary focus from investigating and prosecuting past crimes to identifying threats of future terrorist acts, preventing them from happening, and punishing would-be perpetrators for their plan of terror. The 2003 Budget requests enhancements to the capabilities of the FBI and other law enforcement/intelligence agencies. These enhancements will:

- enable the FBI to add more than 300 agents and other investigative staff to the surveillance of terrorists and collection of information about their activities;
- add more than 15 investigators to the Foreign Terrorist Asset Tracking Center (FTAT), to identify and close down the sources of money that supports the terrorist cells. FTAT and the Office of Foreign Assets Control work together to seize the terrorists' assets; and
- add approximately 150 FBI special agents and investigative staff to the task of protecting our banking, finance, energy, transportation, and other critical systems from disruption by terrorists, including by cyber attack.

We face new kinds of threats from new kinds of enemies. Defeating those threats will be the great challenge and the great achievement of this generation of Americans.

The Homeland Security Budget

To develop the homeland security budget, the Office of Homeland Security and the Office of Management and Budget (OMB) identified those activities that are focused on combating and protecting against terrorism and occur within the United States and its territories. Such activities include efforts to detect, deter, protect against and, if needed, respond to terrorist attacks.

As a starting point, funding estimates for these activities are based on data that has been reported since 1998 in OMB's *Annual Report to Congress on Combating Terrorism,* and include combating terrorism and weapons of mass destruction (WMD), critical infrastructure protection (CIP), and continuity of operations (COOP).

In addition, homeland security includes funding for border security (i.e., Immigration and Naturalization Service's enforcement and detention activities, Customs' enforcement activities, Coast Guard's enforcement activities, the Agricultural Quarantine Inspection Program, and State's visa program) and aviation security.

Since homeland security focuses on activities within the United States, estimates do not include costs associated with fighting terrorism overseas; those costs are captured within the war on terrorism abroad category.

The budget uses the Combating Terrorism Report's definitions for combating terrorism and WMD preparedness, CIP, and COOP. Combating terrorism includes both antiterrorism (defensive measures used to combat terrorism) and counterterrorism (offensive measures used to combat terrorism), and includes the following five categories of activities as they directly relate to such efforts:

- law enforcement and investigative activities;
- preparing for and responding to terrorist acts;
- physical security of government facilities and employees;
- physical protection of national populace and national infrastructure; and
- research and development activities.

CIP is defined as efforts associated with enhancing the physical and cybersecurity of public and private sector infrastructures, especially cyber systems that are so vital to the nation that their incapacitation or destruction would have a debilitating impact on national security, national economic security, and/or national public health and safety.

COOP refers to the capability of federal agencies to perform essential functions during any emergency or situation that may disrupt normal operations.

As the Office of Homeland Security develops a comprehensive national strategy to secure the United States from terrorist threats or attacks, it may refine the definition used to establish the boundaries of this category.

WINNING THE WAR ON TERRORISM ABROAD

Terrorism is a direct threat to our homeland, but in most cases it is a threat that originates overseas. U.S. efforts must assure there are no safe havens for terrorists anywhere in the world. The 2003 Budget provides the resources for that effort.

Fortunately, we do not undertake this struggle alone. As President Bush has said, "[t]he vast majority of countries are now on the same side of a moral and ideological divide. We're making common cause with every nation that chooses lawful change over chaotic violence—every nation that values peace and safety and innocent life." The United States is working with traditional allies and new partners to achieve the goal of eliminating global terrorism. Many of these willing partners are only beginning to strengthen counter-terrorism capabilities to assure our common success. This budget requests assistance to support friends who join this global cause.

Terrorism has many faces and takes many forms around the world. The war on terrorism will not end with the capture of Osama Bin Laden or the destruction of the al Qaeda network in Afghanistan. Al Qaeda has many widely distributed cells that will not cease their efforts against the United States simply because we capture or kill Bin Laden. Nor will the destruction of the al Qaeda network eliminate the threat of international terrorism against the United States. Other terrorist groups who wish to harm or intimidate the United States will remain. Therefore, even after the combat operations in Afghanistan wind down, we will still have a great deal more work to do. And this work will differ in important ways from the wars the United States has waged in the past.

- *The war will not be short.* The Administration is committed to supporting this effort over the long-term—we do not expect a quick victory.
- *It will follow a different pace.* This war will not follow a steady, predictable course. There are likely to be intense bursts of activity, like the recent action in Afghanistan, followed by intervals of seeming quiet, though our efforts will not cease until the threat is eliminated. Americans will be asked for their patience—and their trust as the war proceeds from phase to phase.
- *It will take more than the military to defeat terrorists*. We must employ every element of national power—diplomatic, economic, intelligence, law enforcement, public information, and the military—to defeat terrorism.

Element One: Diplomatic Power

Following the strong leadership of the President, the State Department created and strengthened a broad-based international coalition to combat terrorism, not just in Afghanistan, but around the world. The NATO nations and other allies such as Japan and Australia swiftly offered their help. We revitalized long-standing relationships with countries such as Pakistan and India, and found common ground with newer partners like Russia, Uzbekistan, and Tajikistan. The United States is also leading the international community's efforts to assist the people of Afghanistan to create a new,

better future for their nation and region. At the same time, we have begun to work with our partners globally, regionally, and on a bilateral basis to forge new mechanisms and capabilities to fight the scourge of terrorism not just today, but in the years to come.

Many of our friends need our help to contribute to the war on terrorism. And the 2003 Budget makes that help available. It asks for:

- Approximately $3.5 billion for economic assistance, military equipment, and training for states on the front line in the war against terrorism.
- $121 million for anti-terrorism assistance, training, and equipment to help other countries fight global terror. As part of this commitment, the President is requesting $52 million to establish a Center for Anti-terrorism and Security Training (CAST) to provide a consolidated tactical training capability. Once it is fully operational, the CAST will train 7,500 American and coalition partners' law enforcement personnel annually in advanced anti-terrorism and security measures, thereby enhancing the security of U.S. interests abroad.
- $4 million for the Treasury Department's Office of Technical Assistance to provide training and other needed expertise to foreign governments' finance ministries and offices to combat terrorist financing.

Another critical step in reducing the potential capability of terrorists is to reduce the likelihood that they can acquire weapons of mass destruction. The United States continues to support and strengthen multilateral arrangements that work to prevent sensitive technologies and knowledge from falling into the wrong hands. An important element of this policy is helping Russia and the other states of the former Soviet Union to control and dispose of the massive quantities of weapons of mass destruction and missile materials inherited from the Cold War era. Specifically, the Departments of Defense (DoD), Energy (DoE), and State manage a set of integrated programs with a combined 2003 funding request of nearly $1.5 billion for Russia and the other states of the former Soviet Union, including:

- $549 million for ongoing programs to secure, dismantle, and destroy nuclear, chemical, and biological weapons and their components so that we can avoid the potentially catastrophic results of these weapons falling into the wrong hands;
- $235 million, an increase of $62 million over 2002, for DoE's program to secure and better control dangerous fissile materials to reduce the risk of them falling into the hands of terrorists;
- $101 million for ongoing programs to engage weapons scientists in peaceful research and help prevent the spread of the expertise required to build these weapons; and
- $55 million, an increase of $38 million over 2002, for DoD's biological weapons proliferation prevention program.

This funding is in addition to over $1 billion in already-appropriated funds currently available for these programs.

Aggressive public diplomacy is key to eliminating support and safe haven for terrorists and maintaining the political will to sustain the broad international coalition to fight terrorism over the long haul. The Voice of America and Radio Free Europe/Radio Liberty are increasing media broadcasts in and around Afghanistan and throughout the Middle East to help inform local public opinion about the true nature of terrorist organizations and the purposes of the United States' war on terrorism. This effort combined with the establishment of civil society and an elected, representative, post-Taliban government in Afghanistan will encourage support for our efforts to

end an era of terror. To help make these initiatives a reality, the budget includes $60 million for continued international broadcasting efforts in this critical region.

We must provide economic and humanitarian aid as well. President Bush has made clear that our concern for innocent life extends to the nations in which the terrorists base themselves. The President stated that we were "at war with the Taliban regime, not with the good, innocent people of Afghanistan," and he committed $320 million of emergency funds in 2002 for humanitarian assistance for vulnerable Afghans. The UN World Food Programme identified 7.5 million vulnerable Afghans. The United States has now provided 50 percent of the resources required to meet their needs through the end of March. We will continue to provide food and other aid to the people of Afghanistan, as they build a stable, post-Taliban government.



Relief workers deliver food aid by raft.

By assisting democratic aspirations or by funding education programs to create economic opportunity, the United States can broaden efforts to discredit terrorism's appeal.

Element Two: Disrupting The Financing Of Terrorism

On September 23, 2001, the President signed Executive Order 13224, which expanded the Treasury Department's power to freeze the assets of terrorist financiers. Since then, the Treasury has worked assiduously to detect and disrupt terrorist fundraising activities. Between September 11, 2001, and the end of the year, the U.S. government froze $33 million in assets belonging to supporters of al Qaeda, the Taliban, Hamas, and other well known Middle Eastern terrorist organizations.

More than 140 countries worldwide are helping to track and block terrorists' access to money, and as a result, millions more of al Qaeda and bin Laden assets have been seized. And with U.S. support, twenty leading industrial nations have adopted a comprehensive action plan to deny terrorists and their associates access to, or use of, financial systems, both formal and informal. This budget supports these efforts and will provide the means to promote new international standards to shut down terrorist financing and stop terrorist money laundering.

Element Three: Intelligence and Law Enforcement Power

Improving our Intelligence Collection, Sharing, and Analysis. Our intelligence agencies collect vital information on terrorist groups and their activities. The information they gather provides indications and warnings to law enforcement and military authorities of potential terrorist attacks against U.S. interests, either at home or abroad. The 2003 Budget provides funding for several

initiatives now underway to enhance intelligence sharing among federal, state, and local entities. These include:

- The establishment of a center that will strengthen cooperation between the law enforcement and intelligence communities; and
- Improved sharing through the Interagency Intelligence Committee on Terrorism, an organization comprised of more than 60 diverse members, including the CIA, FBI, FEMA, and the Coast Guard. A key example of the Committee's efforts is its new relationship with the State Department to access the Department's existing databases, which will allow certain classified intelligence information to be de-classified and released in a timely, useful manner to a wider audience.



U.S. Marines raise the flag as they set up a base in Afghanistan. The U.S. military established a substantial presence in Afghanistan in an extremely short period of time.

Improving Law Enforcement Cooperation Overseas. The Department of Justice, through the FBI, is responsible for the criminal investigation into terrorist acts overseas involving U.S. citizens or interests. The FBI objective is to develop sufficient evidence to support criminal charges against the terrorists. The FBI also maintains offices in key overseas locations. In these locations, FBI agents work with their police counterparts to exchange information that may be helpful in preventing criminal acts affecting the United States, including acts of terrorism. In addition, the State Department maintains a presence of Diplomatic Security agents at every embassy worldwide. Their established liaison with foreign law enforcement officials provides a proven platform to further efforts to prevent and respond to terrorist attacks.

Protecting U.S. Personnel Overseas. Good intelligence and police work safeguards not only Americans at home, but also Americans abroad. More than 210,000 U.S. military personnel and DoD civilian employees are stationed overseas at any one point in time, and we have embassies and consulates in all but a few countries around the world. The attacks on the Khobar towers in Saudi Arabia, on the USS Cole in port in Yemen, and on U.S. embassies in Kenya and Tanzania have heightened our awareness of our vulnerabilities abroad. The President's Budget, therefore, includes $2.4 billion for physical security measures to protect our military and diplomatic personnel overseas, an increase of over $300 million from 2002.

Element Four: Military Power

Winning the War in Afghanistan. On less than a month's notice, American and British forces joined with local anti-Taliban troops in an assault on the al Qaeda network and the Taliban regime that gave it safe harbor. The United States committed several hundred aircraft to Operation Enduring Freedom. Initially, we inserted small numbers of lightly armed British and American Special Forces into Afghanistan to support air operations and conduct reconnaissance missions. They were followed and supported by a Marine Expeditionary Unit and elements of the Army's 10th Mountain Division. Relatively small numbers of light troops were able to prevail in Afghanistan. We

could achieve decisive victories by integrating real time intelligence with sophisticated technologies in cooperation with indigenous forces.

U.S. military forces were well organized and ready for the initial phase of the war on terrorism. They are superbly trained, equipped with advanced military technology, and armed with new tactical and operational approaches. While it would be a mistake to conclude that all future military operations will look like Afghanistan, it is clear that the President's ambition to transform our armed forces has been validated by new missions and requirements defined in Afghanistan.



A U.S. Marine hunkers down as Marines prepare to conduct a cordon and search raid at a suspected al Qaeda hideout in the Helmand Province of Afghanistan on January 1, 2002.

Securing the Future. The rapid success of our forces in Afghanistan validates America's strategy of forward deployment. However, we may not always be able to rely on local allies to contribute to our operations. We also need the capability to conduct operations on our own. To support this capability, the U.S. has as many as 250,000 troops forward-deployed around the globe at any given time. These troops conduct important missions year-round, such as providing a stabilizing influence on the Korean peninsula and in the Balkans and carrying out air operations over Iraq. At the same time, they stand ready to serve on the frontline of the current war against terror.

Another 1.1 million troops on active duty are back in U.S. territory engaged in critical support missions and maintaining a high state of readiness. The forces at home are frequently rotated overseas. In addition, forces at home provide critical support functions to make rapid deployment for combat possible. The U.S. Transportation Command, for example, fields fleets of tanker and heavy lift aircraft, in many cases operated by National Guard personnel, which give the United States the flexibility to respond to attacks anywhere around the globe. Logistics units make sure that we can move weapons, ammunition, equipment, and food rapidly where it is needed—including humanitarian rations for local populations in cases like Afghanistan.

We must protect our current readiness and operations. Therefore, the President's Budget provides a 12 percent increase to bring defense spending to $369 billion, reflecting the President's commitment to a sustained, long-term investment in the nation's security. The budget provides an additional $10 billion, if necessary, for the operational costs of the war against terrorism.

We must also transform our military to meet the new challenges of the 21st Century. This transformation effort involves not just new technology, but also a new doctrine, new ways of organizing forces, and new ways of doing business. In order to transform the way our armed forces fight, this budget sustains funding for operational training activities, upgrades to training facilities, and other transformational efforts that will make the armed forces more flexible and responsive

to unanticipated missions. The 2003 Budget includes a number of transformation initiatives, including:

- unmanned combat aerial vehicles;
- a substantial increase of precision munitions; and
- additional funding to strengthen our ability to collect and disseminate information to warfighters in a useful and timely way.

The Department of Defense chapter provides more details regarding the military's transformational activities.



The U.S. flag, bearing the signatures of rescue workers, friends and family of victims of the terrorist attacks in New York, Washington, D.C., Pennsylvania, and the USS Cole, waves in the breeze.

Conclusion

Again and again throughout this century, the world's tyrants have made the same error: underestimating America's character, resolve, and strength. They have sought war with the United States to enhance their own power, but they have instead caused their own destruction. This budget provides the United States with the resources to fight terrorism with diplomacy—with economic and humanitarian assistance—with police and intelligence work—and with military power. The challenge is great. With the necessary resolve and resources, the result is certain.

RETURNING TO ECONOMIC VITALITY

America's power rests on our economic strength. And it is precisely this strength that the terrorists targeted on September 11th.

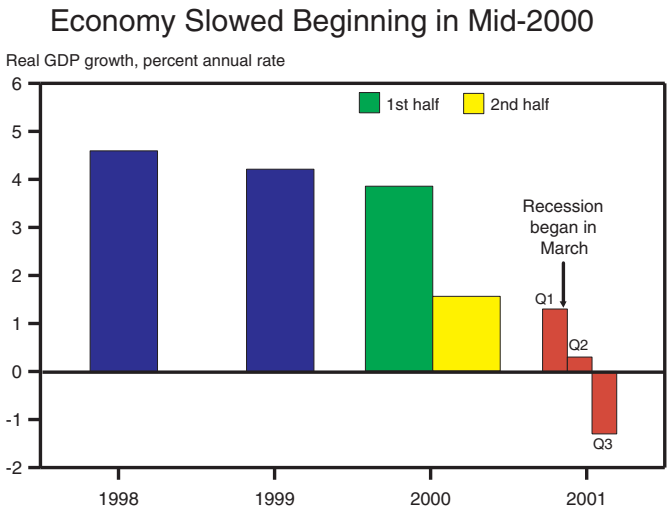
The attacks on the World Trade Center and the Pentagon inflicted serious short-term harm on the U.S. economy. The terrorists' hopes of doing more lasting damage, however, will be disappointed. The American economy is the most productive and most innovative on earth. Free market domestic policies, free trade, sound monetary policy, moderate regulatory burdens, and declining tax rates will soon restore growth and employment.

We can achieve an even speedier recovery by adopting the economic-recovery and job-creation principles proposed by President Bush on October 4th, nearly one million lost jobs ago.

Signs of Economic Slowdown

The economic impact of the terrorist attacks was magnified by the fact that growth had already begun to slow in the middle of 2000. In March 2000, stock market indices peaked. Over the following year, household equity wealth fell by over $4 trillion. After expanding at a double digit pace for eight years, business equipment investment slowed markedly in the third quarter of 2000 and turned negative in the fourth quarter. At about the same time, energy prices jumped to painful new levels. Manufacturing was hit particularly hard: in the five quarters starting in the summer of 2000, the manufacturing sector lost some 1.4 million jobs.

The Administration addressed the looming recession as soon as it took office, and the Congress quickly passed a bipartisan tax relief package. The June tax package reduced marginal tax rates across a wide spectrum, including for lower income citizens earning their way out of poverty. It also doubled the per-child tax credit, lightened the marriage penalty, and put $36 billion directly in consumers' hands through immediate rebates.



Chronology of the Recession

The economy weakened beginning in 2000:

- The stock market fell after March 2000.
- Manufacturing output decreased after June 2000 and manufacturing jobs after July 2000.
- Real GDP growth slowed sharply from the second half of 2000 onward.
- Consumers became less confident after September 2000.
- The unemployment rate rose after October 2000.
- Overall jobs fell after March 2001, the official start of the recession.

September 11th deepened the contraction:

- The stock market dropped 12 percent by September 21st.
- Consumer confidence plummeted 26 percent by October.
- Overall jobs fell by 943,000 in the last three months of 2001, and the unemployment rate jumped by 0.8 percentage points.
- Real GDP growth fell at a 1.3 percent rate in the third quarter.

Besides allowing Americans to keep a greater portion of what they have earned, these policies deliver both short-term and long-term benefits. Tax relief allows taxpayers to keep more of their own money, supporting consumption in the near-term. Meanwhile, the nation's long-term outlook is brightened by improved incentives for work, entrepreneurship, and investment.

Before September 11th, there were signs that the economic slide had begun to slow. Retail sales picked up in July and August. Steep declines in nondefense capital goods orders appeared to have ended in August, and the National Association of Purchasing Managers Index of manufacturing activity improved sharply.

The terrorist attacks cut short these promising developments. Business and consumer confidence plunged after September 11th. Airlines were grounded. Travel and tourism were devastated. The finances of the world's insurance industry were damaged. And firms and individuals throughout the economy were forced to make heavy new investments in security. These events drove the economy into a recession. Indeed, The National Bureau of Economic Research—the designator of recessions—said, "Before the attacks, it is possible that the decline in the economy would have been too mild to qualify as a recession. The attacks clearly deepened the contraction and may have been an important factor in turning the episode into a recession."[1]

The terrorist attacks imposed heavy new costs on government as well. The economic shock combined with unexpected new expenditures for defense, homeland security, and domestic reconstruction pushed the federal government back into deficit. However, if we make the right choices by stimulating growth and controlling spending, deficits will be small and temporary.

The Administration and the Congressional Leadership agreed in principle that further fiscal stimulus was needed to prevent a worsening of the recession. The House passed a stimulus plan

[1] National Bureau of Economic Research, "The NBER's Business-Cycle Dating Procedure", December 13, 2001, page 7.

and a bipartisan majority for a similar plan coalesced in the Senate. Regrettably, the Senate chose not to act.

Need for Economic Security Plan

There have been some encouraging trends in the latest economic releases. Yet the number of unemployed workers continues to rise, incomes are stagnating, business investment remains soft, and the global economy is weak. The Administration therefore believes that additional measures must be taken to promote economic growth, create jobs, and avert future economic weakness. The Administration urges quick passage of an economic security plan modeled along the lines of the recent bipartisan compromise and has set aside resources for that purpose in this budget.

To both create new jobs and assist dislocated workers, this package should include:

- Speeding up the tax reductions the Congress passed last year. The faster tax rates come down, the faster the economy will grow.
- Giving tax refunds to lower- and moderate-income individuals and families. This will put money in the hands of people with children to support and bills to pay.
- Providing immediate assistance to laid-off workers, both by extending their unemployment benefits, increasing resources available for job training, and by helping them retain their health insurance coverage.
- Reforming prospectively the alternative minimum tax on businesses. This will ensure that employers no longer see their tax rates rise as their profits shrink. In tough times, entrepreneurship should be encouraged, not punished.
- Offering better tax treatment for employers and entrepreneurs who invest in new equipment. This will help both the people who use the equipment and those who manufacture it.

The Dignity of a Paycheck

It's important to help workers who've lost their jobs. It's even more important to help workers find new jobs. In tough times, people need an unemployment check; but what they want is a paycheck. Americans want the independence of a job, and the satisfaction of providing for their families themselves. A job is more than a source of income; it is a source of dignity.

President George W. Bush
January 5, 2002

The Council of Economic Advisers has estimated that the Administration's economic security plan could boost 2002 GDP growth by 0.5 percent and lead to the creation of 300,000 more jobs.

The Administration has built its economic forecasts around the assumption that an economic stimulus package will be enacted. If this does not occur, our growth estimates would be overstated by the above amount. Unless economic growth can be restored, it will mean fewer jobs, smaller growth in incomes, and smaller budget surpluses.

Quick action on an economic security plan makes sense. It will speed up the economic recovery and will help bring laid-off workers back into the job market more quickly.

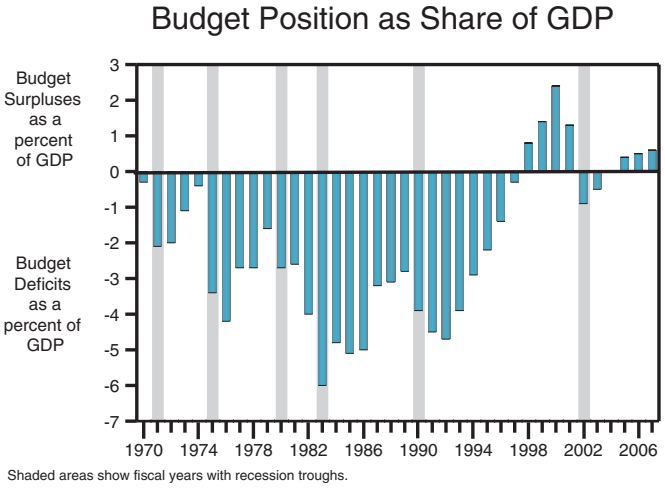
While the primary emphasis of this budget is the quick recovery from the terrorist attacks on the United States, the President's Budget outlines a plan that also provides the fundamental underpinnings for long-term economic growth. The federal government does not create economic growth. However, it should foster an environment to allow entrepreneurs, small business, and

others in the private sector to generate economic growth. Such economic opportunity comes through promoting free trade, restraining costly regulatory burdens, maintaining low tax rates, simplifying the tax code, promoting a sound energy policy, controlling federal spending and increasing the efficiency of government operation. By taking action to reinvigorate growth in both the short- and long-term, we can thwart the terrorists' efforts to undermine our economy and our well being.

BUDGET IMPLICATIONS OF THE WAR

The nation faces significant challenges in the near-term in prosecuting the war on terror abroad and defending our homeland from attack, in addition to rejuvenating economic growth. These efforts will require substantial budgetary resources. Fortunately, the United States has abundant resources to tap. However, in order to ensure that the fiscal outlook remains positive over the longer-term, tough fiscal choices must be made to direct funds toward priority endeavors and away from poorly performing government programs. New budget process reforms are needed to expedite this process.

Overview



The response to the terrorist attacks, both at home and abroad, and the onset of recession have caused a notable shift in the near-term fiscal outlook. Deficits now look likely over at least the next two years. However, assuming the government pursues pro-growth policies and controls spending, the budget should be back in surplus by 2004 or 2005.

The overall fiscal position remains strong even with this temporary move into deficits. The 2003 deficit is projected to be less than one percent of GDP—this compares with a 4.5 percent deficit during the last recession. Indeed, despite simultaneous war, recession, and emergency spending, 2002's fiscal position will be better than that recorded in any year between 1975 and 1996.

Impact of Recession

One would expect the fiscal picture to deteriorate as the economy goes into recession, even absent the multi-front war on terror. Tax receipts decline as activity slows, while expenditures rise for cyclically sensitive programs like unemployment insurance. Furthermore, it is good economic policy to reduce tax burdens explicitly during a recession, in order to limit the economic slide and hasten recovery. While such policy actions may worsen the deficit in the near-term, they will improve the fiscal outlook in the long run since it is growth that ultimately generates any surpluses.

Economic weakness has been the largest source of erosion in the current year's fiscal projection, followed next by spending stemming from the September 11th attacks. Economic changes accounted for two thirds of the deterioration in the projected baseline fiscal position since the last year. Spending accounted for an additional 20 percent of the decline.

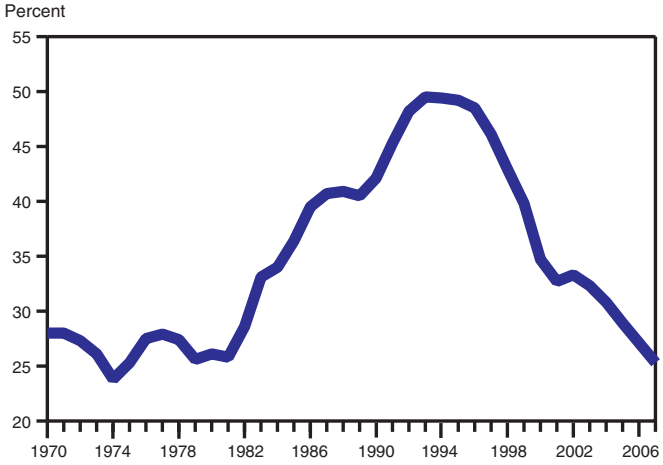
Evolution of the 2002 Fiscal Projection
(In billions of dollars)

	2002
2002 Budget Baseline Projection	**283**
Weaker Economy	–197
Enacted Spending	–54
June Bipartisan Tax Relief Package	–40
2003 Budget Baseline Projection	**–9**

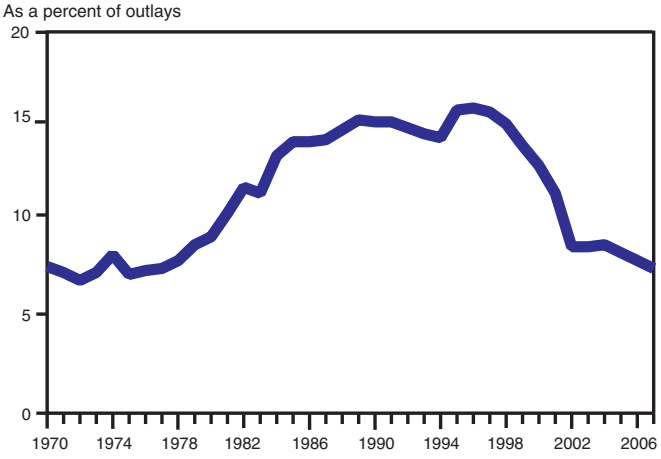
Debt and Interest Savings

The combined effects of recession and war have interrupted progress in paying down our publicly held debt. Nonetheless, debt will continue to diminish as a factor in our fiscal affairs. The ratio of publicly held debt to GDP will decline steadily from 2002 onward. After hitting 50 percent in the mid-1990s, the debt/GDP ratio will be 33 percent in 2003 and is projected to fall to 25 percent by 2007. Further evidence of this constructive backdrop can be seen in the Treasury Department's decision last fall to discontinue issuance of the 30 year Treasury bond.

Publicly Held Debt as a Share of GDP



Interest Costs Continue to Fall



As the share of publicly held debt to GDP declines, interest costs will continue to fall as a share of total outlays. After totaling 15 percent of federal outlays in the mid-1990s, this burden will be only nine percent in 2002, dropping to eight percent by 2007.

Debt Limit

The federal government issues debt to the public in order to finance its budget deficits. As noted, this debt is expected to be broadly stable in dollar terms over the next five years, while declining as a share of GDP. However, the government also issues special Treasury debt to the federal trust funds that generate surpluses, including Social Security. While debt held by the public is a more

meaningful measure of the government's effect on private financial markets, Congress tracks the sum of publicly held and governmentally held debt, and imposes a limit on the amount of total debt outstanding. Since governmentally held debt rises steadily over time, the debt limit must be raised periodically even if debt actually owed to the public is not growing. In fact, debt subject to limit continued to rise during 1998–2001 even as the publicly held debt decreased.

The current limit on total debt is set at $5.95 trillion. In the Mid-Session Review for 2002, total debt was expected to breach this limit by 2004, due to ongoing trust fund purchases of Treasury securities. Given the deterioration in the near-term fiscal picture due to the war and recession, however, the debt limit now looks likely to be hit in early 2002.

The Need for a Realistic Budget Window

The events of last year underscore the difficulty of making reliable budget estimates even one year ahead. No one expected the economic and fiscal fall-out that resulted from last September's terrorist attacks and the onset of recession. Similarly, no one knows what types of economic or political shocks will arise in the future. The uncertainty surrounding such events should make us cautious as we attempt to formulate our budget projections.

Indeed, over the last six years, the 10 year fiscal projections have varied to a stunning degree. In the 1997 Budget, rising deficits were forecast totaling $1.4 trillion over a 10 year horizon. By the 2002 Budget steadily rising surpluses were projected over a 10 year period, totaling $5.6 trillion. Due to the events of last year, the latest projections are in between these wildly divergent estimates. Such enormous swings over a short period of time raise doubts about the usefulness of 10 year projections and lead one to conclude that the recent experiment with 10 year budget projections has been a failure. Consequently, the Administration intends to phase out the use of 10 year budget projections completely by the 2004 Budget. This year's budget will still provide aggregate 10 year projections for those who follow and still find value in such numbers (see Summary Tables). However, agency totals and supporting detail will be limited to five year projections.

Recent Experience

It is easy to forget that 10 year budget forecasts are a relatively new phenomenon. The 1996 Mid-Session Review was the first budget document to use 10 year projections. In the prior 25 years, five year budget windows were the norm. (In fact, prior to 1971, three year budget windows were used.)

Indeed, even five year estimates are fraught with uncertainty. The average absolute errors in projecting the surplus or deficit since 1982 have been large, and they increase in each year of the five year budget window. There has been a $75 billion average absolute forecasting error for the budget year alone (i.e., 2003 for this budget). This rises steadily to $205 billion by the fourth year following the budget year (i.e., 2007 for this budget). Since the experiment with 10 year budget projections has been brief, data are not yet available to assess the average miss beyond five years. However, the rising average absolute errors over the first five years point to steadily rising errors over the subsequent five years as well. (For more information on the historical record of differences between estimated and actual surpluses, see Chapter 18 of the *Analytical Perspectives* volume, Comparison of Actual to Estimated Totals.)

Average Absolute Miss in Budget Projections: 1982 to 2001
(In billions of dollars)

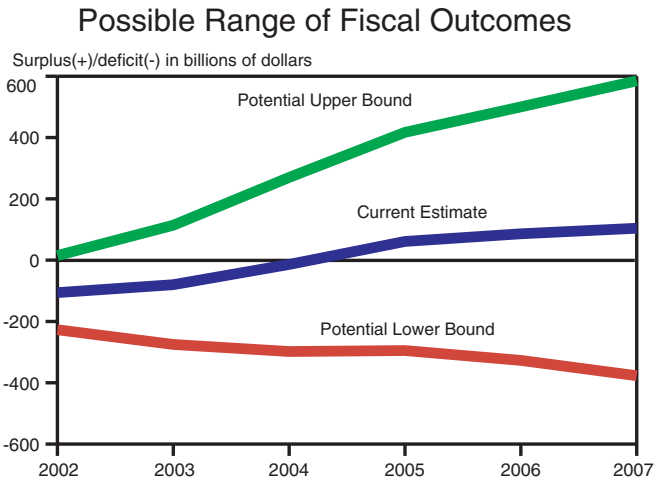
Budget Year	Budget Year Plus One	Budget Year Plus Two	Budget Year Plus Three	Budget Year Plus Four
75	109	147	179	205

History suggests that the current projections could be off by an enormous margin. A 90 percent confidence range around the current projections stretches from plus $480 billion to –$480 billion around the 2007 surplus estimate. Based on the trend seen in the first five years, this confidence range would be expected to widen further beyond 2007.

The Congressional Budget Office (CBO) has made similar calculations and has estimated even larger uncertainty bands.

Responses to Uncertainty

There is widespread recognition of the difficulties involved in making multi-year projections. For instance, the Administration and CBO only attempt to forecast the economic cycle for the 18–24 month period following the budget submission. Thereafter, both simply assume that the economy returns to its long-run sustainable rate of growth. Most private economic forecasters do not project the economy beyond a one to two year horizon.



In light of the remarkable swings over the last several years, it is time to acknowledge the limitations of 10 year budget forecasts. Rather than continue to assign false confidence to these numbers, the Administration will begin shifting back to a maximum time horizon of five years.

Budget Reforms

It is critical that the increased funding for the war on terrorism and restoring economic growth be matched with restraint in other areas. This is necessary in order to avoid a worsening of the nation's long-term fiscal and economic outlook. Budget reforms are needed to enforce such restraint.

Recent Experience

The current budget process is flawed. Instead of coming to agreement on the broad outlines of the budget at the beginning of the year, there is often lengthy debate on spending levels that often culminates in an explosion of spending in a disorderly process of stop-gap funding measures and enormous omnibus bills, late and over budget.

Last year was an extraordinary year, and the Congress moved swiftly to send the President a $40 billion emergency appropriations bill within three days of the terrorist attacks. Thereafter, spending threatened to spin out of control until the President stated he would veto any appropriations bill that exceeded the funding levels he had worked out with the Congress. Ultimately, the President succeeded in keeping spending within the agreed-upon levels.

However, this achievement came at the cost of an extended delay in the enactment of the 13 regular appropriations bills that fund the government, with the last three bills being signed into law on January 10, 2002, over three months past the October 1, 2001 deadline. Two of the nation's departments with the highest priorities, the Departments of Defense and Education, had to wait over three months to get their budgets. Such delays are unfortunate during ordinary times, but are intolerable when the nation is fighting a war both at home and abroad.

Need for Legally Enforceable Mechanisms

Last year's success in staying within preset budget limits should be institutionalized through the use of legally enforceable mechanisms. These mechanisms include making the budget resolution a law and extending statutory limits on spending. Such action is necessary if we are to maintain overall spending discipline, while allocating resources to our defense, homeland, and economic priorities in a timely fashion.

Conclusion

Despite the simultaneous impact of the war on terror and a recession, the nation's fiscal outlook remains positive. The 2003 deficit is expected to be less than one percent of GDP. Furthermore, if growth-promoting policies are pursued and spending restraint is exercised, deficits will be both small and temporary.

As the nation addresses its defense, homeland, and economic priorities, however, growth in the rest of government must be restrained to prevent an explosion in spending. To achieve this goal, budget process reforms are needed. Greater efficiencies must also be demanded from government. This is a good idea at any stage, but is imperative in the current environment. By highlighting good and poor performers, this budget attempts to set such a process in motion.

GOVERNING WITH ACCOUNTABILITY

GOVERNING WITH ACCOUNTABILITY

Just as the No Child Left Behind Act of 2001 asks each local school to measure the education of our children, we must measure performance and demand results in federal government programs.

President George W. Bush

Overview

The President has called for a government that focuses on priorities and executes them well. Securing the homeland, waging war on terrorism abroad and revitalizing the economy are the most important priorities but even they will not be addressed by simply devoting money to them.

This budget tells the American people how the President proposes to spend their taxes in 2003. People are often most interested in how much the President proposes to spend on particular issues compared to the previous year. Increases in spending are assumed to reflect high priorities and reductions to reflect low priorities. This is because everyone takes for granted that more government spending will translate into more and better government services. For example, the premise frequently is that more spending on a housing program translates into more houses for more people or more spending on a science program will provide more and better science.

The assumption that more government spending gets more results is not generally true and is seldom tested. It is potentially wrong for two reasons. First, the program may not actually achieve the results everyone expects. Second, it ignores the fact that improvements in the management of programs can result in greater results for less money by realizing the same productivity gains commonly expected in the private sector. By focusing on performance we can achieve the desired results at limited additional cost or, in some cases, a reduction in spending. We can and should get more for less.

Rather than pursue an endless and disconnected array of initiatives, the Administration has elected to identify the government's most glaring problems—and solve them. The President has ordered the pursuit of five government-wide initiatives that together will help government achieve better results.

The first initiative aims to attract talented and imaginative people to the federal government in order to improve the service provided to our citizens. A second exposes parts of the government to competition so that they may better focus on what customers want while controlling cost. A third project improves how the government manages its money—reducing, for instance, the billions in erroneous payments the government makes every year. A fourth project harnesses the power of the

Internet to make the government more productive. The fifth starts the process of linking resource decisions with results—the underlying information needed to hold government accountable.

This chapter describes the five initiatives in greater detail. It then discusses a scorecard that we are using to hold ourselves accountable for progress on these initiatives. Next, the Administration lays out proposals to remove barriers and give the executive branch the tools and flexibility it needs to get the job done. Finally, this chapter explains how all these matters are shared responsibilities that must involve Congress, and introduces readers to the department and agency chapters that follow.

The President's Management Agenda

Released in August 2001, the President's Management Agenda was designed to "address the most apparent deficiencies where the opportunity to improve performance is the greatest." The President's vision is guided by the principles that government should be: results-oriented, not process oriented; citizen-centered, not bureaucracy-centered; and market-based, promoting competition rather than stifling innovation.

> *The best organizations in the world are 40 to 50 percent better than their closest competitors—they set their goals by what is theoretically possible, not as a small improvement over last year's performance level. We need to apply this same thought process to our leadership responsibilities in all of the departments and agencies of the federal government, so that we deliver value to the American people. The President's Management Agenda sets us on this course.*
>
> Paul O'Neill
> Secretary of the Treasury

The President's Management Agenda is a coordinated and coherent strategy to reform federal management and improve program performance. It tackles long-neglected management problems and offers specific solutions to fix them.

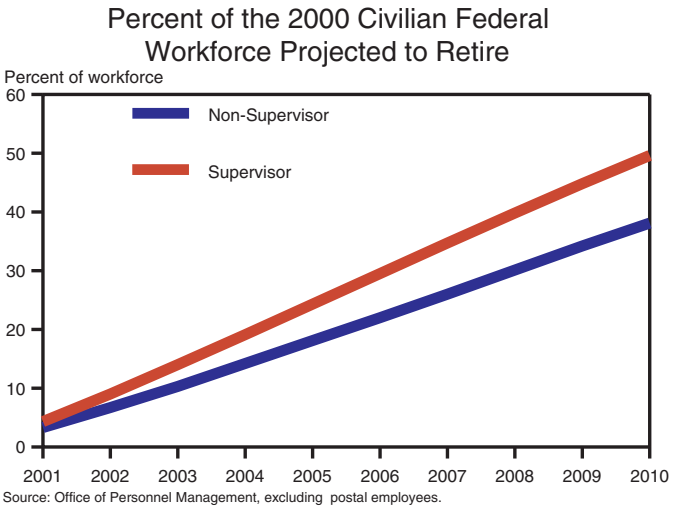
The five government-wide initiatives apply to every department and agency. Together they form a strategy to achieve breakthrough, not simply marginal, improvements in program performance. For example, the expansion of E-Government will transform not only the agency's work and its people but deliver greatly improved services to the citizen.

The President's Management Agenda commits the Administration to achieving immediate, concrete, and measurable results in the near term. It not only focuses on remedies to problems generally agreed to be serious, but, more importantly, commits to implement them fully. The five government-wide goals are described below.

Strategic Management of Human Capital

Fifty percent of the federal workforce is projected to retire over the next 10 years. In addition, federal employee skills are increasingly out of balance with the needs of the public. Federal personnel policies exacerbate these problems. Compensation tends to follow a "one-size-fits-all" approach; excellence often goes unrewarded; and mediocre and poor performance rarely carries any consequences.

As 2001 began, many federal agencies did not know much about the characteristics of their workforce. For example, few agencies knew what skills they already had on board; what skills they needed to meet future demands; and how to address the increasing number of management layers. This year, each agency will prepare a five year restructuring plan as part of its 2003 budget based upon the first government-wide workforce analysis in decades.



Agencies must reshape their human capital strategies and organizations to attract and retain the right people, in the right places, at the right time; make high performance a way of life in the federal service; and deliver the high-quality services the American public deserves.

Competitive Sourcing

Competitive Sourcing: Old-Fashioned Common Sense

Sir, I had the honor to receive your letter of Decr. 28th 1812 requesting any information I might possess, which might expose the present causes of mismanagement in the naval establishment, and suggestions as to the best means of reform...The employment of more artificers, workmen and labourers in the Navy Yards, than can be employed to advantage, is another source of great expence. On this subject I can only say, that, comparing the expence of labour in some of the yards, with the service performed, induces me to believe that it is at least injudiciously directed. And I am disposed to believe that, many articles might be attained by contracts, of equal quality and at much less expence, than by having them made by artificers employed in the yard on daily pay.

Lieutenant Charles Morris in a letter to Congressman Langdon Cheves on January 9, 1813

The competitive sourcing initiative strives to create a market-based government unafraid of competition, innovation, and choice. Public-private competition creates significant improvements in performance and cost savings exceeding 20 percent. Although half of all federal employees perform tasks that are readily available in the private sector, these positions have rarely, if ever, been subject to the pressures of the marketplace.

The Administration is aggressively encouraging market-based competition throughout the government, and simultaneously working with the private sector and federal employees unions to find long-term solutions to reform the currently cumbersome process governing competitions.

Several agencies are now setting up significant competitive sourcing programs. For example, the Department of the Interior plans to compete 3,500 federal employee positions that perform functions that are commercial in nature and easily competed with the private sector. Many of these positions include cutting grass, picking up trash, drawing maps and performing basic engineering duties. The Department of Commerce may compete the work of some positions, such as personnel administration, information technology, and publication. Whether the federal government or private industry does the job, competition ensures that the taxpayer ultimately wins.

Work Available in the Yellow Pages?

The Department of Veterans Affairs employs over 18,000 medical technicians and pharmacists, 11,000 lawn maintenance workers, dry-wall hangers, janitors, and contractors, and 10,000 cafeteria workers.

Improved Financial Performance

Improving financial management is critical to ensuring accountability. Federal managers need accurate and timely information for sound decision-making, but have neither. On average, it takes agencies almost five months of heroic efforts to close their books. And even then the overall government has been unable to pass its audit.

To improve the quality and timeliness of financial information, the Administration is accelerating financial reporting deadlines and requiring quarterly and comparative reporting of information. Tightening deadlines will force agencies to re-engineer their business and financial management processes, while at the same time developing systems capable of delivering information more useful to management. Particular attention is being directed to troubled agencies already on the GAO high-risk list.

In another problem area, federal agencies have identified almost $20 billion in annual erroneous benefit and assistance payments in just 13 federal programs. The Administration has launched an aggressive initiative to determine and track error rates, and to implement strategies and controls to bring the rates down in programs covering over $1.2 trillion in annual expenditures.

Expanded E-Government

Fifty-five percent of Americans that use the Internet went online to interact with the government last year, according to a report released by the Center for e-Service at the University of Maryland in January 2002. The electronic government, or "E-Gov," initiative focuses on ways to make government simpler, more effective, and less costly from the citizen's point of view. The federal government has only scratched the surface of its E-Gov potential. Today, there are more than 31 million federal web pages available at 22,000 websites, and citizens often find more than a thousand government sites when they use a search engine to try to get service. At least 6,600 transactions can either be put online or eliminated.

Why Not Use the Internet?

Currently, Americans applying for a government loan can, at best, download the forms and submit them by mail or fax. All citizens would be better served if they could see and apply for the full range of government loans, similar to the way college students find financial aid at the Department of Education's website. Why not use the Internet?

American businesses have come to rely on the Internet, but not when dealing with the federal government. The paperwork burden on the economy exceeds $300 billion annually, because computerized records often are printed onto reams of paper to comply with antiquated government filing requirements. Why not use the Internet?

In February 2002, the E-Gov initiative will relaunch the FirstGov.gov website.

We will make the government a "click and mortar" enterprise, more accessible, effective, and efficient. Instead of roaming around thousands of websites, Americans will need only two or three clicks to get service on-line. The Administration has selected 24 E-Gov initiatives directed at improving services to citizens, businesses, and other units of government. These initiatives will provide easy access to services at the consolidated point of service: FirstGov.gov. An example would be to ensure that major agencies involved in rulemaking can put their dockets on-line, where the public can see the comments filed on proposed rules that affect them and participate in the rulemaking process. Individual agency chapters and the *Analytical Perspectives* volume of the budget provide further details on E-Gov.

Budget and Performance Integration

The initiative to integrate budget and performance has an important purpose—to improve programs by focusing on results. Dollars will go to programs that work; those programs that don't work will be reformed, constrained, or face closure. As measures improve, dollars will go to programs that yield the best results for each dollar spent. The Administration has started to apply these principles, using existing data to make performance the focus of decision-making. Examples are visible throughout this budget.

- *Shifting Resources to More Effective Programs.* Support for technology innovation in the Department of Commerce has increased funding for the more effective National Institute of Standards and Technology and the Patent and Trademark Office, drawing on funds from the Advanced Technology Program and the Manufacturing Extension Partnership. The budget proposes to eliminate the Technology Opportunities Program and shift resources to more effective programs in the Department.
- *Setting Performance Targets.* The National Weather Service, a demonstrably effective program, received an increase in funding and specific targets to double tornado lead times by 2015, improve aviation forecasting accuracy by 13 percentage points by 2007, and improve temperature forecasts and river forecasts for a pilot region by 2004.
- *Adding Incentives for Achieving Goals.* Vocational Rehabilitation State Grants are often effective, but there are wide variations among states. The budget includes an incentive grant program to provide increased resources to the states that do a better job helping individuals with disabilities obtain competitive employment.

An essential element of evaluating performance is understanding program costs. To compare programs, their cost must be calculated clearly and consistently. The 2003 Budget takes an important step toward clarity. For years, employee retirement costs have been tabulated inconsistently. The 2003 Budget shows employee costs, including those relating to retirement, in the appropriate agency budget.

Keeping Score

We are not here to mark time, but to make progress to achieve results, and to leave a record of excellence.

President George W. Bush
October 15, 2001

Good intentions and good beginnings are not the measure of success. What matters in the end is completion: performance and results. Not just making promises, but making good on promises.

In order to ensure accountability for performance and results, the Administration is using an Executive Branch Management Scorecard. The Administration will use this scorecard to track how well departments and agencies are executing the management initiatives, and where they stand at a given point in time against the overall standards for success.

The scorecard employs a simple "traffic light" grading system common today in well-run businesses: green for success, yellow for mixed results, and red for unsatisfactory. Scores are based on five standards for success defined by the President's Management Council and discussed with experts throughout government and academe, including individual fellows from the National Academy of Public Administration.

The standards for financial management, for example, were reviewed by the Secretary of the Treasury, the Comptroller General, and the Director of the Office of Management and Budget. Under each of the five standards, an agency is "green" if it meets all of the standards for success, "yellow" if it has achieved some but not all of the criteria, and "red" if it has even one of any number of serious flaws. For example, in financial management, an agency is "red" if its books are in such poor condition that auditors cannot express an opinion on the agency's financial statements.

It's not easy being green.

Kermit the Frog

The National Science Foundation (NSF) received the only "green" score. NSF did so in financial management because it has embraced advanced information technologies, and operates in a paperless environment. Its grant workload more than doubled from $2.1 billion in 1990 to $4.4 billion in 2000, yet the number of employees actually decreased.

The initial scorecard shows a lot of poor scores, reflecting the state of the government this Administration inherited. This was to be expected since, as the President indicated when selecting the Management Agenda items, the areas are "targeted to address the most apparent deficiencies where the opportunity to improve performance is the greatest." The marks that really matter will be those that record improvement, or lack of it, from these starting points.

Executive Branch Management Scorecard

2001 Baseline Evaluation

	Human Capital	Competitive Sourcing	Financial Management	E-Gov	Budget/ Performance Integration
AGRICULTURE	🔴	🔴	🔴	🟡	🔴
COMMERCE	🔴	🔴	🔴	🟡	🔴
DEFENSE	🔴	🔴	🔴	🔴	🔴
EDUCATION	🔴	🔴	🔴	🔴	🔴
ENERGY	🔴	🔴	🔴	🔴	🔴
EPA	🔴	🔴	🔴	🟡	🟡
HHS	🔴	🔴	🔴	🔴	🔴
HUD	🔴	🔴	🔴	🔴	🔴
INTERIOR	🔴	🔴	🔴	🔴	🔴
JUSTICE	🔴	🔴	🔴	🔴	🔴
LABOR	🟡	🔴	🔴	🟡	🔴
STATE	🔴	🔴	🔴	🔴	🔴
TRANSPORTATION	🔴	🔴	🔴	🔴	🟡
TREASURY	🔴	🔴	🔴	🔴	🔴
VA	🔴	🔴	🔴	🔴	🔴

Executive Branch Management Scorecard

2001 Baseline Evaluation

	Human Capital	Competitive Sourcing	Financial Management	E-Gov	Budget/ Performance Integration
AID	🔴	🔴	🔴	🔴	🔴
CORPS OF ENGINEERS	🔴	🔴	🔴	🔴	🔴
FEMA	🔴	🔴	🔴	🔴	🔴
GSA	🔴	🔴	🟡	🔴	🔴
NASA	🔴	🔴	🟡	🔴	🔴
NSF	🔴	🔴	🟢	🟡	🔴
OMB	🔴	🔴	🔴	🔴	🔴
OPM	🟡	🔴	🔴	🟡	🔴
SBA	🔴	🔴	🟡	🟡	🟡
SMITHSONIAN	🔴	🔴	🔴	🟡	🔴
SSA	🟡	🔴	🟡	🟡	🔴

Over time, the scores should improve as departments and agencies correct the problems. The Administration will update this report twice a year and issue a mid-year report during the summer. This Administration will not indulge in grade inflation; we will hold ourselves responsible and report honestly when progress is too slow.

Freedom to Manage

At a time of national emergency, it is critical that the government operate effectively and spend every taxpayer dollar wisely. Unfortunately, federal managers are greatly limited in how they can use financial, human, and other resources to manage programs; they lack much of the discretion given to their private sector counterparts to get the job done.

Government is ineffective under these conditions. During wartime, turf protection cannot dictate the national interest. The Congress should remove barriers and give the Administration the tools to do the job that must be done.



Many departments are tied-up in a morass of Lilliputian do's and dont's

The Freedom to Manage Act

In October 2001, the Administration submitted to Congress two pieces of legislation to give federal managers the freedom they need to manage programs more effectively. In transmitting the Freedom to Manage Act, the President asked the Congress to join with the Administration in making a commitment to reform the federal government by eliminating obstacles to efficient operation. The Freedom to Manage Act would establish a procedure under which the President would identify structural barriers imposed by law, and the Congress would quickly and decisively act to remove those obstacles.

Here are just a few illustrations:

- For years, NASA has been expressly prohibited from relocating aircraft based east of the Mississippi River to the Dryden Flight Research Center in California.
- The Department of Defense is prohibited from outsourcing more than 50 percent of major maintenance and repair of planes, tanks, and vehicles, regardless of the cost savings to the taxpayer.
- The Department of Agriculture (USDA) is barred from closing or relocating even a single state Rural Development Office. Taxpayers are paying for 5,600 USDA county field offices (more than one per county), many located near one another.

The Managerial Flexibility Act

The second Freedom to Manage measure is the Managerial Flexibility Act, a three-part bill to reform various personnel, budgeting, and property management and disposal laws to give federal managers tools and flexibility to better manage federal programs and meet the new challenges of the 21st Century.

- *Reform Personnel Management*: This proposal gives federal agencies and managers increased latitude in attracting, managing, and retaining a high quality workforce.

- *Budgeting and Managing for Results—Full Funding for Federal Retiree Costs:* This proposal would assign employee costs, including those relating to retirement, as charges to the programs themselves. These costs have been included in salary and expense accounts throughout this budget (as well as historically for 2001 and 2002) as they are in modern accounting systems. Under the current archaic system, agency managers have no incentive to control these costs, as they are unaffected by any improvement.
- *Reform Federal Property Management:* The federal government owns or controls 3.2 billion square feet of office buildings, military installations, housing, storage, hospitals, schools, and other facilities and millions of acres of land. The proposal would give federal agencies authority they lack to finance the renovation or replacement of obsolete facilities by using the equity in their property holdings, providing incentives for better property management. These incentives for better property management would permit a manager to sell an unneeded piece of property and reinvest the proceeds in improving property the government does need.

Enhanced Management Authority

The President will seek additional authority to organize and manage programs for improved results, including expanded authority to transfer funds to meet higher priority needs, based on unforeseen requirements.

The protection of turf and jurisdiction should no longer stand in the way of more effective government. The Administration will seek to re-institute permanent reorganization authority for the President to permit expedited legislative approval of plans to reorganize the Executive Branch. This time-tested management tool was available to Presidents for 50 years until the law expired in 1984. For example, the Environmental Protection Agency and the National Oceanographic and Atmospheric Administration were formed after President Nixon submitted a reorganization plan to the Congress in 1970. The Bureau of the Budget was reorganized into the Office of Management and Budget the same year.

Program Transfers

The budget proposes to transfer a number of programs littered across the government in sometimes very disorganized ways. In addition, the budget also recognizes the need for organizational reform within departments. For example, the Department of Health and Human Services chapter details efforts to eliminate unnecessary layers of bureaucracy and consolidate duplicative functions.

Inter-Agency Program Transfers

Homeland Security:	
State/local terrorism programs	Justice to FEMA
Transfers to the National Science Foundation (NSF):	
Sea grant program	Commerce/NOAA to NSF
Toxic substances hydrology program	Interior/USGS to NSF
Environmental education program	EPA to NSF
Other proposals:	
Nutrition services incentive program	Agriculture to HHS
Radioisotope generator research	Energy to NASA and DoD
Natural gas infrastructure program	Energy to Transportation
Veterans employment grants	Labor to Veterans Affairs
Emergency food and shelter program	FEMA to HUD
United Nations world food program	State to USAID

Another example is within the Executive Office of the President (EOP). Although the dollars are tiny relative to the department budgets, there are 20 accounts for 11 entities within the EOP that directly serve the President. The President cannot move even $100 between the Council of Economic Advisors and the Council on Environmental Quality without getting the Congress' permission in the next budget. The President seeks to fund EOP agencies with a consolidated, shared account and for common acquisition-related goods and services. This will enable the EOP to eliminate redundant staff and improve managerial efficiency.

A Shared Responsibility

Federal programs are responsible for providing services that are critical to the people's welfare. The public deserves at least the same commitment to results from its government that it expects from businesses. We will know we are successful when conversations no longer focus on how much we are spending on a program compared to last year but rather how the results of the program will change. Will we feed more people per dollar, educate more children per dollar, conserve more land per dollar, and so on?

The Administration cannot improve the federal government's performance and accountability on its own. It is a shared responsibility that must involve the Congress. The Congress' agenda is a crowded one, and there is an understandable temptation to ignore or block management reforms in favor of higher levels of spending or new programs.

The Administration rated the effectiveness of programs throughout the federal government to identify strong and weak performers. It consulted with government performance experts at the Mercatus Center at George Mason University to externally review each rating and its justification for internal consistency, based on the principles of accountability and transparency.

Scholars at the university's Government Accountability Project have helped improve the U.S. government's funding and policy decisions since 1997, most notably by publication of the Annual Performance Report Scorecard, a comparison of federal agencies' disclosures under the Government Performance and Results Act.

Moreover, a number of changes have been made to this year's budget to attempt to make agencies more accountable for results. First, the President's proposals are now presented through the agencies charged with carrying them out. Past budgets presented various proposals across the government with little connection to accountability. This budget integrates performance measures into its presentation. To the extent possible, the President's proposals are presented in terms of priorities and goals. To facilitate citizen contact, a profile of each major agency includes the department's website address as well as its main phone number.

Each chapter's narrative section describes what the Administration hopes each agency will achieve in the coming year. Each agency chapter also contains a status report on select programs to display the highs, lows, opportunities, and pitfalls among the programs that the agency administers.

Agencies are not solely responsible for the problems they experience serving the public. Congress enacts laws that contribute and restrain agencies in many ways. Every success story in this budget was the result of the Congress' passing a law to establish the program and fund it. On the other hand, the Congress often burdens agencies with numerous restraints that diminish their effectiveness and inhibit innovation.

Since the Congress controls the purse, each major agency chapter includes a discussion on how the practice politely called congressional earmarking mars merit-based processes for distributing the American people's resources. The proliferation of congressional earmarking comes at a cost, in wasted dollars and in unfairness, as when a grant applicant who played by the rules and earned a place at the front of the funding line gets shoved backwards.

Each agency is also graded on the five government-wide goals spelled out upon the release of the President's Management Agenda in August 2001. A forthright accounting of progress, or the lack of it in management areas of weaknesses, accompanies the rankings. Finally, the President's overall request for 2003 closes each agency's chapter.

DEPARTMENT OF AGRICULTURE

The President's Proposal:

- Fulfills commitments to
  - fully fund the Special Supplemental Nutrition Program for Women, Infants, and Children enabling 7.8 million at-risk pregnant and post-partum women, infants, and young children to receive supplemental foods, nutrition education, and access to preventative health care each month in 2003;
  - maintain a safety net for farmers and foster trade expansion for the long-term prosperity of American agriculture;
  - provide record support for food safety programs to protect American agriculture and consumers against unanticipated events;
  - simplify rules, support of working families, and improved incentives for state performance in the Food Stamp program; and
  - focus on housing, infrastructure, and other economic assistance to rural communities.
- Provide better service to farmers and others at less cost by modernizing field office structure and processes; and
- Improve stewardship of our soil, water, and forestry resources by making more resources available for conservation with less spent on overhead.

Department of Agriculture

Ann M. Veneman, Secretary

www.usda.gov 202–720–3631

Number of Employees: 131,385

2002 Spending: $76.6 billion

Field Offices: Eighteen separate program agencies organized under seven mission areas, with a total of 7,400 field, state, or regional offices outside of the Washington, D.C. headquarters.

The United States Department of Agriculture (USDA) provides assistance to farmers and ranchers. The Department promotes agricultural trade and production, works to assure food safety, protects natural resources, fosters strong rural communities, and fights hunger in America and abroad.

Overview

USDA not only carries out its mission of helping America's farmers but, as the number of American farmers has shrunk, USDA serves essentially all of the American public at some level. Currently, there are over 346,000 farms whose operators make roughly 40 percent or more of their income from farming, and 70,000 USDA employees that support the farming community. This represents approximately one USDA employee for every five such farms. The Department, by itself, provides many of the same functions provided by other federal agencies. For example, the Department:

- Performs a security function, with over 3,000 USDA inspectors searching bags at airports and cargo at major ports of entry for compliance with animal and plant import restrictions;
- Provides assistance to businesses, housing authorities, electric companies, water supply and sewage treatment facilities and other utilities. At over 5,600 county offices, USDA employees distribute farm commodity support payments, housing and community loans, and offer conservation technical advice to land owners;
- Protects public health daily at 6,000 meat, poultry, and egg product plants to ensure compliance with food safety standards;
- Fights fires. In an average year, 832,000 acres of fires on national forests are battled by 10,000 USDA firefighters;
- Conducts research through its own laboratories and at over 200 institutions of higher education in areas ranging from human nutrition to new crop technologies that, for instance, allow farmers to grow more food using fewer chemicals; and
- Provides food to the needy and schools. An estimated $19 billion in food stamps will be distributed to approximately 20 million needy people in 2002, and on average, 28 million school children will receive school lunches through USDA each day.

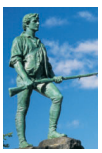
The long list of programs USDA now operates demonstrates how society's view of agriculture and our demands on food systems have changed over the last two centuries. The President's Budget meets the challenges posed by these changes.

Unlike previous budgets, this budget reflects a review of the performance of USDA and how performance can be improved. This chapter addresses five primary areas for improving performance: 1) aid to farmers; 2) safeguarding the food supply; 3) stewardship on farms and in forests; 4) feeding people in need; and 5) supporting rural America. The chapter provides examples of specific programs that are rated effective or ineffective.

Homeland Security

Before September 11th, most USDA facilities, including laboratories, were not considered likely targets of terrorists. A subsequent review of USDA facilities throughout the United States and the world determined that some, including several laboratories that perform research on infectious diseases and food supply contamination, need greater protection.

To address the heightened risk, USDA will spend an additional $328 million for improvements in security of personnel, laboratories, and information technology infrastructure in 2002. These funds will provide research and training in the detection of biological and chemical agents, and an integrated emergency response and communications network to respond to food contamination. The funding will also provide for research facility planning, design and construction, for the enhancement



of border inspections, and for animal and plant disease monitoring. USDA will continue reviewing the security needs of its facilities and equipment. Continued funding is included in the 2003 Budget for these activities.

In addition to these activities, USDA works to ensure the safety and security of the nation's food supply and agricultural systems through its inspection, monitoring, research, and enforcement activities. These activities are discussed later in the chapter.

Status Report on Select Programs

The accompanying table is a selection of effective and ineffective programs in USDA. While the specific budget proposals for these five areas are too detailed to present in this chapter, this is illustrative of how programs were rated. This budget is the first to explicitly rate certain programs and tailor resources and other proposals to improve their performance.

Program	Assessment	Explanation
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	**Effective**	WIC is a successful and cost-effective early intervention program that saves lives and improves the health of nutritionally at-risk women, infants, and children. The budget fully funds WIC, allowing service to all eligible persons seeking benefits.
USDA County Offices	**Ineffective**	Even though USDA has worked on improving efficiency since 1992, enormous duplication and inefficiencies remain.
Forest Service Operating Program	**Ineffective**	The Forest Service's administrative and decision-making system, along with confusing and inadequate regulations, has led to gridlock. Currently, according to the National Academy of Public Administration, 40 percent to 60 percent of the money spent on this program goes to planning and litigation rather than projects.
Agricultural Quarantine and Inspection Program	**Effective**	The program conducts inspections of people and cargo entering the country by land, sea, and air. Inspections indicate that at least 95 percent of international air passengers are in compliance with federal regulations.
Rural Water and Wastewater Grants and Loans	**Effective**	The program alleviates health hazards and encourages economic growth in rural areas by providing support to build sewage treatment plants and other water infrastructure. Funds are effectively targeted to the most needy communities including those with major wastewater problems that pose health concerns.

Congressional Earmarks

The process of identifying and selecting which projects will be funded by the budget involves high levels of subject matter expertise and administrative support. Hence, when non-priority

projects, those not requested by experts, are funded directly by the Congress in what is referred to as "earmarks," there is no assurance that funds will be used to support projects and activities that have the greatest prospects for success. While earmarks may be good projects, they divert limited funds from programs that have competed fairly in the systematic budget development process and are of higher national priority. USDA programs receive many earmarks—most of which fall in USDA's research programs. The budget proposes to eliminate funding for over 400 USDA earmarks.

Earmarking of research projects is an especially bad idea, because it enables special interest pressure to end-run the competitive selection of proposals through scientific peer review. From 2001 to 2002, research earmarks increased in dollar amount and number, with earmark funding rising by 39 percent (from $228 million to $317 million) and the number of earmarks increasing by seven percent (from 414 to 444 earmarks).

Aid to Farmers



There are approximately 346,000 farms that provide the majority of their operators' incomes.

Does federal aid target farmers most in need? How efficient is the government at delivering aid to farmers? These are the measures against which USDA effectiveness is judged. Most of USDA's aid is funded outside of the President's annual budget request. USDA provides direct and indirect subsidies for the production and export of U.S. crops using funds provided in farm bills that the Congress enacts every five years. For 2000 and 2001, the government has provided a total of over $40 billion in direct farm income support. In calendar years 1999 and 2000, government payments accounted for roughly 49 percent of net farm income; they are projected to be 40 percent of net farm income in 2001.

Summary of Farm Income

(In billions of dollars)

	1999 Actual	Estimate			
		2000	2001	2002	2003
Farm income from product sales	189	194	206	204	208
Total net farm income [1]	44	46	49	45	49
Percent of net income from direct government payments [1]	49	49	40	33	34
Percent of eligible crops insured	73	78	78	78	77

[1] Total net farm income and percent of net income from direct government payments for 2002 and 2003 include additional funding under a new farm bill, which is estimated to provide an additional $4 billion and $7 billion in 2002 and 2003, respectively.

Farm income has held steady over recent years, but has become more dependent on government support. This support is neither targeted well, nor efficiently delivered. The 2003 Budget seeks to improve aid to farmers by focusing on: increased agricultural trade, improvements in the delivery of farm aid, addressing risk management on the farm, and supporting agricultural research.

The 1996 farm bill expires at the end of 2002, and Congress is currently working on a new farm bill. Funding in USDA's annual budget request as described in this chapter for 2003 is in addition to, and coordinated with, the farm program funding provided in the 1996 farm bill. The Administration supports, and the budget reflects, an additional $73.5 billion over a 10-year period, for a farm bill that will provide a strong safety net for all farmers and ranchers, expand markets abroad for American agricultural products, and increase resource conservation in ways that enhance the environment. This funding will provide additional farm support payments; increase funding for conservation programs; improve the food stamp program; enable the establishment of risk management savings accounts for farmers and ranchers; and increase support for other USDA programs, including trade, research, and rural development.

The Critical Issue of Trade

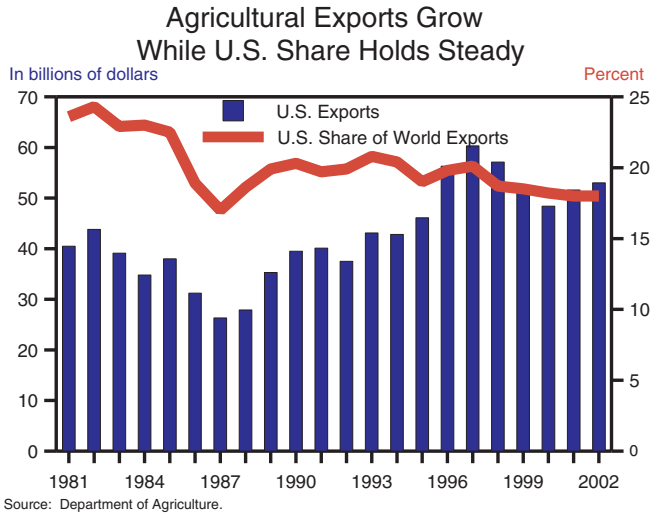
Twenty-five percent of farm receipts are generated by exports. One quarter of all the revenues coming into the farm economy are generated as a result of a farmer in America, or a rancher in America, selling that product overseas. Our farmers and ranchers are the most efficient producers in the world. This is an area where our country has a competitive advantage. We're really good at it. And the job of this Administration must be to open up more markets for ag products.

President George W. Bush
June 18, 2001

A key way to increase farm income is to increase trade. The President is committed to expanding overseas agricultural markets by lowering trade barriers and strengthening USDA's ability to identify potential new foreign market opportunities. Recent trade statistics indicate that these efforts are working—U.S. agricultural exports for 2002 are forecast to be $57 billion, up $4.2 billion from 2001. If these forecasts are realized, the 2002 export level will be the highest since 1997 and represent three straight years of sustained agricultural export growth. U.S. exports of high-value products, currently at $24 billion, $1.8 billion more than last year, are increasing the U.S. farm trade surplus. At the upcoming multilateral trade negotiations, the Administration will work to expand opportunities for agricultural exports by lowering trade barriers utilizing Trade Promotion Authority (TPA). The TPA authority gives U.S. trade negotiators the ability to negotiate trade agreements with our current trading partners and open new markets under future trade agreements.

The Foreign Agricultural Service (FAS) represents U.S. agricultural interests overseas and plays a critical role in gathering market intelligence, which provides expertise in resolving technical trade issues and developing international commodity standards. FAS activities are fully funded in the budget. USDA also has a wide range of trade promotion programs that expand overseas market opportunities and develop long-term trade relationships with foreign countries. These include subsidies to export firms that face unfairly subsidized overseas competitors and credit guarantees for the commercial financing of U.S. agricultural exports. USDA also provides outreach

and exporter assistance activities that are designed to assist businesses in identifying opportunities overseas and entering export markets for the first time.



The budget proposes to reform the delivery of American food aid through USDA, USAID, and the Department of State. As part of those reforms, the budget includes a $335 million increase for P.L 480 Title II food aid. A discussion of these reforms is included in the Department of State and International Assistance chapter.

Efficient Delivery of Farm Aid

Why do the more than 28,000 USDA employees working in 5,600 county field offices across the country, wear different "hats" depending upon the category of service provided? The answer is rooted in history. USDA's Natural Resources and Conservation Service (NRCS), Farm Service Agency (FSA), and Rural Development (RD) offices evolved over time, with the Congress, by law, giving them separate mandates and organizational hierarchies.

Today, these USDA agencies act as separate franchises, with offices often located adjacent to each other. Prior efforts to improve the efficiency of USDA's county-based offices have resulted in significant co-location, with 2,600 service centers now operating. New information technology has been introduced to simplify customer transactions and to share information among USDA agencies. However, the separate hierarchical structures at state, regional, and headquarter levels are set in law, and this hinders further attempts to achieve additional efficiencies.

For example, USDA personnel located in the same county office location operate three separate payroll, procurement, computer, and travel support systems. Similarly, county office personnel cannot "help each other out" with workload. For instance, a conservationist visiting a farm cannot verify the farmer's land unit to qualify for certain commodity support programs—a separate trip must be made by a USDA employee in a different "hat."

Congress has impeded efficiency improvements by: 1) not allowing USDA to combine administrative support offices and 2) not allowing the relocation of offices without congressional approval. The Administration has proposed legislation that seeks to remove roadblocks to efficient management (the Freedom to Manage Act). This budget proposes changes that will allow the agencies to operate together more efficiently within the current organizational constraints. Specifically, the Administration proposes that the FSA and NRCS field offices seek improvements by:

- Restructuring the administrative support offices to improve efficiency of information technology, personnel, travel, payroll, and procurement;
- Reviewing the field office structure to determine the most efficient level of offices necessary to provide services, with the goal of co-locating at least 200 additional offices in 2003;

- Beginning to centralize loan servicing functions that do not need to be performed at the field level;
- Evaluating pilot projects and developing guidance to strengthen NRCS' process for emphasizing local involvement in setting national priorities; and
- Implementing competitive sourcing and cross servicing.

Improvements undertaken that will improve efficiency and increase the number of employees available to provide services directly to the U.S. citizen will be evaluated based on:

- Reducing the number of office visits and reporting burden for clients of FSA and NRCS. A 10 percent reduction in reporting would reduce the number of hours spent filling out forms by 1.7 million hours or 46 minutes per farm (currently 17 million hours spent, 7 hours and 44 minutes per farm); and
- Increasing the provision of core customer services, including technical assistance visits and eligibility determinations, while maintaining or reducing the number of personnel and/or the cost associated with the provision of service.

Managing Risk on the Farm

What can farmers do to lessen the risk their crop may be lost due to drought or other natural disaster? USDA's Risk Management Agency (RMA) administers a crop insurance program through the Federal Crop Insurance Corporation (FCIC). These insurance policies insure a farmer against crop losses from natural disasters or market price reductions, and are delivered through private insurance companies. In 2003, it is expected that 80 percent of the total amount of crop acreage eligible for crop insurance will be covered. FCIC now subsidizes over half the cost of farmers' insurance premiums to encourage farmer participation. As more farmers participate, this should reduce the need for ad-hoc supplemental federal funding for crop losses due to natural disasters.

FCIC also reimburses private insurance companies' administrative costs, and pays a share of the indemnities on insurance policy claims, which provides an incentive for the companies to sell the policies. The program was revised in 2000 thorough the Agricultural Risk Protection Act (ARPA). ARPA increased the estimated annual cost of the program from $1.7 billion to $3 billion, largely due to its increases in insurance premium subsidies. However, the changes have made the program more attractive to farmers and significantly increased participation. Since 1993, the crop insurance program has grown from $700 million in gross premiums insuring $10 billion in crop value, to $2.4 billion in premiums insuring over $32 billion in crop value in 2000.

The Administration believes that improvements should be made in the risk sharing arrangements between the government and the private insurance companies. To achieve this, the 2003 Budget proposes amending the Federal Crop Insurance Act. The proposal continues to provide incentives to the insurance companies to participate in the crop insurance program but establishes constraints on windfall profits. The proposal would cap the underwriting gains to 12.5 percent of each company's retained premiums for the year. The dollar volume of total underwriting gains went from $201 million to $378 million (an 88 percent increase) between 1999 and 2001. The change will save $89 per policy sold to participating farmers in the crop insurance program in 2003.

Assisting Farmers through Research



Wheat is susceptible to natural disaster and diseases, such as karnal bunt.

Agricultural research can lead to discoveries that result in increases in farm income through better management, improvements in production and processing techniques, development of new and improved seed, and technologies to achieve the maximum use of agricultural products. Research also helps achieve other objectives, such as food safety. The challenge is to target research funding to the highest priorities—those that are most likely to boost farm income, or address other national concerns. Priority research projects are identified through competitive merit-based processes and peer review. As mentioned above, congressional earmarks can hinder the ability to focus funding on priority research.

The 2003 Budget proposes an increase of $58 million for in-house research for a number of high priority initiatives of key national importance, such as: bio-based products; biotechnology; counter-terrorism; invasive species; genomics; and upgrades to the National Agricultural Library. The Administration had agencies re-evaluate all their programs, to ensure that taxpayer dollars fund the highest priority activities that meet national needs. The 2003 Budget does not propose to fund numerous unrequested projects added by the Congress in 2001 and 2002, and also reallocates $15 million from lower priority programs to fund priority initiatives.

The 2003 Budget also proposes providing a significant increase in funds for the National Research Initiative (NRI), USDA's major discretionary competitive grant program. To date, the NRI has never received more than $120 million. In 2003, the budget proposes to double funding for the NRI, to $240 million. Under this proposal, funding for competitive research would increase from seven percent to 12 percent of all research funding, or from 16 percent to 28 percent of research grant programs in 2003.

Safeguarding the Nation's Food Supply

The United States has the safest food supply in the world. USDA has a prominent role in protecting the security of the national food supply, along with the Department of Health and Human Services, the Environmental Protection Agency, and state and local health agencies. Working together, these agencies share information and coordinate food safety activities from farm to table. According to the Centers for Disease Control and Prevention, the incidence of reported foodborne illnesses under surveillance in the United States has declined in recent years; however, foodborne diseases still cause over five million illnesses and up to 9,000 deaths annually. Government food safety agencies are committed to a goal of reducing by 25 percent, from 2000-2005, the incidence of foodborne illness in this country.

While existing public health data do not allow specific linkages between the prevalence of foodborne hazards, and the level of foodborne illnesses, USDA's Food Safety and Inspection Service (FSIS) has several performance standards in place to address product safety. These include

pathogen reduction performance standards for salmonella. Monitoring establishment performance data indicates that the prevalence of salmonella on meat and poultry products has declined.

While FSIS has been moving in recent years to a science-based food safety regulatory system, the underlying meat inspection laws, put in place in the early 1900s, have not been updated to reflect modern risk knowledge. Efforts to implement inspection processes that are more risk based currently face legal challenges. For example, in October 1999, FSIS began testing a new slaughter inspection model. Independent testing of the new inspection procedures showed superior food safety benefits over the traditional inspection system. However, the expansion of the new system outside of several pilot plants has not occurred due to ongoing litigation that challenges the statutory basis of FSIS to implement procedures that differ from traditional inspection.

The budget proposes increased funding for risk prevention activities and improved risk management systems to maximize food safety. In addition, the budget includes a proposal to replace the existing overtime fee structure with a revised structure that would reduce existing overtime rates, while also charging fees for inspection services currently provided without reimbursement for second and third shifts. The budget also contains a new annual licensing fee proposal that will make funds available, in subsequent years, for FSIS to invest in food safety inspection technology.

Pest and Disease Outbreaks

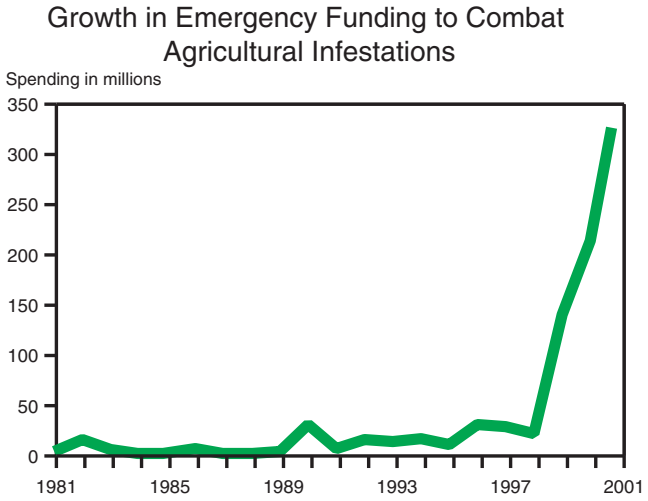
USDA recently released an independent risk assessment on Bovine Spongiform Encephalopathy (BSE), or Mad Cow Disease, which showed a very low risk of BSE in the United States. Early protection systems to safeguard against BSE, put into place by USDA and the Department of Health and Human Services, have been successful. The BSE risk assessment will be helpful in identifying additional steps that government and industry should take to keep the risk at a very low level.



Quincy, a USDA beagle, inspects passenger baggage.

The Animal and Plant Health Inspection Service (APHIS) is the primary agency involved in the BSE plan—APHIS is responsible for protecting the United States from pests and diseases of plants and animals. APHIS programs represent a continuum of actions that include: working with foreign nations to set agreed upon standards of purity; inspecting people and cargo entering the country for prohibited articles; monitoring plant and animal health; and actively responding to infestations that threaten farms and ranches. Besides working with foreign governments to reduce the risk of the entry of pests and diseases, APHIS has over 3,500 inspectors, working closely with the U.S. Customs Service, to prevent the entry of prohibited (potentially dangerous) agricultural products. USDA continually monitors plant and animal health to detect and respond to exotic disease introductions, and to combat ongoing infestations, such as the Asian Longhorned Beetle and Citrus Canker. APHIS also enforces the humane treatment and care of animals covered under the Animal Welfare Act. APHIS programs have demonstrated success in many of these areas, such as: minimizing the number of fruit fly outbreaks established

in the United States (by an almost 10 fold reduction in square mileage); and increasing the area eradicated of boll weevil by about 700,000 acres.



The 2003 Budget proposes an increase of $75 million in pest and disease exclusion and monitoring programs to guard against the threat of foreign animal diseases, such as Foot and Mouth Disease (FMD), entering the United States.

The 2003 Budget also proposes to fund the ongoing costs of combating infestations through the annual budget request to the Congress—and proposes a $175 million increase for these activities—rather than through emergency funding authority. In addition, the budget proposes to establish criteria for cost-share rates for these programs, to be published for public comment in 2002.

Stewardship on Our Farms and in Our Forests

Farmers, ranchers, and private forest landowners own and manage two-thirds of the nation's land and are stewards of much of our soil, air, and water. USDA provides these landowners with technical and financial assistance needed to effectively conserve natural resources. Efforts to improve and implement conservation technologies over the past two decades have reduced soil erosion on crop land and pasture by 1.2 billion tons (40 percent), and those gains are spread widely across all major farming regions. These natural resources are critically important for keeping our nation's economy competitive and for solving challenges we face in agriculture, energy production and use, and the environment. As a result, federal conservation and forestry dollars must be invested as effectively as possible. This budget proposes to improve the quality, effectiveness, and efficiency of the federal government's investments in conservation and forestry by improving management at USDA and refocusing resources to "on the ground" efforts. To meet this commitment, key performance measures in conservation and forestry are identified.

Clean Water

Agriculture has a significant impact on the nation's water. While, overall, water quality has dramatically improved, the application of fertilizers, manure, and pesticides have degraded the quality of streams and shallow ground water in some agricultural areas. Commercial fertilizers and animal manure are among the primary nonpoint sources of nitrate and phosphorus in surface water and groundwater.

- High concentrations of phosphorus lead to nuisance plant growth in nearly 80 percent of streams sampled by the Environmental Protection Agency, leading to low levels of dissolved oxygen that harm fish and other aquatic life.
- At least one pesticide was found in more than 95 percent of stream samples.

- A Natural Resources Conservation Service (NRCS) study found that the number of counties where manure nutrients exceed potential plant uptake and removal has doubled in the last 15 years.

Water quality improvements and wetland protections can be achieved through voluntary measures. The Administration, working with states, is seeking to achieve voluntary environmental improvements by targeting its technical and financial assistance to farmers and ranchers who operate in the watersheds with the greatest needs. In 2003, the NRCS will spend $118 million, an increase of $48 million, to provide animal feeding operation owners with technical assistance to develop voluntary nutrient management plans designed to protect water quality to the extent possible.

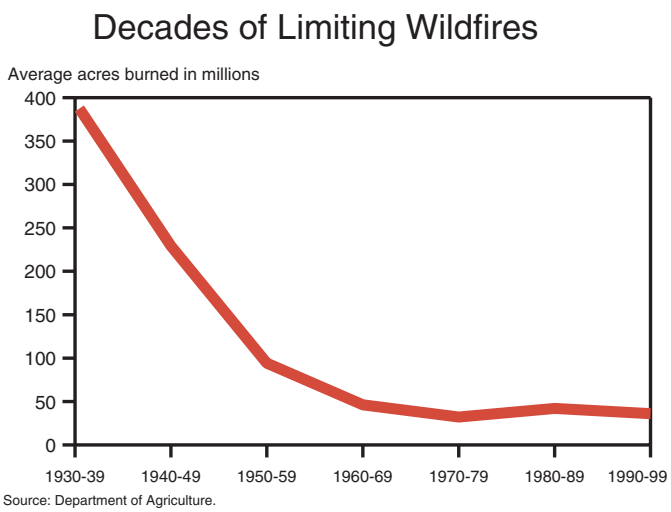
Part of this effort in focusing assistance on the areas and activities of greatest need is to reduce or eliminate under-performing or ineffective programs. USDA's Watershed and Flood Prevention Operations program provides technical and financial assistance to plan and install small dams and other watershed-based projects for purposes of flood prevention, irrigation water management, and sedimentation control. Data show that the Army Corps of Engineers' flood damage reduction program returns 50 cents more per dollar invested than the USDA program (see the Army Corps of Engineers chapter). Consequently, the budget closes out USDA's flood mitigation projects, which struggle to achieve the required cost-benefit ratio.

Restructure the Forest Service to Improve Performance

Americans cherish national forests and national grasslands for the values they provide—clean water, clean air, natural scenic beauty, protection of rare species, and opportunities for unparalleled outdoor adventure. However, the burden of too many organizational layers and a cumbersome decision-making process have reduced the amount of funds available to professionals who work in our national forests. This has reduced the level of conservation work at the national forests to exceedingly low levels. The budget includes significant management reforms for the Forest Service that will improve service to citizens and increase administrative efficiencies by putting more foresters in the forests. These reforms include:

- "One-stop shopping" for the public and reduced federal overhead expenses by co-locating 22 Forest Service and Bureau of Land Management offices by the end of 2005;
- An increase of resources to the field by reducing Forest Service indirect expenses in half by 2005;
- Placement of Forest Service personnel closer to the resource by relocating or reassigning Washington Office and regional office employees; and
- Development of a model forest office by increasing the amount of resources available for contracting out to local communities and significantly increasing the amount of cost-share assistance for leveraging projects on federal lands.

To overcome inertia and an excessive decision-making structure, USDA will develop legislation in 2003 to establish "charter forests." This proposal would establish certain forests or portions of forests as separate entities, outside the Forest Service structure, that report to a local trust entity for oversight. Like charter or magnet schools, this proposed structure would avoid the central bureaucracy and thereby reduce organizational inefficiencies, while emphasizing local involvement, and focusing upon specific programmatic goals, such as forest ecological restoration or hazardous fuels reductions.

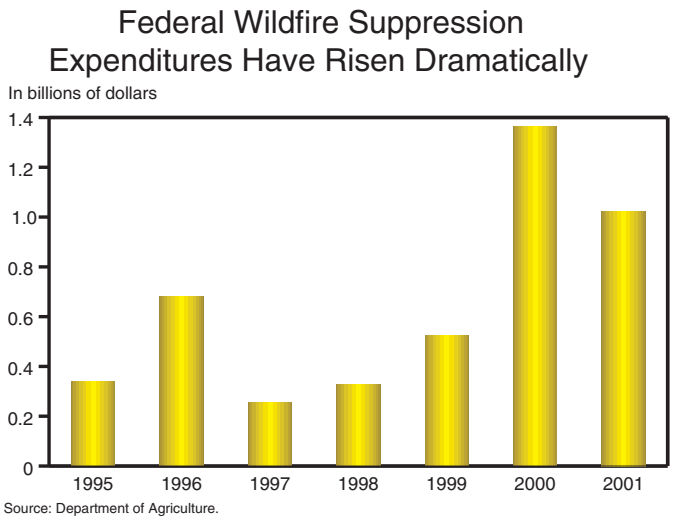


Wildfire Management

The long history of controlling wildfires has an unfortunate side effect—successful suppression of fires in the past has led to larger and more intense fires today. At the same time, more people are moving into areas that have traditionally been wildlands. With larger, more intense fires threatening more homes and businesses, the costs of wildfire suppression have risen dramatically.

Wildfires are a natural occurrence that help to maintain forest health and wildlife habitat. However, as the accompanying chart shows, the acreage burned from wildfires has declined sharply over the years, as the Forest Service and other land management agencies have emphasized fire suppression. This approach has exacerbated the risks from damaging catastrophic wildfires, since woody undergrowth that would have burned away in smaller, less-intense fires now has grown into thickets across the West.

Costs for suppression have also risen as the other chart shows. In 2001, the Forest Service spent $1,300 per acre in suppressing fires on 573,000 acres of forests, an increase in cost per acre of almost 300 percent over 2000. In comparison, wildfire suppression costs for the Department of the Interior (DOI) averaged about $235 per acre, although much of DOI's lands are grasslands, which burn less intensely than forests. In some western areas, the government pays more in suppressing fires than the fair market value of the structures threatened by those fires. It would literally be cheaper to let the fires burn and pay 100 percent of the rebuilding cost.



The Forest Service is looking at a variety of ways to control the costs of fire suppression. For example, the Forest Service will work with state and local governments to identify areas to pilot test "fire plain easements" as a way to protect lives while ensuring that taxpayer funds are used wisely.

Another way to protect communities and lower fire-fighting costs is to reduce the amount of brush and small trees, especially in areas adjacent to human populations. The President's Budget funds the Forest Service Hazardous Fuels Treatments program at $229 million, with over 70 percent of funds directed to the wildland-urban interface. This will result in the completion of buffers at eight percent of eligible vulnerable communities by the end of 2003.

This budget also emphasizes improvements in fire management planning, and will incorporate the results of several ongoing program reviews, so that better decisions can be made regarding when and how to fight fires, and fire program performance and cost effectiveness. The budget anticipates the cost of fighting fires in a typical year. Accordingly, wildfire suppression is funded at a 10-year average of $423 million.



On average, 832,000 acres burn in national forests annually.

Fulfilling a Commitment to Land Protection

National forests and grasslands support the richest variety of habitats of any land management system in North America and a great variety of plants and animals depend upon them. To protect these resources, the President's Budget includes $15 million to expedite endangered species consultations to ensure careful management of food, water, space, and shelter for these species. The budget also includes an increase of $9 million to expand recreation, heritage, and wilderness management, while also focusing upon improving the ecological integrity of the forests, both in terms of forest health and forested areas restored.

The budget includes full funding of the Forest Service portion of the Land and Water Conservation Fund (LWCF), and increases funding to $70 million in the Forest Legacy program to protect against the loss of forests from development. LWCF funds provide clean water, maintain contiguous forests, preserve wildlife habitat, and protect archaeological and historical sites. The budget promotes the protection of environmentally sensitive acres targeted at conservation needs that foster better cooperation among the land management bureaus and between the bureaus, states, and local interests. Over $51 million is provided to address a backlog in repair and maintenance of existing facilities.

The budget proposes to establish incentives for cost-effective, non-regulatory, market-based approaches to conservation, including a more business-like approach for timber sales by stimulating competition. This proposal will allow conservation and recreation groups and others to bid on timber sales. In addition, to provide an incentive for private, voluntary land protection, the budget includes a 50 percent capital gains tax exclusion for private landowners who voluntarily sell land or water to a government agency or qualified conservation organization for conservation purposes.

Feeding People in Need

The Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) saves lives and improves the health of nutritionally at-risk women, infants and children. Numerous government and private studies show that WIC is one of the nation's most successful and cost-effective early intervention programs. Research documents the success of WIC in improving birth outcomes and saving health care costs. In addition, studies have demonstrated that WIC improves: diet and diet-related outcomes; infant feeding practices; immunization rates; access to health care; and cognitive development.

The budget reflects this demonstrated success by increasing the program's funding by $364 million in 2003, making certain that all eligible people who seek services receive them. The budget provides almost $4.8 billion in 2003, including a $150 million contingency fund. The request is sufficient to serve 7.8 million people monthly and the contingency fund will ensure that the program can expand to serve an increasing number of eligible persons should that be necessary for any reason.

Why WIC Works

More than a decade ago, the high cost of infant formula threatened to limit the number of people WIC could afford to serve. Fortunately, two WIC state agencies discovered an innovative way to trim the program's costs without reducing its benefits.

Understanding that the large quantities of infant formulas the program was purchasing gave it a unique bargaining position, WIC agencies in Tennessee and Oregon negotiated contracts that offered infant formula manufacturers exclusive rights to the WIC market in return for discounted prices. The agreements, which saved the two states more than a dollar on each can of formula, were quickly replicated by other states eager to expand WIC's reach without increasing its costs.

Today, all WIC's state agencies are required by law to negotiate discounted infant formula contracts. The result: WIC will save $1.5 billion in 2002, allowing the program to reach nearly two million individuals who would otherwise not have been served at the program's current funding level.

Food Stamps

The budget proposes to reauthorize and improve the Food Stamp program. Food stamps alleviate hunger and malnutrition among low-income individuals. In 2003, the program will provide approximately $20.3 billion in benefits to 20.6 million people. The federal government will provide an additional $3.7 billion for state administrative costs, job training programs for food stamp recipients, and the Puerto Rico Nutrition Assistance block grant.

Complex Food Stamp rules create a program that is highly targeted to the neediest individuals but at the same time, administratively burdensome for states and recipients. Other program rules pose a barrier to supporting working families. The President's Food Stamp proposal greatly simplifies program rules, encourages work, and improves program accountability. The package standardizes the medical and dependent care deductions, eliminates exceptions to the standard utility allowance, and excludes interest and dividend income from income tests. At the same time, the budget phases in a higher standard deduction to improve benefits for large households.

The budget restores benefits to legal immigrants five years after entry to the United States, ensuring adequate nutrition among children and other vulnerable individuals, while requiring recent arrivals to support themselves through earnings. To lower transportation barriers to work, the budget excludes one vehicle per adult from program asset rules, allowing a low-income worker to own a reliable car for getting to work without losing benefits.

The budget improves performance incentives for states by reforming the quality control system, replacing enhanced funding with performance bonuses, and removing the federal cost cap for electronic benefit transfer systems. The budget also tightens overly broad waivers from eligibility criteria and reduces, but provides greater flexibility for, the use of employment and training funds.

The budget maintains a strong focus on improving program integrity with a goal of reducing the national average error rate from 8.91 percent for 2000 to 8.7 percent for 2002. This improvement is

projected to save $40 million in 2002. With an additional $4 million for food stamp payment accuracy initiatives in 2003, FNS will redouble its efforts to reduce erroneous payments, especially in states with the highest error rates.

The budget also improves federal oversight of meals programs for the elderly by transferring USDA's Nutrition Services Incentive Program to the Department of Health and Human Services (HHS) and consolidating it with HHS elderly meals programs.

Supporting Rural America

Since the 1930s, USDA has been in the business of promoting economic development in rural America through a variety of loan and grant programs that assist rural communities in addressing their infrastructure, housing, and economic development needs. On average, USDA annually provides over $10 billion in grants and direct and guaranteed loans, and has an outstanding direct loan portfolio of over $70 billion.

2003 Rural Development Budget Highlights

- 1.4 million rural residents will have access to clean, safe drinking water.
- 44,000 jobs will be created or saved through RCAP business and community programs.
- 51,000 low to moderate income rural families will have a new opportunity for homeownership.
- Upgrade 225 rural electric systems, benefiting over 3.4 million customers.
- Provide distance learning facilities to over 300 schools, libraries, and education centers and telemedicine equipment to 150 health providers.
- Develop innovative ways to fund new multifamily housing projects. Ensure allocation processes target the most needy areas and state-identified priority locations.

Thirty percent of rural counties have a declining population, according to recent census data, and nearly a quarter of non-metro households pay 30 percent or more of their income for housing costs. Smaller rural communities often have fewer sources of credit than their urban counterparts, and "patient" capital for start-up businesses, in particular, is more scarce in rural areas.

- The needs of rural areas are so different that no single approach can meet the needs of all rural communities. To address that, the Rural Community Advancement Program (RCAP) provides flexible funding to the states for water and wastewater infrastructure, community facilities, such as fire stations and medical centers, and business development. The budget provides a total (loan level plus grants) of $2.7 billion.
- USDA provides subsidized, means-tested loans and loan guarantees to individuals for homes, and makes subsidized financing available to developers who offer housing to elderly, disabled, migrant farm workers, or low-income rural residents of multi-unit housing buildings. All the programs are limited to areas with populations of 20,000 or less. In 2003, the direct and guaranteed single family housing programs will fund $3.7 billion in loans and loan guarantees.
- USDA provides loans to cooperatives and private companies for electric and telecommunication service throughout rural America. The electric and telecommunications

programs are not targeted to needier areas and even serve areas that are no longer rural. In the budget, USDA will review the electric and telecommunications programs to determine and implement methods for better targeting of these funds.

Strengthening Management

USDA has been working for some time on improving service through increasing the efficiency of the network of county offices that are located throughout the United States. In addition, USDA has been improving financial management and information security. However, the Department has a lot of work to do to meet existing management requirements. These initiatives are contained in the President's Management Agenda, discussed below.

Initiative	2001 Status
Human Capital—There are skill gaps/imbalances across USDA, and USDA is not using existing personnel flexibility. USDA provided a plan detailing how it is going to take advantage of the current skills, improve weak skill areas, and reallocate its workforce to increase frontline service provision. The plan will be modified to reflect adjustments prompted by a new farm bill.	
Competitive Sourcing—The goal is to compete 15 percent of the commercial positions by the end of 2003. Despite a wide array of possibilities, such as administrative personnel, data collectors, groundskeepers, janitors, and veterinarians, USDA has completed no competitions. USDA has recently prepared a plan detailing how it is going to meet the President's goal. USDA has indicated that it will begin competitions later in 2002 and continue into 2003.	
Financial Management—Some USDA financial systems do not comply with federal financial management systems requirements or applicable federal accounting standards. A significant Anti-Deficiency Act violation occurred in the Forest Service in 2000. Such a violation of law occurs when an agency spends more money than is given to it by Congress. Auditors have been unable to express an opinion on the combined USDA financial statement and the Forest Service's stand alone financial statement. While improvements have been made, this audit outcome has not substantively improved since 1996. USDA is close to implementing a Department-wide compliant financial system, and continues to work with the Inspector General and OMB on improving the processes and procedures used to estimate and re-estimate loan subsidy costs. Finally, USDA is working with the Forest Service on improving the control of property, plant, and equipment.	

Initiative	2001 Status
E-Government—Many, but not all, major USDA system investments have been adequately justified and supported by well-drawn business cases. Many, but not all, of the projects are operating within 90 percent of cost, schedule, and performance targets. USDA is deploying Geospatial Information Systems and participates in Firstgov.gov. USDA is taking steps to more effectively plan and manage its information technology investments and has recently developed an enterprise architecture plan.	
Budget/Performance Integration—The goal is to provide greater focus on performance. USDA's performance measures are only imperfectly tied to the budget. Performance measures did not accompany the budget submission, and do not drive any budget requests. There are no clear performance targets to achieve. Sporadically across USDA, performance measures describe outputs generated by the budget after budget levels are determined. USDA needs to align processes and budget accounts to track the full cost of programs and measure achievement of program goals. USDA needs to develop a plan to better integrate performance measures into the budget process.	

Department of Agriculture

(In millions of dollars)

	2001 Actual	Estimate	
		2002	2003
Spending:			
Discretionary Budget Authority:			
Commodity and International	2,545	2,679	3,143
Rural Development	2,725	2,600	2,601
Forest Service	4,589	4,274	4,099
Conservation	1,072	1,019	1,059
Food and Nutrition Service	4,491	4,811	5,078
Research, Education, and Economics	2,164	2,353	2,284
Marketing and Regulatory Programs	1,751	1,621	1,720
Legislative proposal	—	—	–34
Central Activities	472	481	549
Subtotal, excluding changes to mandatory programs	19,809	19,838	20,499
Mandatory savings proposals	—	—	–688
Subtotal, discretionary budget authority adjusted [1]	19,809	19,838	19,811
Remove contingent adjustments	–425	–452	–463
Total, Discretionary budget authority	19,384	19,386	19,348
Emergency Response Fund, Budgetary Resources:			
Research, Education, and Economics	—	113	—
Marketing and Regulatory Programs	—	134	—
Food and Nutrition Service	—	39	—
Departmental Administration	—	81	—
International Food Aid	—	95	—
Total, Emergency Response Fund, Budgetary resources	—	462	—

Department of Agriculture—Continued

(In millions of dollars)

	2001 Actual	Estimate	
		2002	2003
Mandatory Outlays:			
Food and Nutrition Service	28,620	33,083	35,015
Legislative proposal	—	—	29
Commodity Credit Corporation	22,095	17,310	11,621
Legislative proposal	—	4,200	7,271
Farm Loan Programs	–1,413	446	–767
Crop Insurance	2,463	2,883	2,900
Forest Service	432	–68	–104
Animal and Plant Health Inspection Service	149	146	329
International Programs	–443	–358	–428
Rural Development	–2,415	–2,741	–2,823
All other programs	903	824	801
Subtotal, Mandatory outlays adjusted [1]	50,391	55,725	53,844
Remove contingent adjustments	–30	–30	–20
Total, Mandatory outlays	50,361	55,695	53,824
Credit activity:			
Direct Loan Disbursements:			
Farm Loans	1,141	1,168	1,042
Commodity Credit Corporation	8,267	10,624	8,844
Rural Utilities Service	2,263	2,577	2,788
Water and Wastewater	694	800	779
Rural Housing	1,212	1,290	1,160
Rural Community and Economic Development	219	328	333
Rural Business and Industry	27	30	6
P.L. 480	262	119	107
Total, Direct loan disbursements	14,085	16,936	15,059
Guaranteed Loans:			
Farm Loans	2,200	2,988	3,025
Commodity Credit Corporation	2,183	3,926	4,225
Rural Utilities Service	35	120	229
Rural Housing	2,171	2,817	2,751
Water and Wastewater	—	43	72
Rural Community and Economic Development	15	155	179
Rural Business and Industry	809	1,777	1,294
Total, Guaranteed loans	7,413	11,826	11,775

[1] Adjusted to include the full share of accruing employee pensions and annuitants health benefits. For more information, see Chapter 14, "Preview Report," in *Analytical Perspectives*.

DEPARTMENT OF COMMERCE

The President's Proposal:

Focuses resources on core Commerce services, including:

- Strengthening the nation's statistical and trade information to help meet the needs of a growing economy and international trade;
- Developing state-of-the-art technology standards and increasing issuance of patents and trademarks, to meet the needs of high-technology and basic industries;
- Improving weather and climate forecasting, to benefit public safety, the economy, and quality of life; and
- Improving marine fisheries management, to better meet commercial, recreational, and conservation objectives.

To enhance these core capabilities, resources are shifted from unwarranted corporate subsides and lower priority programs.

Department of Commerce

Donald L. Evans, Secretary

www.doc.gov 202–482–2112

Number of Employees: 37,000

2002 Spending: $5.5 billion

Field Offices: 10 bureaus with offices across the United States and 86 countries.

The Commerce Department provides information, technology services, and science that assist American business and society. It makes possible the weather reports heard every morning; it facilitates technology that Americans use daily in the workplace and at home; it supports the collection and development of statistical information essential for competitive business and our representative democracy; it helps American firms and consumers benefit from open and fair international markets; it seeks to manage our marine fisheries; and it supports environmental and economic health in the communities where we live.

This array of activities is reflected in Commerce's three strategic goals:

- Provide the information and economic framework to enable the U.S. economy to operate efficiently and equitably, both nationally and globally;
- Provide the infrastructure for innovation with cutting-edge science and technology to enhance American competitiveness; and

- Observe and manage the Earth's environment to promote sustainable growth.

Homeland Security

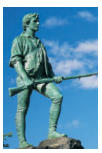
The President's Budget provides an additional $30 million for homeland security and critical infrastructure protection activities at the Bureau of Export Administration (BXA). BXA regulates exports of critical goods and technologies that could be used to damage national interests, while furthering the growth of legitimate U.S. exports to maintain our economic leadership. The funding increases in 2003 strengthen BXA activities that inhibit the global spread of dual-use goods and technologies that could be used in biological, chemical, and nuclear weapons of mass destruction. To reduce the risk of proliferation, beginning in 2003, BXA will post attaches in China, Egypt, India, Russia, Singapore, and the United Arab Emirates to reduce risks of trans-shipments through these countries to terrorist states. Also, BXA's Critical Infrastructure Assurance Office will work with the Office of Homeland Security to ensure that information technology systems and procedures are in place to provide broad access to relevant homeland security information for appropriate federal, state, and local government agencies.

Homeland security investments will also be made in the National Oceanic and Atmospheric Administration (NOAA) and central departmental management offices. Specifically, the 2003 Budget addresses vulnerabilities in weather and satellite systems to ensure NOAA is able to maintain critical operations in crisis situations. The 2003 Budget also will strengthen physical and information technology security at the Department.

Status Report on Select Programs

The Administration proposes a variety of measures to address Commerce Department performance issues, including increasing funding where needed for core activities, reducing funds for low-priority or unnecessary programs, and instituting management reforms where necessary. Below are summary ratings and explanations for major Commerce bureaus and programs. The summary ratings were developed by the Office of Management and Budget based upon Commerce performance data and evaluations conducted by the General Accounting Office (GAO), Commerce's Inspector General, and groups such as the National Academy of Sciences.

Program	Assessment	Explanation
Census Bureau	**Effective**	Census 2000 was the most accurate decennial census ever, with a net undercount of 0.06 percent. Controlling costs per household while maintaining accuracy is a major challenge for 2010 Census planning.
International Trade Administration (ITA)	**Unknown**	Although ITA trade-promotion services are generally positively regarded, assisted firms currently pay little of the program's cost. Commerce will study fee options in 2002 to develop an appropriate cost-recovery framework.



Program	Assessment	Explanation
National Institute of Standards and Technology (NIST)	**Effective**	NIST Laboratories are world leaders in high-tech and basic industrial standards.
Advanced Technology Program (ATP)	**Unknown**	ATP has been associated with some technical successes, but in some of those cases federal support was probably not necessary. Others clearly represented unwarranted corporate subsidies. Proposed reforms will enable the program to better address current conditions and needs.
National Weather Service (NWS)	**Effective**	NWS continues to improve forecasts for extreme weather by modernizing systems and has reduced the number of its offices nationwide from over 250 prior to 1990 to 122 in 2002.
National Marine Fisheries Service (NMFS)	**Unknown**	Less than 40 percent of major ocean fish stocks are known to be at sustainable levels, 20 percent of stocks are over fished, and the remaining 42 percent of stocks have unknown population levels. Legislative reforms and reduced congressional earmarking of funds will help NMFS maintain sound fisheries.

Congressional Earmarks

Earmarks and Unrequested Projects

NOAA's oceans and fisheries programs in the 2002 appropriations include over $13 million for environmental remediation activities in an inland state far from the ocean. Since 2000, NOAA has been required to provide over $45 million for these activities. The program may have merit, but it harms NOAA's performance in managing the nation's marine fisheries and oceans by cutting resources available for those purposes.

NIST's construction account has been repeatedly earmarked to support projects unrelated to NIST activities.

Congressional earmarks for non-competitively awarded projects divert resources that could more effectively meet the mission of the Department. For example, projects steering money to particular universities or localities sometimes draw funds from programs with far different purposes. Moreover, the dollar value of earmarks has been increasing in recent years. In 2000, there were about 100 unrequested projects costing about $170 million in the Department of Commerce. The Department's 2002 appropriations include over $225 million for 96 unrequested projects. NOAA has over two-thirds of the Department's congressionally directed earmarks—74 projects costing over $160 million. The 2003 Budget cuts many of these unrequested projects and redirects funds to activities that can most effectively meet the Department's three strategic goals.

Congressional Earmarks

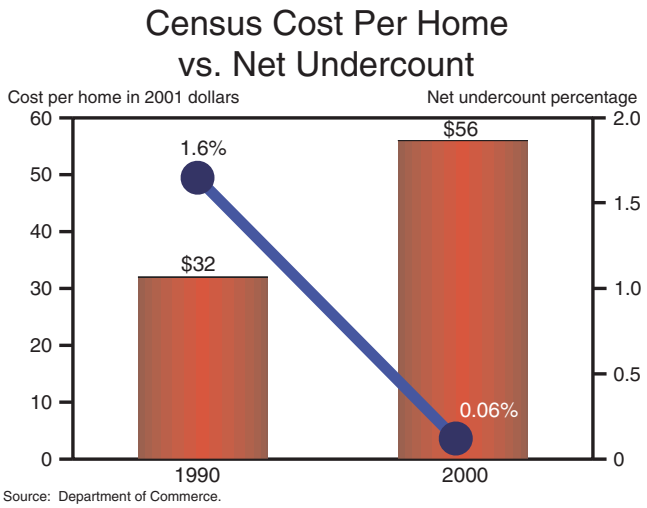
	2000		2002	
	Projects	BA in millions of dollars	Projects	BA in millions of dollars
Commerce Total	100	170	96	228
NOAA	92	143	74	161
NIST	4	14	12	48

Besides reducing earmarks, the 2003 Budget proposes to rescind $96 million provided for loan guarantees to bankrupt and other financially troubled steel firms. This funding was provided in 1999, and was intended to support federal guarantees of up to 85 percent on loans by private lenders. While several applications for loan guarantees have been approved, only one of these loans has actually closed since the program was established. Virtually all funding was rescinded last year from a related program intended to benefit the oil and gas industry.

Strengthening Economic Information and Framework

The President's Budget proposes to strengthen core Commerce activities in areas such as statistical programs and international trade compliance.

The Bureau of Economic Analysis (BEA) supplies the nation's key economic statistics, including gross domestic product (GDP), which are crucial ingredients for business and government decision making. An additional $10 million in 2003 will enable BEA to improve the statistical processing systems for its economic data, accelerate the release of major economic estimates, and incorporate new international economic data classification systems. Although the U.S. GDP statistics are widely regarded as among the best in the world, they require continued improvements to keep pace with the nation's rapidly changing economy.



Source: Department of Commerce.

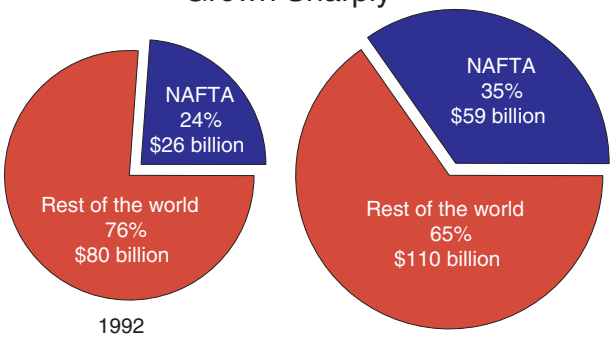
This budget proposes a $223 million increase for the Bureau of the Census for a variety of activities, including the Department's efforts to reengineer the 2010 Census. As a major part of this work, Census will launch the American Community Survey, which will provide detailed demographic data on an annual—rather than decennial—basis. During 2003, Census also will be collecting data for two other cyclical censuses, the Economic Census and the Census of Governments. The Economic Census paints a detailed portrait of the national and local economies every five years, with information on the nearly 23 million businesses and establishments in the nation. Funding in 2003 also supports dissemination of Census 2000 data, including detailed results from the census long form. The challenge for the Department will be to retain a highly accurate decennial census in 2010, while avoiding per capita real cost growth.

This budget also proposes $177 million for the first of two new buildings for the Census Bureau in Suitland, Maryland. Census's current facilities are among the worst in the inventory of the General Services Administration and have decayed beyond the point where renovation would be cost-effective.

> Census 2000 was the most accurate census in history. The net undercount, or how many people the Census Bureau missed minus the number of people erroneously included, dropped to the lowest level ever. However, Census 2000 was also the most expensive census in history, with average costs of $56 per housing unit. In planning for the 2010 Census, the Administration hopes to continue to improve accuracy, while avoiding cost growth with early planning and implementation of the American Community Survey, which will replace the decennial long form.

The International Trade Administration (ITA) is responsible for assisting the growth of export businesses, enforcing U.S. trade laws and agreements, and improving access to overseas markets by identifying and pressing for the removal of trade barriers. The 2003 Budget provides increased funding for ITA's trade compliance activities. In addition, ITA will be undertaking a study of fee options in 2002 to develop an appropriate model for cost recovery from firms that receive trade promotion services.

Small Business Exports to Canada and Mexico Have Grown Sharply



Source: Department of Commerce. Small businesses defined as companies with less than 500 employees. All data are in constant 1999 dollars.

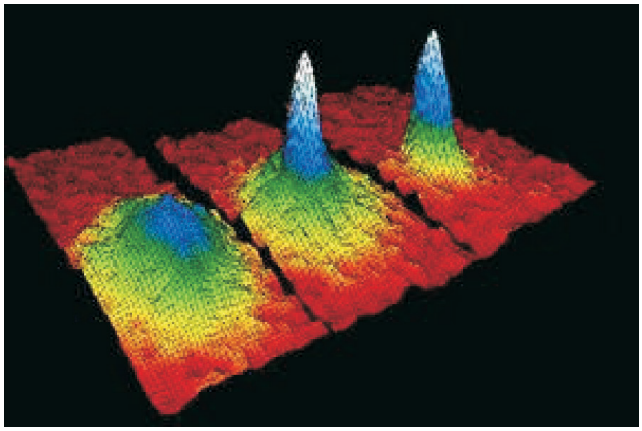
The budget proposes a small reduction in funding for the Economic Development Administration (EDA) to bring resources in line with congressionally authorized levels and program needs. EDA is supposed to help communities across the nation create economic opportunity by promoting a favorable business environment to attract private capital investments and high-wage jobs, principally through infrastructure investments and capacity building. While the 2003 Budget streamlines EDA programs, it increases Trade Adjustment Assistance to firms, which provides technical assistance to U.S. manufacturers injured by increased imports. EDA is reviewing its performance measures to ensure that it can evaluate its effectiveness in creating sustainable employment in distressed communities.

The Minority Business Development Agency (MBDA) works to facilitate access to resources for the minority business community in order to help grow minority businesses. MBDA is seeking to transform from an administrative agency to an entrepreneurial organization. The budget proposes that MBDA work more closely with the Small Business Administration (SBA), to take advantage of SBA's very large network of offices (including over 1,000 Small Business Development Centers) and extensive programs for minority and disadvantaged firms. This strengthened cooperation and other MBDA efforts are intended to help the agency meet its mission to deliver high-quality services nationwide. In 2000, MBDA exceeded its target for the dollar value of contracts received by assisted minority businesses, but fell short of its targets for the number and dollar value of loans received by assisted businesses.

ITA's export-promotion and trade-negotiation activities help U.S. companies take advantage of markets around the world. For example, ITA's export counselors, in offices throughout the United States and in Canada and Mexico, provide U.S. businesses with market information and one-on-one counseling on selling in the Canadian and Mexican markets. The Trade Information Center—*www.trade.gov/td/tic*—has extensive information on the North American Free Trade Agreement (NAFTA), including how to take advantage of NAFTA tariff preferences and meet NAFTA rules of origin. NAFTA, and open trade in general, have had real benefits for the average U.S. family. NAFTA and the Uruguay Round trade agreements have resulted in higher incomes and lower prices for goods—benefits estimated to be $1,300 to $2,000 a year for a family of four.

Providing Infrastructure for Technological Innovation

The 2003 Budget strengthens key Commerce programs that provide infrastructure to enable U.S. businesses to maintain their technological edge in world markets, while reducing two programs that have provided subsidies in the past.



A new state of matter created by a university/NIST partnership.

A NIST researcher, Eric A. Cornell, shared the 2001 Nobel Prize in Physics for creating an entirely new state of matter called Bose-Einstein condensate (BEC). The accompanying picture depicts the range of speeds and directions of atoms being cooled. As the temperature drops, the peak grows representing all the atoms nearly standing still in space, at a temperature only billionths of a degree above absolute zero. BECs, the coldest substance known to man, will lead to a greater understanding of atomic behavior. The discovery of the BEC established a new branch of atomic physics. Dr. Cornell is the second NIST Nobel Prize recipient; William Phillips, a NIST Fellow, shared the 1997 Nobel Prize in Physics.

The budget provides increased funding for the laboratories of the National Institute of Standards and Technology (NIST), which works with industry to develop and promote measurement standards that support technological innovation. NIST laboratories specialize in electronics, manufacturing engineering, chemical science, physics, materials science, building and fire research, and information technology. The 2003 Budget provides $50 million to make the Advanced Measurement Laboratory, a new facility designed to meet state-of-the-art research requirements, fully operational. The budget also provides $17 million for NIST's Boulder, Colorado facilities.

Consistent with the Administration's emphasis on shifting resources to reflect changing needs, the 2003 Budget also proposes to significantly reduce federal funding for the Manufacturing Extension Partnership (MEP). MEP's original legislative design called for a phase-out of federal monies to each center after six years of funding, with the goal of making each center self-sufficient. The 2003 Budget restores the program's original design; most MEP centers are now far more than six years old.

MEP was designed to provide information and consulting services to help businesses adopt more advanced manufacturing technologies and business practices. To the extent that evaluations demonstrate that MEP-assisted firms are more productive and competitive, firms should be able to pay for the services that help increase their profits.

The budget also reduces funding for the Advanced Technology Program (ATP) from $185 million in 2002 to $108 million in 2003. In 2003, new ATP awards will be reduced to $35 million. The rationale for ATP, which makes research and development grants to commercial firms, has declined since it was first enacted in part to respond to a belief that U.S. firms were being out-competed by foreign, and especially Japanese, firms. ATP also will be modified in 2003 to address criticism that the program constitutes an unwarranted corporate subsidy. Past GAO reports have criticized ATP, stating that the program was funding projects similar to those already underway in the private sector. In addition, ATP monies have gone to some of the nation's largest corporations. The proposed changes will expand university participation, limit large-firm involvement, and include a cost-recoupment mechanism to protect American taxpayers.

Private Capital and the Advanced Technology Program

The Advanced Technology Program (ATP) was created in 1988 to bolster high-technology research and development. Since the program's founding, the environment in which ATP operates has changed dramatically. Concerns about the competitiveness of the U.S. economy have diminished, while annual venture capital investments have skyrocketed from approximately $6 billion in 1995 to $104 billion in 2000, according to one estimate. Even with the decline in 2001 activity, the overall growth in venture capital suggests sufficient private funding is available for high-technology projects.

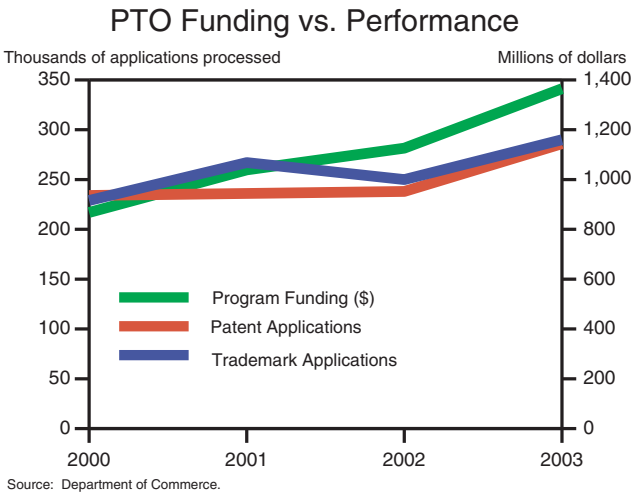
While ATP has focused on supporting activities of small firms that have more difficulty accessing capital, some of the nation's largest corporations have also benefited from the program. For example, ATP innovations reportedly helped large automotive firms realize savings on the order of a hundred million dollars annually. In an effort to minimize unwarranted subsidies, the 2003 Budget recommends reducing ATP funding and instituting several reforms, including requiring firms to reimburse the government for up to five times its investment in successful projects.

The budget strengthens the spectrum management capabilities of the National Telecommunications and Information Administration by providing $3 million to begin the process of spectrum management reform and to upgrade its radio quiet zone test facility in Colorado. In addition, the Administration will propose legislation to streamline the current process for reimbursing federal agencies that must relocate from spectrum auctioned to commercial users. However, the budget proposes to terminate the Technology Opportunities Program, which provides grants for applications of telecommunications technologies. With the expansion of the Internet and related technologies into all sectors of society, federal subsidies are not justified to prove the usefulness of such technologies.

The 2003 Budget funds a 21-percent increase (+$239 million) in resources available to the U.S. Patent and Trademark Office (USPTO) to address the agency's growing workload in the area of intellectual property. USPTO issues patents and registers trademarks. It also works to promote the protection of U.S. intellectual property rights around the world through international treaties. With the passage of the American Inventors Protection Act of 1999, USPTO was designated as a "performance-based-organization," which provides the agency additional management flexibilities while ensuring that senior managers' tenure and compensation are at risk based upon their achieving organizational performance targets.

After a few years of relatively flat patent and trademark production, USPTO expects to meet the following increased performance targets with its 2003 funding:

- Complete (i.e., issue or deny) 286,000 patents, a 20-percent increase over 2002;
- Register 138,600 trademarks, a 13-percent increase over 2002; and
- Reduce total trademark pendency to 13.5 months, a 13-percent improvement.



Source: Department of Commerce.

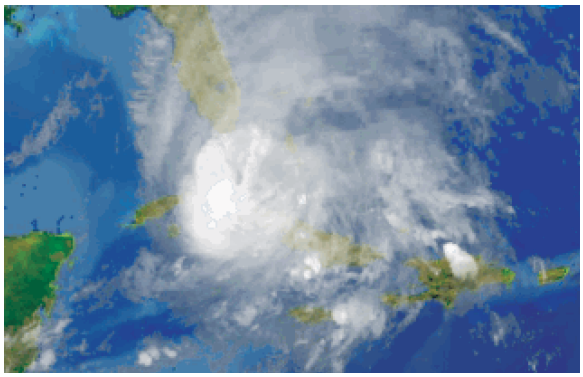
Observing and Managing the Nation's Oceanic and Atmospheric Environment

The budget provides an additional $93 million for the National Oceanic and Atmospheric Administration (NOAA) to improve forecasts of severe storms and the satellite infrastructure needed to support weather and climate prediction and research. Funding is also provided to improve fisheries management. However, many earmarks and funds that do not support NOAA's core stewardship missions have been redirected. In addition, funding will support critical infrastructure and homeland security activities within NOAA.

The accuracy of NOAA's National Hurricane Center hurricane "track" forecasts has improved by about 50 percent over the past 30 years. Errors for three-day track forecasts decreased on average from over 400 nautical miles in 1970 to about 200 miles today. In 2003, resources will be directed to advanced observational systems and modeling to further improve hurricane intensity and track

forecasts. NOAA expects these advances to provide more timely evacuations and to increase the lead time for hurricane warnings from 24 hours in 2002 to 28 hours in 2005.

Similarly, following modernization investments, tornado warning lead times have almost doubled—from six minutes in 1993 to more than 10 minutes today. The National Weather Service aims to further increase lead times to 15 minutes by 2005.



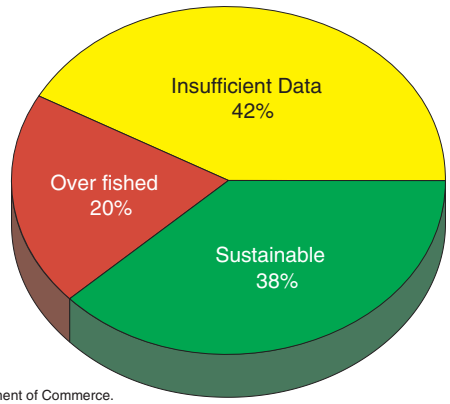
Hurricane Michelle skirting the southern coast of Florida.

The National Hurricane Center achieved its most recent critical success when it correctly forecast the brunt of dangerous Hurricane Michelle would just miss the Florida peninsula. Accurate forecasts of hurricane tracks translate to smaller areas required to prepare for evacuation, saving approximately $1 million per mile for coastal residents, businesses, and local governments.

As part of the Administration's energy policy initiative for 2003, NOAA will implement a $6 million pilot program in the southeastern United States. NOAA will provide more accurate temperature and precipitation forecasts and additional river forecast products to help the energy industry improve electrical load forecasting and hydropower facility management. Based on industry estimates, this investment will result in savings of $10 million to $30 million annually in the pilot region after the second year of the demonstration. Expanding the pilot nationwide could generate savings of over $1 billion per year.

NOAA has a lead role in climate measurement and prediction, and has conducted substantial work in climate change and atmospheric modeling. In 2003, the Administration will institute a new Climate Change Research Initiative, a multi-agency effort with a strong focus on outcomes addressing major gaps in our scientific understanding identified in the June 2001 National Academy of Sciences report, "Climate Change Science: An Analysis of Some Key Questions." NOAA will receive an $18 million increase to advance climate-modeling capabilities, to develop a climate observing system, and to improve understanding of aerosols, land and oceanic carbon sinks, and regional impacts of climate change.

The Administration also proposes to transfer NOAA's Sea Grant program to the National Science Foundation (NSF) in 2003. The Sea Grant program would be administered as a NOAA/NSF partnership. The transfer is part of a wider Administration effort to promote competitive funding of scientific research, and to capitalize on the demonstrated excellence of the NSF and its program management. NOAA's participation as a partner in this program will ensure that research objectives continue to reflect the agency's marine resource management priorities.



Source: Department of Commerce.

The Department's Inspector General and GAO have identified NOAA's National Marine Fisheries Service (NMFS) as an area of management concern. While NMFS has had significant budget increases over the past few years—increasing by almost 40 percent since 2000, and over 100 percent since 1995—fisheries' management and stock levels have not seen corresponding improvements. Currently, about 20 percent of major fisheries stocks are over fished, and stock levels are unknown for another 42 percent. While over 80 percent of the over-fished stocks are currently under rebuilding plans, the challenges are significant as rebuilding long-lived stocks can take decades. Over the last few years, fisheries collapses have occurred in the western Alaska salmon fishery, the West Coast groundfish fishery, and the Gulf of Maine groundfish fishery. Such problems have led to increases in payments for fisheries disasters, fishing moratoria, and lawsuits by both environmentalists and industry.

The 2003 Budget addresses two causes of this problem. First, the budget redirects over $160 million in congressional earmarks and unrequested funding, much of which undercuts NOAA's mission. Funds are also provided for a new fishery research vessel that will be used to upgrade fishery assessments—an area identified by GAO, the National Academy of Sciences, and others as needing enhancement. Second, the budget proposes that the reauthorization of Magnuson-Stevens Fisheries Conservation and Management Act include authority to establish transferable fishing quota systems, under appropriate conditions, within the regional fisheries. Money alone will not solve the management problems in U.S. fisheries. Providing market-based incentives to fishers, redirecting funds to meet the highest priority fishery management needs, and enhancing science and stock assessments tied to management decisions will.

With the management changes and funding proposed in the President's Budget, NOAA expects to be able to reduce the number of over-fished major fisheries by one in 2003 and by 10 in 2007. A greater impact will occur in the number of sustainable fisheries, as stock levels improve and unknown stocks are evaluated. Known sustainable stocks should increase by seven percentage points (19 additional fishery stocks) in 2003.

Strengthening Management

Commerce's leadership is making progress on management challenges. In particular, the status of competitive sourcing and financial management is expected to improve over the next two years as the Department's plans in these areas are implemented.

Initiative	2001 Status
Human Capital—Excess organizational layers remain in several bureaus, and existing personnel flexibilities are not being fully utilized. Also, bureaus need to redirect staff from supervisory and overhead positions to line functions. NOAA will establish a task force to review its central-office administrative activities so that there is no unwarranted duplication of activities, such as budgeting at line-office, bureau, and departmental levels. EDA also plans to engage in workforce restructuring. The International Trade Administration has taken useful steps to streamline its organization and office structure, and reduce excessive supervisory positions in 2001.	
Competitive Sourcing—Commerce has not yet completed significant public-private or direct conversion competitions for positions listed as performing commercial activities, such as data entry clerks, personnel office workers, information technology specialists, and publications clerks. The Department has developed a strong, approved competition plan to complete public-private or direct conversion competitions for five percent of its commercial inventory in 2002 and an additional 10 percent in 2003, which when implemented will meet the Administration's two-year 15-percent goal.	
Improved Financial Management—Commerce currently fails to fully meet federal financial management systems requirements. However, the Department's integrated system is expected to be completely deployed by October 2003. Commerce has had unqualified audit opinions for two years straight, a major improvement over the past.	
E-Government—Commerce submitted sound justifications and plans for nearly all major systems. Commerce bureaus are using the Internet to serve businesses interested in international trade and minority contracting opportunities. Census uses E-Government for its economic surveys of firms, and will use it more for the 2010 Census.	
Budget/Performance Integration—Commerce performance measures in several areas are under review to ensure they reflect plans and resource allocations. Budget justifications are being strengthened to focus on programmatic outcomes. The Department's Chief Financial Officer is working to ensure maximum integration of strategic planning and budget formulation work at both the departmental and bureau levels.	

Department of Commerce

(In millions of dollars)

	2001 Actual	Estimate 2002	Estimate 2003
Spending:			
Discretionary Budget Authority:			
Departmental Management:			
Salaries and Expenses	41	40	50
Emergency guaranteed loan program accounts	–115	–5	–97
Office of the Inspector General	21	21	24
Subtotal, Departmental Management	–53	56	–23
Economic Development Administration	451	368	350
Bureau of the Census	458	514	737
Economic and Statistics Administration	57	66	76
International Trade Administration	352	355	377
Bureau of Export Administration	68	72	103
Minority Business Development Agency	28	29	30
National Oceanic and Atmospheric Administration (NOAA):			
Operations, Research and Facilities *(non-add)*	*2,240*	*2,388*	*2,359*
Procurement, Acquisition and Construction *(non-add)*	*751*	*846*	*812*
Subtotal, NOAA	3,188	3,321	3,200
Patent and Trademark Office (PTO):			
Program Level	1,039	1,126	1,365
Offsetting Collections	–1,085	–1,346	–1,527
Subtotal, PTO	–46	–220	–162
Office of Technology Policy	8	8	8
National Institute of Standards and Technology (NIST):			
Scientific and Technical Research and Services	323	332	402
Industrial Technology Services	252	293	121
Construction of Research Facilities	35	62	54
Subtotal, NIST	610	687	577
National Telecommunications and Information Administration (NTIA):			
Salaries and Expenses	13	15	18
Grant programs	90	59	44
Subtotal, NTIA	103	74	62
Subtotal, Discretionary budget authority adjusted [1]	5,224	5,330	5,335
Remove contingent adjustments	–122	–124	–143
Total, Discretionary budget authority	5,102	5,206	5,192
Emergency Response Fund, Budgetary resources	—	29	—
Total, Mandatory outlays	–69	115	50

Department of Commerce—Continued

(In millions of dollars)

	2001 Actual	Estimate 2002	Estimate 2003
Credit activity:			
Direct Loan Disbursements:			
Fisheries finance direct loan financing account	24	24	74
Total, Direct loan disbursements	24	24	74
Guaranteed Loans:			
Emergency oil and gas guaranteed loan financing account	3	2	—
Emergency steel guaranteed loan financing account	110	236	—
Total, Guaranteed loans	113	238	—

[1] Adjusted to include the full share of accruing employee pensions and annuitants health benefits. For more information, see Chapter 14, "Preview Report," in *Analytical Perspectives.*

DEPARTMENT OF DEFENSE

The President's Proposal:

- Wages war on terrorism—terrorism both at home and abroad;
- Transforms American armed forces for the future as part of a comprehensive long-term effort to adapt the U.S. military to new security challenges;
- Assures military readiness by keeping our "first to fight" forces trained and equipped to adapt to emerging threats;
- Enhances the quality of life of military personnel and their families by improving pay, living and working conditions, and health care; and
- Commits to streamlining the Department, supporting war fighting, modernizing the Department's approach to business and financial information, and applying private sector standards to infrastructure.

Department of Defense

Donald H. Rumsfeld, Secretary

www.defenselink.mil 703–697–5737

Number of Employees: 2.3 million Military (Active, Reserve, and Guard) and 667,750 Civilian

2002 Spending: $330.6 billion

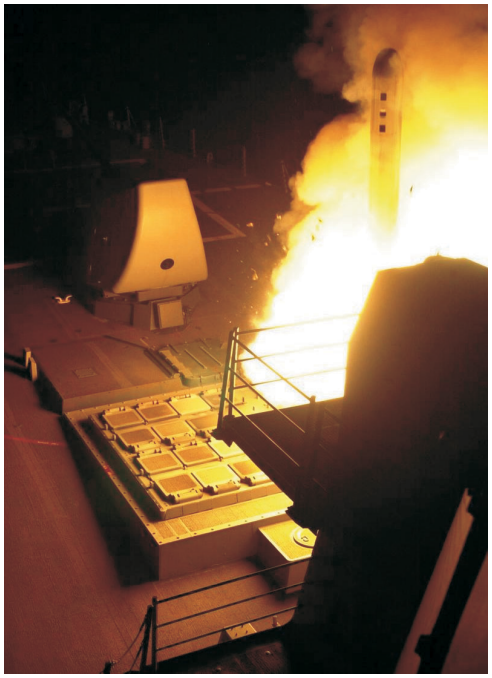
Organization: Four Armed Services (Army, Navy, Marine Corps, and Air Force); 15 Defense Agencies; nine Unified Combatant Commands; and over 30 million acres of bases/facilities worldwide.

The primary mission of the Department of Defense (DoD) is to defend the United States of America and advance its interests around the globe. In peacetime, DoD trains and equips military forces needed to deter aggression while protecting U.S. interests and promoting U.S. security objectives. Now that we are at war, DoD's goal is to defeat the terrorists and their supporters who threaten our freedom. DoD is the largest federal agency and the largest corporate entity of its type in the world.

Overview

New Challenges in the National Security Environment

Shortly after his inauguration, President Bush called for a review of all U.S. military capabilities setting the goal of how best to achieve the necessary transformation to meet the new challenges of the 21st Century. Over the past year, the Secretary of Defense has led efforts to transform the way U.S. military forces defend the country while also addressing long-standing management problems at DoD. The terrorist attacks on the United States on September 11, 2001, underscored the urgency of Secretary Rumsfeld's effort. The new security environment requires a military force that is balanced to counter both conventional and unconventional threats and is armed with strong intelligence gathering and analysis capabilities. Even so, intelligence gaps will persist, so innovation must be factored into our defense planning and response.



A Tomahawk Cruise missile is launched from a ship.

The need for military transformation was clear before the conflict in Afghanistan and before September 11th. What's different today is our sense of urgency—the need to build this future force while fighting a present war. It's like overhauling an engine while you're going at 80 miles an hour. Yet, we have no other choice.

President George W. Bush
December 11, 2001

The future, both near- and long-term, presents numerous challenges and great opportunity. When President Bush took office, he inherited a defense program that needed to be strengthened. As a percentage of the nation's gross domestic product, defense expenditures had shrunk to 2.8 percent. Inadequate funding strained both equipment and people. Recognizing these deficiencies, President Bush provided significant increased resources for defense in 2002. Much remains to be done. In a post-Cold War world, where freedom and democracy remain imperiled, this budget lays the groundwork for a sustained, long-term investment in the nation's security. The United States must strengthen its defense posture to protect the nation's interests and to assure its lead role in global affairs. A war on terrorism has begun, and while there has been success in achieving specific military objectives, the shape and dimension of the subsequent phases of the campaign will remain a work in progress for some time to come.

The President's 2003 Budget for DoD and the intelligence community reflects the Administration's strong commitment to winning the war on terrorism, sustaining current military readiness, transforming the way the nation defends itself, and enhancing American intelligence capabilities. To address these needs the President's Budget proposes $369 billion in 2003 for DoD and an additional $10 billion, if needed, to fight the war on terrorism.

Defense Against Ballistic Missiles

Successful flight tests over the past year represent a step forward on the road to deploying effective defenses to protect the American people, its friends, allies, and troops abroad. DoD plans to pursue more aggressive exploration and realistic testing of key technologies to counter ballistic missiles in all phases of their flight. The missile defense program is designed so that needed capabilities can be deployed as technologies are proven ready.

Winning the War at Home—Homeland Security. The growing importance of homeland security raises a host of challenges in the post-September 11th environment. These issues include policy and resource allocation decisions to improve homeland security. More than ever, coordination among defense and non-defense agencies will be critical to success. DoD plays an important role in homeland security, providing assistance to law enforcement at the state and federal level when authorized by law, enhancing airport and border security, sharing intelligence information, and marshaling resources to respond to new attacks. Hand-in-glove with the domestic war on terrorism, Air National Guard, Air Force Reserve, and active Air Force aircraft serving in Operation Noble Eagle began providing combat air patrols over major U.S. cities starting on September 11th. Shortly thereafter, the National Guard helped provide security at the nation's airports. Similarly, Navy Reserve and Coast Guard units are helping to protect our waterways and harbors, and Army National Guard troops will provide assistance to Customs Service and Immigration and Naturalization Service personnel on our northern border.

Waging the War on Terrorism—Winning the War Abroad. The U.S. military responded rapidly to the terrorist attacks, initiating major combat operations 7,000 miles from the United States in less than one month. By November 2001, the Air Force and Navy had flown 40,000 hours in support of Operation Enduring Freedom. The Navy has had as many as four aircraft carrier battle groups in the region supporting flight operations and special operations forces. Almost 400 fighter, tanker, and airlift aircraft and more than 50,000 troops have recently been engaged in this mission.

Status Report on Select Programs

The Administration is reviewing programs throughout the federal government to identify strong and weak performers. The accompanying table shows some selected DoD programs and their effectiveness.



Program	Assessment	Explanation
Military Readiness	**Effective**	The speed of American deployment in the war on terrorism has demonstrated improved readiness. The budget sustains this gain and builds on it by funding improvements in training facilities.
Military Compensation	**Effective**	Recent increases in pay have helped improve the recruitment and retention of top-caliber men and women for our military.
Family Housing	Army/Navy: **Effective** Air Force: **Ineffective**	DoD has started to rely on private sector expertise to improve the quality of housing for military families – a Presidential initiative. Also, the Secretary of Defense has established a goal to eliminate DoD's inventory of 159,000 inadequate housing units for military families by 2007. The Army and Navy plan to achieve the 2007 goal; the Air Force will not achieve the goal until 2010.
Cooperative Threat Reduction	**Moderately Effective**	Since it began in 1993, the Cooperative Threat Reduction program has funded the deactivation of 5,336 nuclear warheads, the destruction of 422 intercontinental ballistic missiles in the former Soviet Union, and helped secure vast quantities of material that could be used in a weapon of mass destruction. Taking such steps dramatically reduces the likelihood of terrorists obtaining the means to do harm to the United States and its allies. However, the program has been slow to spend funds provided in prior years.
Science and Technology (S&T)	**Moderately effective**	DoD is working aggressively to develop more effective technologies. Projects mostly performed by the private sector or academia are generally handled well. However, each military service and defense agency generally determines its own S&T plan with little Department-wide coordination. To reduce potential duplication of efforts, the Under Secretary for Acquisition Technology and Logistics should develop a better integrated and coordinated funding plan for these efforts.
Infrastructure	**Ineffective**	The Department maintains a large inventory of old buildings that need to be replaced. Right now, DoD is on a path to replace old buildings approximately once every 120 years. DoD had planned to accelerate the pace at which it replaced facilities, but allocated funds to other, more pressing needs. Another round of base realignment and closure, approved by Congress for 2005, is essential to achieving faster replacement and improvement of unsatisfactory DoD facilities.

Program	Assessment	Explanation
Weapons Systems Cost Control	Ineffective	While DoD develops and builds the most capable weapons systems in the world, these programs continue to exceed cost and schedule targets. Between 2000 and 2003, cost growth for major weapons rose by an estimated 15 percent on average. Part of that increase is due to more realistic cost estimating. DoD has begun to establish initiatives to enhance its ability to monitor and to control cost growth and schedule delays.
Chemical Demilitarization	Ineffective	The Army's program to destroy the U.S. stockpile of chemical weapons is behind schedule. Costs have increased over 60 percent, from $15 billion to $24 billion. These delays are the result of various difficulties, including unrealistic schedules, site safety and environmental concerns, and poor planning.
DoD-VA Coordination	Ineffective	The Departments have historically lacked genuine commitment to coordinate systems. Many areas for integration exist. For example, VA and DoD could better serve mutual constituents by developing an integrated enrollment system. There has, however, been progress in some areas. VA and DoD have begun discussions on how to better coordinate and share patient medical information. For significant and rapid progress to be made in this area, both VA and DoD must focus their efforts on developing common business processes that are supported by fully integrated information technology standards and architecture.

Congressional Earmarks

Congressional earmarks add funding for programs that are not requested by the Defense Department, diverting funds from higher priority and more effective programs. The 2002 Defense and Military Construction Appropriations Acts earmarked funds for 963 DoD projects totaling $5.4 billion. The DoD budget process thoroughly reviews all programs to determine the optimal cost-effective mix of programs for national defense. Earmarking disrupts this balance of programs and crowds out other important projects.

For example, the Congress has added funds for aircraft the Air Force does not require and thereby limits resources for war fighting needs. In addition, funding has been directed for military construction projects that the services do not want to build. Some earmarks have little relationship to an agency's mission. For example, the 2002 Defense Appropriations Act included over $600 million for a variety of unrequested medical research projects. These projects include research on breast cancer, ovarian cancer, prostate cancer, diabetes, and osteoporosis. While research on these diseases is very important, it is neither the mission nor the core competency of the U.S. military. Rather, these functions can be carried out and coordinated more effectively by other medical research agencies, such as the National Institutes of Health.

Intelligence

The intelligence community is adapting to the changed environment of the 21st Century. Advances in encryption, denial and deception techniques, and information technology create enormous challenges for intelligence gathering and analysis. Policymakers need timely, accurate and insightful information on the capabilities and intentions of foreign powers. The armed forces also need real-time battlefield data furnished with a significant level of detail. The intelligence community meets the full range of U.S. intelligence needs from the national level to the tactical level.

The 2003 Budget strongly supports these efforts and makes a substantially increased investment in our intelligence capabilities. This budget also makes major investments to transform the intelligence community to meet the challenges of the 21st Century.

Transforming Our Armed Forces

This revolution in our military is only beginning, and it promises to change the face of battle. Afghanistan has been a proving ground for this new approach. These past two months have shown that an innovative doctrine and high-tech weaponry can shape and then dominate an unconventional conflict. The brave men and women of our military are rewriting the rules of war with new technologies and old values like courage and honor… This combination—real-time intelligence, local allied forces, special forces, and precision air power—has really never been used before. The conflict in Afghanistan has taught us more about the future of our military than a decade of blue ribbon panels and think-tank symposiums.

President George W. Bush
December 11, 2001

One of the President's key defense priorities is to transform America's armed forces to perform their missions more effectively and to meet emerging security challenges. The Defense Department began the process of transformation with its 2001 Quadrennial Defense Review. The review shifted to a "capabilities-based" defense strategy that focuses on capabilities of potential adversaries and the tools that America's armed forces will need to deter and defeat adversaries employing those capabilities. Both the terrorist attacks of September 11, 2001, and the subsequent conduct of Operation Enduring Freedom in Afghanistan underscore the urgency of military transformation. They illustrate the need for America's military to prepare for different types of conflict and execute missions with new tactics and new technologies. The growing use of unmanned aerial vehicles, the effective utilization of real-time intelligence, and the coordination among special operations and allied forces all demonstrate the cutting edge of what military transformation can achieve and offer a glimpse of a future transformed joint force. To shape this effort, DoD has recently established an Office of Force Transformation to coordinate all of the military service transformation efforts and advise the Secretary of Defense.

In 2003, the Department will invest over $9 billion in science and technology. New efforts include: easy-to-wear chemical/biological protection masks, chemical, biological, and nuclear weapons detectors, bunker and cave-defeating weapons, intelligence systems to detect assembly of weapons of mass destruction, and unmanned air, land, and sea surveillance and combat vehicles. In addition, DoD will invest $7.8 billion in ballistic missile defense with the objective of developing the capability to defend the forces and territories of the United States, its allies, and friends against ballistic missile threats.



A Predator unmanned aerial vehicle in flight and an aircraft carrier at sea.

Besides continuing the development of highly capable fighter aircraft such as the Joint Strike Fighter and new ships, the Defense Department's 2003 budget invests in technologies that will transform the military and fundamentally change the American way of warfare. These systems include:

- four Trident ballistic missile submarines converted to submarines equipped with long-range cruise missiles which will dramatically increase the range and precision of strikes and our capability to insert Special Forces;
- unmanned aerial vehicles such as those used in the war against terrorism, which provide greater, longer-endurance intelligence and combat capabilities directly to the war-fighter at far less cost and risk to military personnel than manned aircraft;
- unmanned underwater vehicles that can greatly extend the range and capabilities of submarines and surface ships at less cost and without risk to sailors;
- the Army's Land Warrior technology, which digitizes the communications and intelligence capabilities of the individual infantry soldier to enhance situational awareness and combat capability;
- small precision bombs, which increase the quantity of targets that each individual aircraft can strike;
- bunker-defeating munitions to target the growing threats of deeply hidden weapons of mass destruction; and
- space-based radar and space control systems, which enhance our surveillance capabilities and our capabilities to collect and utilize information from space.

Other emerging areas of defense investment focus on America's ability to conduct information and space operations.

Eliminating Poor Performers: Navy Area Theater Ballistic Missile Defense

Delays in the development schedule and large projected cost increases caused DoD to cancel a multi-billion dollar Navy missile defense program. The program, known as Navy Area Theater Ballistic Missile Defense, was designed to give Navy cruisers and destroyers the ability to shoot down short- and medium-range ballistic missiles. DoD previously thought that the Navy's system would cost about $6.2 billion to develop and deploy. However, in December 2001, DoD announced that "unit costs" would grow by more than 50 percent. The Administration still plans to pursue sea-based terminal missile defenses, but this Navy program was too costly to continue.

Assuring the Readiness of Our Armed Forces

The cuts to procurement spending and investment in the immediate years following the end of the Cold War, combined with an increase in overseas contingency operations, put a strain on both equipment and people. Frequent deployments meant strains on military readiness because of missed training and strains on families because of more frequent separations from loved ones. The President has pledged to solve this problem.



U.S. Marines on a CH-46E Sea Knight helicopter on their way to Afghanistan.

Despite these strains, the U.S. armed forces remain the most capable in the world and have demonstrated their readiness with their rapid response to the events of last September. Soldiers, sailors, air force crews, and marines have routed enemy forces in Afghanistan, while also keeping the peace in the Balkans, patrolling the no-fly zones of Iraq and maintaining a strong forward presence around the globe.

Readiness relies upon three main factors. First, we must recruit and retain personnel with key skills and talents. Second, we must provide high quality training to give troops the expertise and skill to fight and win our nation's wars. Third, we must maintain equipment and facilities that our forces use to accomplish their missions.

These three factors are a high priority in this budget.

- First, a 4.1 percent across-the-board pay increase supports the Services' recruiting and retention goals.
- Second, the adage "you fight the way you train" remains true. This budget robustly funds the Services' training goals, as measured in aircraft flying hours, ship steaming days, and ground vehicle miles. Without these crucial training and operating activities, the safety and well being of our troops and their ability to accomplish their missions successfully will be at risk.

- Third, this budget adds significant resources for maintaining military equipment and the facilities where our troops work and train. DoD can not afford any further growth in maintenance backlogs. With scarce resources, the Department has been forced to delay needed maintenance. If equipment and real property maintenance needs are not met, training opportunities and readiness erode, and costs rise.



President Bush and Secretary Rumsfeld look over the scene of destruction at the Pentagon on September 12, 2001.

As the attacks have demonstrated, U.S. military facilities are terrorist targets. The budget will enhance force protection for our armed forces and the facilities where they work and live. It also ensures that transportation, communications, and information systems are strong enough to cope with terrorist attacks when they occur. Just as important, these activities protect and support our troops' families.

Enhancing the Quality of Life of Military Personnel and Their Families

Military quality of life is crucial to retaining service members and their families. The military services have long recognized that while they recruit the service member, they must retain the family. No matter how advanced the technology or what strategy is developed, having imaginative, highly skilled, and motivated military and civilian personnel is essential for America to address the challenges of the future. To recruit and retain these people, the Department has increased funding and will work to enhance a number of quality-of-life efforts, including compensation, housing, and health care, among other community and family work-life support programs.



A Service Member from McGuire Air Force Base embraces a loved one.

Military Compensation

In 2002, the President proposed and Congress authorized the largest military pay raise in two decades. That raise included both an across-the-board 4.6 percent increase in basic pay and the President's $1 billion initiative which proposed targeted raises based on rank and length of service to help retain skilled, experienced personnel. Other benefits have recently been offered to our troops and their families. The President signed an executive order authorizing hazardous duty pay and tax exemptions for troops conducting operations in the Afghanistan theater. The President proposed, and Congress authorized, significant increases in reimbursement for permanent change-of-station costs, again putting more money into the pockets of service members. Pay and benefit levels have never been higher, with average enlisted compensation nearing $36,500 per year. Army captains with 10 years of experience will see their basic pay increase almost $3,000 a year to $50,788, and their overall compensation reach the mid-$70,000 range.

Building on this record, the 2003 Budget contains another pay boost of 4.1 percent with the option of selected targeting of larger raises to mid-grade non-commissioned officers and officers. This continues the President's commitment to take care of our men and women in uniform and their families and ensures that pay continues to be competitive. This commitment is working: DoD is meeting its goals for recruiting talented young people and retaining experienced, highly-trained military personnel.

Housing

About 20 percent of all service members have inadequate housing on military bases. The definition of inadequate housing is unique to each Service. While some houses are old and in need of improvement, other houses are simply inadequate to meet the needs of today's military family, which has changed since on-base housing was first constructed decades ago. The Administration is committed to eliminating 159,000 inadequate housing units (out of a total of 275,000) by 2007.



A privatized duplex housing two military families.

DoD is tackling the problem of inadequate housing by demolishing dilapidated units, renovating existing houses, and building new homes. Increasingly, DoD relies on the private sector, which has expertise to manage real property and can increase the quality of DoD-owned housing at less cost and faster than the government. In 1996, the Congress gave DoD authority to privatize DoD-owned housing. Since 1996, DoD has privatized 16,817 units, or about six percent of the current inventory. While privatization began slowly, DoD is accelerating its efforts. Two public-private partnership launched in 2001:

- The Army, in partnership with private developers, initiated a $260 million family housing privatization project at Fort Hood in Killeen, Texas, the largest Army base in the country.

This project will construct 973 new housing units and renovate 4,939 housing units. Over 4,000 units eventually will be replaced.

- The Navy, in partnership with the private real estate companies and developers, initiated a $262 million family housing privatization project at the Naval Complex San Diego, California. This partnership will construct 519 units and operate a total of 3,248 housing units.

By the end of 2002, DoD plans to privatize an additional 12,970 units. In 2003, DoD plans to privatize 35,600 more housing units to eliminate inadequate housing by 2007. Currently, the Navy and the Army are on track to eliminate inadequate housing by 2007. The Air Force does not plan to eliminate its inventory of inadequate housing until 2010.

The Administration plans to reduce the average out-of-pocket expense of military families living in private housing in local communities to zero by 2005. In 2003, out-of-pocket expenses will drop to 7.5 percent from 15.0 percent in 2001. This will enable more military families to afford quality private-sector housing located in the local communities around DoD's installations. This initiative improves the quality of life for our military families, and makes a contribution to the local economies and real estate markets.

Strengthening Management

The President and Secretary of Defense have made management improvement at DoD a key goal. DoD will transform its business processes and infrastructure to enhance capabilities and creativity of its employees and free up resources to support war fighting and transformation of military capabilities.

Controlling Costs of Constructing Navy Ships

The costs associated with constructing new Navy ships have increased dramatically over the past few years. More funding will be required to complete construction of several types of ships. One ship in particular, the LPD–17 amphibious ship has experienced excessive cost increases. In 2001, DoD estimated that to build 12 ships it would need a total of $10.6 billion. Now DoD believes it will require $15.1 billion to build these same 12 ships, a 42 percent increase. DoD has begun a number of initiatives to enhance its ability to monitor and take action on cost growth and schedule delays in the ship construction program.

To support 2.3 million men and women in uniform effectively, the Department's efficiency must improve. DoD's business practices and financial infrastructure must be overhauled; they are outdated and have not kept pace with today's business environment. The Department is working to streamline its organization and infrastructure, adopting new business models to react to rapid changes in technology, and implementing financial management strategies to repair the outmoded and poorly connected accounting and auditing processes. DoD has over 600 different management systems that provide financial information, few of which are truly compatible.

One significant management challenge is the Defense Health Program (DHP). DoD supports an internal health care network, as well as private contractors who provide health care. The core mission of DHP is to provide health support for the full range of military deployments and to sustain the health of military personnel, retirees, and their families. DoD is effective at maintaining a health care system supportive of

day-to-day operations, stays ready to perform its wartime mission, and provides its beneficiaries with the highest quality health care available.

The cost of DoD health care contracts, however, has increased over the past three years to its current level of almost 50 percent of the health budget. Despite various risk-sharing provisions in the current versions of the contracts, there is still a need for greater incentives in the internal system and the private contracts to control escalating costs. High contract costs are caused by a combination of factors including the national health care market, enhancements to the benefit package offered to beneficiaries, effects of downsizing and closures of military health care facilities, the Department's inability to manage where patients are treated, and ineffective cost incentives. Additionally, DoD has historically underestimated the funding needs of its own medical care system, which has forced beneficiaries into the private sector at a higher cost to the Department. All of these factors resulted in the government paying an additional $655 million in cost overruns to DoD health care contractors in 2001, and DoD receiving over $1.3 billion in emergency supplemental appropriations in both 2000 and 2001.

DoD has made progress in better projecting its funding needs for health care contracts and military pharmaceuticals. More work, however, is necessary to strengthen its projections for health care growth in the future. The Department is committed to redesigning health care contracts and administrative policies to create incentives that preserve the ability of DoD to meet its mission and control costs effectively.

The table that follows illustrates how the entire Department fares on the President's Management Agenda.

Initiative	2001 Status
Human Capital—DoD has completed its civilian personnel workforce analysis that identifies: • current skill imbalances; and • potential personnel shortfalls due to the large increase in retirement-eligible employees starting in 2003. DoD identified difficulties with staffing critical technical personnel such as scientists, engineers, acquisition specialists, and medical personnel—occupations that are critical now and in the future. These difficulties are expected to worsen because of the spike in the retirement-eligible population. DoD wants its future workforce to have better problem-solving skills and have more advanced technical knowledge and skills. DoD needs to develop a workforce-restructuring plan that fully addresses these challenges.	

Initiative	2001 Status
Competitive Sourcing—DoD's inventory of commercial activities represents more than half of the government-wide potential. DoD's competitive-sourcing program has been historically active compared to other federal agencies, but has declined in recent years. Since the President's Management Agenda ultimately calls for competing 50 percent of the inventory, DoD's role in this initiative is important to its overall success. DoD could compete such commercial services as laundry, food, grounds-keeping, transportation, and libraries. Dedicating soldiers to these activities detracts from DoD's war fighting competency. At this time, the Services and Defense Agencies are projecting actual competitions below levels projected for 2001. DoD needs to compete 15 percent of its commercial inventory in 2003, as required by the President's Management Agenda. DoD should work to improve the current rate of competitions to meet the President's goal.	
Financial Management—With over 600 systems providing financial data, DoD has several serious failings in financial management: • it is not substantially compliant with federal financial management standards; • it cannot provide a clean assurance statement about its internal controls; and • it has consistently received a disclaimer by its auditors on its financial statements. The DoD Inspector General and the GAO have issued a series of reports critical of DoD's financial management. For example, a recent GAO report criticized DoD's excessive use of funds in "canceled accounts" to pay contractor bills. Until adequate progress is made at DoD, the financial statements of the entire government will not receive an opinion from GAO. DoD has launched a major initiative to improve business and financial processes and systems. The Department is working closely with OMB to develop an enterprise architecture and systems that will support efficient operations, and provide accurate, timely, and useful financial information. This will take a number of years, but the Department has documented a clear commitment to improvement and is moving forward.	

Initiative	2001 Status
E-Government—For its information technology programs, DoD fails to comply fully with the Clinger-Cohen Act, the key statute that establishes standards for federal information systems. • ***Clinger-Cohen Act—Enterprise Architecture:*** DoD must strengthen its capital planning and investment control processes and integrate it with the Program Planning and Budget System (PPBS). The current DoD Enterprise Architecture (EA), the Global Information Grid (GIG), is an important first step to building a comprehensive EA and data layers. There is no clear link between information technology (IT) and performance of core mission. • ***Clinger-Cohen Act—Reporting Requirements:*** Clinger-Cohen and DoD regulations require DoD to justify major IT investments. DoD has begun to implement this requirement and complete the necessary analysis. However, DoD has failed to submit business cases for a number of its major IT investments. In addition, many of the cases that were submitted require improvement to meet Clinger-Cohen standards.	
Budget/Performance Integration—DoD has two major systems for budget and performance that will provide Spring 2002 reports: • Program, Planning and Budget System (PPBS) • Government Performance Results Act (GPRA). However, these systems are not linked in any meaningful way. DoD does not completely factor in performance information when making budget decisions and is unable to correlate its budget request with GPRA goals and performance plans. DoD has taken some initial steps toward integration. The 2003 Budget includes additional performance information linked to budgetary resources. DoD is also implementing the Administration's plan to accrue the cost of health benefits for retirees and dependents over 65. Finally, DoD is working on a plan to implement the Administration's proposed budget integration legislation.	

Department of Defense

(In millions of dollars)

	2001 Actual	Estimate	
		2002	2003
Spending:			
Discretionary budget authority:			
Military Personnel	76,889	81,970	94,242
Operation and Maintenance	113,886	126,145	140,232
Procurement	61,672	61,117	68,709
Research, Development, Test, and Evaluation	41,735	48,554	53,857
Military Construction	5,457	6,484	4,767
Family Housing	3,685	4,053	4,219
Revolving Funds/Other	2,234	2,515	3,255
Subtotal, Discretionary budget authority adjusted [1]	305,558	330,838	369,281
Remove contingent adjustments	–2,979	–3,150	–3,302
Total, Discretionary budget authority	302,579	327,688	365,979
Emergency Response Fund, Budgetary resources	4,284	13,168	10,000
Mandatory Outlays:			
Military Personnel	—	26	52
Operation and Maintenance/Health	—	—	–1,099
Revolving, Trust and Other DoD Mandatory	581	328	565
Offsetting Receipts	–1,369	–1,572	–903
Total, Mandatory outlays	–788	–1,218	–1,385

[1] Adjusted to include the full share of accruing employee pensions and annuitants health benefits. For more information, see Chapter 14, "Preview Report," in *Analytical Perspectives.*

DEPARTMENT OF EDUCATION

The President's Proposal:

- Increases Title I Grants to local educational agencies to help students in high-poverty schools meet tough new accountability requirements for improved performance in reading and math;
- Boosts funding for Reading First to help ensure that all children can read by the end of the third grade;
- Enhances teacher recruitment and retention through Teacher Quality State Grants and supports new teacher training initiatives to address reform in professional development;
- Reforms the process for collecting information from states on federal elementary and secondary education programs to reduce administrative burden and improve accountability for results;
- Increases Special Education Grants to States to help states and localities meet the special needs of students with disabilities;
- Creates a new Vocational Rehabilitation incentive grant to strengthen incentives for states to improve their performance in helping individuals with disabilities obtain competitive employment; and
- Increases research funding to support important new programs, focuses on scientifically based research, and lays the foundation for a significant overhaul of the office that conducts education research, statistics, and assessment activities.

Department of Education

Rod Paige, Secretary

www.ed.gov 800–USA–LEARN

Number of Employees: 4,710

2002 Spending: $47.6 billion

Field Offices: 10 regional and 11 field offices.

The Department of Education seeks to ensure equal access to education and promote educational excellence for all students throughout the nation. It promotes educational excellence and access in elementary and secondary education by providing formula and competitive grants to states and local educational agencies in areas of national priority. Through its student financial assistance and higher education programs, the Department helps ensure that postsecondary education is affordable and attainable for all students. The Department of Education conducts research and disseminates

information on the best educational practices, and produces statistics on the condition of education in the United States.

Status Report on Select Programs

President Bush and I are especially concerned about the persistent gaps in achievement between poor and minority students and their more advantaged peers. … Simply spending more money in the same way is not the answer. We need to do things differently, to adopt a culture of achievement in our schools and school systems, and to demand results for our growing investment in education.

Secretary Paige
April 2001

Education funding has skyrocketed over the last decade. Since 1997, appropriations for Department of Education programs have increased an average of 13 percent per year, despite an almost total absence of evidence that the programs were effective. The Department has almost no programs with evaluations reflecting overall positive performance, and very few of its nearly 200 separate grant programs have objective data to gauge their effectiveness. In most cases, the approach to funding education has been funding for its own sake, rather than funding based on results benefiting students. The President and Secretary Paige are committed to stopping the cycle of funding decisions based on wishes rather than on performance information, and to ensuring that taxpayer dollars are directed to the activities known to be effective in improving student outcomes.

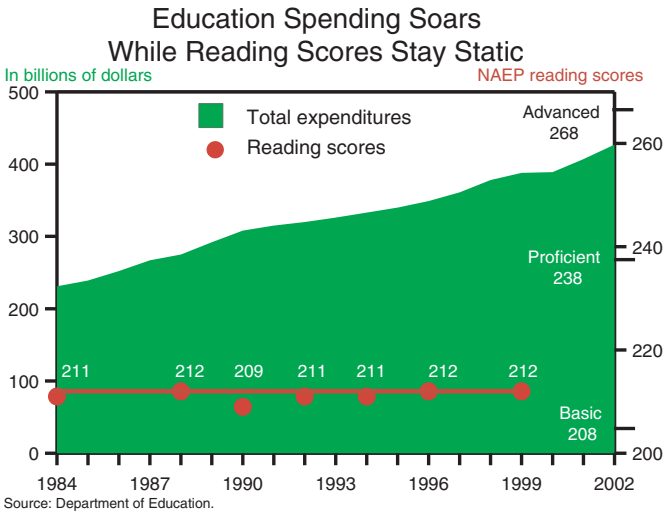
Program performance was a key consideration in developing this year's Department of Education budget. The budget redirects resources away from education programs that evaluations have found to be ineffective. The President proposes to terminate 35 programs entirely, thus freeing up nearly $1 billion for high-priority activities more likely to yield positive and measurable results. Major reforms are underway for two other activities that have historically fallen short in meeting their objectives: Title I and Education Research. Increases are proposed for these high-priority activities because reforms in these areas show promise for a positive impact in education. Increases also are sought for programs that have been effective and support high priorities: Vocational Rehabilitation, Special Education Grants to States, Pell Grants, and Statistics.

The Administration is reviewing programs throughout the federal government to identify strong and weak performers. The budget seeks to redirect funds from lower-performing programs to higher-performing or more-effective programs.

Program	Assessment	Explanation
Statistics and Assessment	**Effective**	National Center for Education Statistics releases numerous paper, electronic, and web-based statistical products that have a reputation for high quality.
TRIO Student Support Services	**Effective**	Evaluation of the Student Support Services program showed that it had a large impact on four-year college graduation rates and a small but significant impact on students' grades, credits earned, and retention in higher education.
Title I Grants to Local Education Agencies	**Ineffective**	Despite an investment of billions of dollars, reading scores among disadvantaged students on national tests have remained stagnant. Dramatic changes enacted this year focus on accountability and parental choice reforms designed to significantly improve program performance.
TRIO Upward Bound	**Ineffective**	Evaluation of Upward Bound found that the program had no overall impact on participants' grades, credits earned, high school graduation rates, or college enrollment rates.
Safe and Drug-Free Schools—State Grants	**Ineffective**	The program cannot be associated with a demonstrable change in the incidence of youth violence or drug-abuse. A recent RAND study questioned the program's effectiveness and stressed that its future hinges on the ability to demonstrate results.
Even Start	**Ineffective**	National and local evaluations have shown no conclusive evidence that this program is improving outcomes for children or adults.
Research and Dissemination	**Ineffective**	Past investments have not yielded consistent research quality; however, the Administration plans significant structural and grantmaking reforms.
GEAR UP	**Unknown**	Though this program's evaluation is not complete, the program was modeled on local projects that have been successful in increasing academic achievement and college-going rates among participating students.

Elementary and Secondary Education

When the President introduced his reforms for elementary and secondary education last February, he pledged to leave no child behind. Far too many of our students are being left behind; national reading tests show nearly 70 percent of inner-city fourth graders cannot read at a basic level. The accompanying chart shows that dramatic increases in education spending in recent years have not improved students' reading ability. At the federal level, Congress has, over the years, created hundreds of programs supporting education without asking whether the programs produce results or knowing their impact on local needs. Having spent hundreds of billions over the past two decades, the nation has fallen short in meeting our goal of educational excellence.



Do accountability reforms work? The facts speak for themselves. Texas and North Carolina pioneered a number of education accountability reforms and, as a result, posted significant and sustained achievement gains. A 1999 report showed that these gains were NOT due to increased per pupil funding, reductions in class sizes, or having more teachers with advanced degrees or more years of experience. Instead, their key reform policies read like a blueprint for the revised ESEA: annual assessments in grades three through eight, rewards for success and sanctions for failure, flexibility to allocate resources to best meet local needs, and computerized systems for gathering and analyzing student achievement data.

The result? These two states made greater gains in reading and math on national tests between 1992 and 1996 than any other states.

Clearly change is needed. Early last year, the President proposed an ambitious reform agenda supporting accountability for results, enhanced parental choice, and increased local flexibility. Based on the President's proposal, Congress recently passed and the President signed revisions to the Elementary and Secondary Education Act (ESEA), the No Child Left Behind Act. First passed in 1965, ESEA spells out the federal role in K-12 education. It has traditionally directed additional resources to needy communities and supported some innovations. It will now help ensure that disadvantaged children receive the same educational opportunities as all children.

While most of the President's objectives were met in the new Act, some were not. Congress has continued about two dozen programs that the Administration sought to eliminate because they were narrowly focused or ineffective, and added a half dozen more programs that the Administration did not think were necessary. These restrictive, special interest-driven programs could drain away nearly $1 billion from more effective or flexible programs.

Accomplishments of the President's No Child Left Behind Act	
Signed into law in January 2002, the No Child Left Behind Act is a major accomplishment of the Bush Administration. The new Act will help make schools more effective by:	
Strengthening Accountability	In the past, schools could fail to improve student achievement for years. Now: • For the first time, by 2005 states will test all students in reading and math in grades three through eight every year so that parents, teachers, and communities will know whether students are learning. • Annual state and local report cards will show test results, including results for major subgroups of students, so that schools and districts will have a strong incentive to use funds effectively. • Schools that receive Title I funds, which are targeted to high-poverty communities, must show academic progress each year, both for students overall and for each student group, to ensure that all groups of students are proficient in reading and math within 12 years. • Failing schools that receive Title I funds will face consequences so that they can no longer ignore poor performance. • Consequences could ultimately include replacing school staff or reopening as a charter school. • Schools that exceed their student achievement goals will be rewarded.
Enhancing Parental Choice	In the past, students in failing schools were trapped, with no real alternatives for a better education. Now: • Students in low-performing schools can transfer to better public schools, with transportation provided by the school district. • If a school that receives Title I funds does not improve for three consecutive years, parents can use federal funds for outside educational assistance from a public or private tutor of their choice. • The 21st Century Community Learning Centers after-school program will permit a wider variety of providers, including faith-based and community-based organizations, to give parents more choices.

Increasing State And Local Flexibility	In the past, states and districts had to adopt reforms dictated from the federal level in order to receive certain funds. Now: • Many narrow, categorical programs have been consolidated into state-run grants for bilingual education, teacher training, educational technology, and education innovation, thereby freeing states and districts from restrictive federal requirements. • For the first time, states and school districts will have the flexibility to move funds from one federal program to another, so they can allocate resources to best meet local needs.
Focusing on What Works	In the past, funds have been spent on programs that are ineffective or for which there is little or no evidence of effectiveness. Now: • Program performance is a top priority, and the effectiveness of academic programs will be measured by student achievement data. • The President's literacy initiative, Reading First, will support only reading practices that have been proven to be effective, so that all children can read at grade level by the end of third grade.

Funding for Major Programs

The following programs will provide critical resources to states and localities to implement education reform.

Title I Grants to Local Educational Agencies. The budget requests $11.4 billion for Title I to help raise student achievement in the nation's most impoverished communities. At this level, funding will have increased 85 percent since 1993. Historically, Title I has done little to raise student achievement as measured by test scores of low-income students. For instance, reading scores of at-risk students have remained flat over this period. However, in light of this year's legislative reforms, the program now holds promise for improving performance by the schools and for the students who face the most challenges.

Reading First. Reading is the foundation skill for all other learning. The President's goal is to ensure that all students can read at grade level by the end of third grade. The Reading First program, initiated through the No Child Left Behind Act, will provide funds to states to support only the most proven reading practices. The budget provides $1 billion for this program, a $100 million increase over 2002. The budget also includes $75 million for Early Reading First, the same level as 2002, to develop model programs to help children in high-poverty communities prepare for school.

Assessments. The budget proposes $387 million for the second year of federal support of states' development of annual reading and math assessments for grades 3 through 8. These assessments will be used to monitor schools' yearly progress under the new requirements of the No Child Left Behind Act.

English Language Acquisition. The budget proposes $665 million for this redesigned program that provides performance-based grants to states to educate students with limited English skills.

Under the new law, students served by this program must also show adequate yearly progress, thus giving states a strong incentive to improve student performance on annual assessments.

21st Century Community Learning Centers. This program supports before- and after-school projects that extend learning time and offer enriching activities such as art, music, and recreation. Early reports indicate that 21st Century Community Learning Centers opens access to after-school programs, improves student behavior, and possibly boosts achievement. The budget retains this large program at the 2002 level of $1 billion.

> *Despite generally flat performance in the last decade, the federal role and the federal investment in education expanded dramatically during the 1990s. Put another way, most of the federal funds expended for elementary and secondary education were spent in the nineties, after the progress had ended and scores had stagnated. That is meaningful information for policymakers at the national level.*
>
> Secretary Paige
> May 2001

Choice Demonstration Fund. Choice is a primary component of the President's elementary and secondary education reforms. The Choice Demonstration Fund will award $50 million to fund school choice research and demonstration in order to study the effects of expanded educational options for low-income parents, including opportunities to send their children to private schools.

Teacher Programs. The budget proposes $2.9 billion for the Teacher Quality State Grants program to recruit, train and retain qualified teachers. This funding should assist states in ensuring that all new teachers in schools receiving Title I funds are highly qualified as required by the new ESEA. In addition, the budget proposes $15 million for new teacher quality initiatives to address reform in teacher professional development and $50 million for competitive grants to school districts for activities that promote the teaching of traditional American history.

Safe and Drug Free Schools. The Safe and Drug Free Schools and Communities (SDFSC) program was created in response to increases in youth violence and drug use, but has been ineffective in fighting these problems, in part because SDFSC funds are spread thinly across many schools and because the program lacks incentives for schools to institute high-quality projects. Although the budget maintains a commitment to the program and its purpose, future budgets will weigh its effectiveness before funding recommendations are made. Over the next year, every effort will be made to determine if this program is effective.

Even Start. The budget reverses the growth of this well-intentioned program that has failed to produce results. Even Start funds family literacy services. Unfortunately, two national evaluations and a multitude of local appraisals have not shown conclusively that this program has had a positive impact. The budget therefore provides enough funds to continue supporting current Even Start grantees but does not expand the program to fund new projects. These funds are shifted to support programs expected to improve reading achievement, such as Title I and Reading First.

Improving Programs Through the Smart Use of Data



Data management reform will significantly reduce the local, state, and federal paperwork swamping this employee.

As a companion to the President's elementary and secondary education reforms, the budget includes a fundamental reform of how the Department of Education and states cooperate to collect and analyze data on school performance. For the federal government and states to hold schools accountable for educational results, they must measure student progress yearly.

The federal government's old approach of issuing and collecting voluminous reports that had little utility for decision-makers or the public will be replaced by a new system that uses the latest technology to make performance information readily available to federal, state, and local decision-makers and the public.

The new Performance-Based Data Management Initiative will involve: 1) electronic collection of timely data on student achievement and educational outcomes; 2) elimination of existing reporting burden that diverts state and local school resources from their educational mission; and 3) analysis of data on educational results to identify performance trends and inform management, budget, and policy decisions. The budget includes $10 million to develop, in collaboration with states, the electronic data system.

An Expert's Report on Reports

"The bottom line is…I don't think it's really used," said a state employee about a "massive" survey distributed by the Department of Education on elementary and secondary education programs. "Every state reports the information differently," added the employee, who also explained that 14 full-time professional staff and two temps worked for three weeks to complete the form. "Our response [to the US Department of Education] is an inch-and-a-half thick," the civil servant stressed, concluding that despite the survey's comprehensiveness, "The report just isn't used."

Special Education

Children with disabilities are among those at greatest risk of being left behind. The Individuals with Disabilities Education Act (IDEA) establishes the right of children with disabilities to a free, appropriate public education.

Through this legislation, which the Congress passed in 1975, the federal government plays an important role in helping children with disabilities meet high academic standards and participate fully in American society. The 2003 budget provides $8.5 billion for the Special Education Grant to States program, a $1 billion increase over 2002. The budget also provides $437 million for states to identify and serve infants and toddlers with disabilities, a $20 million increase. In many cases, this early intervention can reduce or even eliminate the need for special education as children grow up.

Who Is in Special Education?

About six million school-aged children, roughly 10 percent of the total population, receive special education. Many of these children have easy-to-identify disabilities, like mental retardation and blindness. However, an increasing proportion of children in special education have disabilities that are more subjectively determined and difficult to diagnose. About half of all special education children are diagnosed as "learning disabled," and Department of Education data suggest the number of children with Attention Deficit/Hyperactivity Disorder has skyrocketed. These disabilities lack clear criteria for identification, and are applied inconsistently across schools.

Many people are worried that some children are inappropriately referred to special education. For instance, many children may be referred to special education not because of a real disability but because they were never properly taught how to read. Also, Department data show that minority children are disproportionately represented in special education. The President's Commission on Excellence in Special Education will pay particularly close attention to these issues and report its recommendations to the President.

While the President supports the principles embodied in the IDEA, the law needs reform. The Administration plans to develop its reform proposal in the coming year. To support this effort, the President has formed a Commission on Excellence in Special Education, which will report back to the President this year.

Job Training Programs in the Department of Education

The 2003 Budget will launch a multi-year effort to reform job training programs across the federal government, target resources to programs with documented effectiveness, and eliminate funding for ineffective, duplicative, and overlapping programs (see the Department of Labor chapter). This crosscutting reform includes three programs in the Department of Education whose primary mission is to help individuals prepare for the labor market and lead productive lives.

Vocational Rehabilitation. State Vocational Rehabilitation (VR) agencies help individuals with disabilities prepare for and obtain employment to the extent of their abilities. VR also supports the President's New Freedom Initiative to help people with disabilities lead independent lives. People with disabilities are less likely to be employed than those without disabilities; one of VR's main purposes is to offer job training to help people with disabilities obtain competitive jobs. In addition, persons with disabilities can more effectively participate in the integrated workforce with the special accommodations and supports afforded to them through the VR program. State VR agencies, for instance, also offer adaptive technologies to individuals with physical impairments and other disabilities, as well as job coaches and personal assistants for those with the most significant disabilities.

While nationwide state VR agency performance has improved in recent years, there is still wide variation among states. As a result, VR is an area the Department will highlight in the President's initiative to tie budget decisions to program performance. As part of this initiative, the budget proposes a new $30 million incentive grant which will be allocated to state VR agencies based on their performance in helping individuals with disabilities obtain competitive jobs.

Vocational and Adult Education. The Department of Education provides grants to states to support programs that develop the academic, vocational, and technical skills of students in high schools and community colleges. Vocational education is primarily a state and local responsibility. Federal funds account for only about seven percent of total vocational education spending. The Department also awards grants to states to help adults become literate, obtain a high school diploma or its equivalent, and learn skills necessary for work and self-sufficiency. Research shows that there is a strong relationship between education and earnings; adult education programs often provide the foundation for further job training and workforce preparedness.

The federal laws that authorize vocational and adult education programs will expire at the end of 2003. The 2003 Budget maintains funding at the 2002 level while the Administration examines what reforms—including fundamental changes to the federal role in vocational education—may be needed in these areas.

Postsecondary Education

The Administration's strategy for postsecondary education is to focus resources on student aid programs that help needy students pay for college, higher education programs that help students prepare for postsecondary education, and institutional development programs that provide support for colleges which serve low-income and minority students.

Pell Grants. Pell Grants help increase college enrollment rates among disadvantaged students. In 1999, only 49 percent of high school graduates from the poorest families went to college, compared to 76 percent of students from the wealthiest families. Research has shown that increases in grant aid result in significant increases in enrollment, particularly for low-income students.

The 2002 appropriations bill created a serious fiscal problem for 2002 by underfunding the Pell Grant program. The Congress mandated a Pell Grant maximum award of $4,000, but provided only enough funding to pay for a maximum award of $3,600, creating a shortfall of nearly $1.3 billion. To rectify this problem, the budget proposes to redirect resources from unrequested earmarks and low-priority programs in 2002 to the Pell Grant program. The Administration will propose $10.9 billion for Pell in 2003 to help over four million students afford college.

Historically Black Colleges and Universities (HBCUs) and Hispanic-Serving Institutions (HSIs). Federal resources help these institutions, which provide opportunity for some of the most disadvantaged students in the nation, improve their educational programs. The President has committed to increasing funding for HBCUs and for HSIs by 30 percent between 2001 and 2005. The budget proposes $213 million for HBCUs, $51 million for Historically Black Graduate Institutions, and $89 million for Hispanic Serving Institutions to keep these institutions on track to achieve the President's goal.

TRIO and GEAR UP. These two programs, which help disadvantaged middle- and high-school students prepare for college, share similar goals but use different approaches. As part of the President's initiative to tie budget and performance, the Administration will assess the programs' effectiveness and develop strategies for 2004 to improve the performance of both and direct resources to the most effective strategies. Funding for these programs in 2003 is held steady at the 2002 level pending the results of this review.

Teacher Loan Forgiveness. Under current law, teachers who work in high-poverty schools for five years may have up to $5,000 of their federal student loans forgiven. The budget proposes to

expand this program to allow the math, science, and special education teachers who qualify for this program to have up to $17,500 of their student loans forgiven.

Student Loans. The guaranteed and direct student loan programs provide $50 billion in aid each year to students and parents. The Administration is in the process of developing revisions to the method of calculating the cost estimates for these programs. The new method, when fully implemented, is expected to produce better cost estimates necessary for policy decisions and program management. While the budget reflects amounts calculated using the existing method, the Administration will complete work on a new estimation method for use in the Mid-Session Review of the 2003 Budget. In the interim, the Administration will adopt Congressional Budget Office estimates for purposes of the Budget Enforcement Act scoring of legislative proposals.

Educational Research

This year, the Administration will propose legislation to reform the Department's research office, the Office of Educational Research and Improvement. The budget includes a $53 million increase for research activities to support important new programs and emphasizes scientifically based research. A major focus will be placed on identifying the most effective strategies for improving reading comprehension.

Improving Student Financial Aid Operations

Eliminating Fraud and Error in Student Aid Programs. Through the Department of Education, the federal government supports approximately $60 billion in student financial aid annually. Programs in that portfolio are vulnerable to fraud and error because the Department cannot verify students' income effectively. Students are awarded Pell Grants and loans based on the financial resources they report on their aid applications. The Education Department currently verifies income information on applications by asking 30 percent of applicants to provide copies of their, and in the case of dependent students, their parents' tax returns to their schools' financial aid offices. Students easily can receive more funding than they are entitled to by changing their returns or claiming they did not file. The President proposes a legislative change to allow IRS to match the income reported on student aid applications with tax return data. An estimated $138 million would be saved in 2003.

Student Aid Fraud

Last March, the Department of Education's Inspector General uncovered a student aid fraud ring in Chicago. Eight financial aid advisers and 18 parents were charged with fraud for obtaining more than $2.6 million in undeserved grants and loans by lying about family income on the student aid application. As many as 600 people are still under investigation. Many of the parents continued to file accurate tax returns with IRS even while they provided fake documents to support their student aid applications.

Reducing Costs. Reducing administrative costs was one of the key purposes of 1998 legislation that established a performance-based organization to administer student financial assistance programs. Although the Department of Education has made some progress, weak accounting practices and an overly complex budget structure have made it difficult for the Department's

management to measure progress in reducing costs. Furthermore, of the more than $900 million provided annually for administrative funding, more than four-fifths has not been subject to annual review in the congressional appropriations process.

Beginning with the 2003 Budget, accountability for these funds will be strengthened. Funding from four sources will be consolidated into a single discretionary account for student aid administrative costs. The account will be subject to annual appropriations by Congress. Annual budget requests will be tied to unit cost targets for major business processes (e.g., application processing, loan origination, loan servicing) and to annual estimates of participation in the various loan and grant programs.

Strengthening Management

In April 2001, the Secretary of Education established a Management Improvement Team to develop an agency plan for management excellence. The Department of Education faced particularly significant challenges in financial management and student financial assistance programs, which have kept the Department on the General Accounting Office's list of high-risk programs since 1990. The Secretary set two goals: earn a clean financial audit, and eliminate fraud and error in student aid programs.

The Department of Education's *Blueprint for Management Excellence* spelled out robust plans to address longstanding financial management problems, such as high risk of waste, fraud, and abuse in student financial aid programs, and information technology security. Overall, some 140 action items were put into play. Areas still lacking detailed or adequately defined plans include human capital, competitive sourcing, budget and performance integration, and some e-government projects. However, the Department has established deadlines for developing these plans.

In addition, Education is actively implementing the President's Faith-Based and Community Initiative in order to improve the delivery of social services by drawing on a wider range of service providers. Education has identified barriers to participation in its programs and has developed a strong plan for eliminating those barriers.

The following management scorecard reflects the Department of Education's September 30, 2001, status on each of the initiatives in the President's Management Agenda. The Department's management during the coming year will closely track progress on the President's Management Agenda and the Department's Blueprint for Management Excellence.

Initiative	2001 Status
Human Capital—Education has not completed an inventory of its staff's current skills or a workforce restructuring plan to align its workforce with its mission and goals. In the year ahead, Education will give high priority to identifying areas in which its staff needs to develop skills, developing training strategies to ensure employees have the necessary knowledge to meet changing work demands, and taking advantage of recruitment tools so the Department can attract high-quality employees.	
Competitive Sourcing—Education has not completed its plan permitting the private sector to compete to perform tasks that are done by the government workforce but are commercial in nature. The 2002 goal calls for competing 43 commercial positions. Education's existing inventory of commercial positions excludes many activities that could appropriately be reclassified as commercial, such as human resource clerks and administrative assistants. In 2002, the Department will develop a competitive sourcing plan and reevaluate its inventory of commercial positions. Education expects to meet or exceed the 2002- 2003 target to competitively source 15 percent of its commercial positions.	
Financial Management—For 2000, the Department of Education received a "qualified" opinion on its financial statements. The auditors continued to cite material weaknesses from prior audits, including failure to reconcile financial data from different sources and inadequate internal controls. In 2000, the general ledger was not compliant with federal requirements. The Department is taking aggressive steps to fix past problems. This year, it will implement Oracle Federal Financials (an accounting package), prepare quarterly instead of only annual financial statements, and reconcile transaction-level data with summary balances in the general ledger. Because of these changes, the Department of Education expects to achieve a clean audit opinion for the 2002 financial statements.	
E-Government—Performance has been mixed. Capital asset plans justifying information technology expenditures have improved but some still do not address statutory requirements. There has been success in using new technologies to simplify students' access to financial aid, such as using electronic signatures for aid applications and promissory notes. Yet the Department's failure to implement mandated planning requirements could lead to unwise investments or the use of obsolete technologies. Plans to reform data collection for elementary and secondary programs, as well as student loans are under development.	
Budget/Performance Integration—While recognizing the importance of linking public education investments to evidence of program effectiveness, the Department of Education has not yet put in place administrative actions to implement this policy. The Department has decided to modify significantly the program performance goals developed by the previous Administration but has no alternative method for measuring and reporting on performance. For 2003, performance measures and evaluation strategy will be developed for key programs.	

Department of Education

(In millions of dollars)

	2001 Actual	Estimate	
		2002	2003
Spending:			
Discretionary Budget Authority:			
Elementary and Secondary Education			
Title I Grants to LEAs	8,763	10,350	11,350
Even Start	250	250	200
Reading Excellence/Reading First and Early Reading First	286	975	1,075
Impact Aid	993	1,144	1,141
Educational Technology State Grants	872	700	700
Teacher Quality State Grants	2,225	2,850	2,850
Safe and Drug Free Schools State Grants	439	472	472
21st Ctry. Community Learning Centers	846	1,000	1,000
State Assessments	—	387	387
Choice Demonstration	—	—	50
English Language Acquisition	460	665	665
IDEA Part B State Grants	6,340	7,529	8,529
Job Training			
Vocational Rehabilitation State Grants (non-add)	*2,400*	*2,481*	*2,616*
Vocational Rehabilitation Incentive Grants	—	—	30
Vocational and Adult Education	1,804	1,934	1,898
Higher Education			
Pell Grants [1]	8,756	10,314	10,863
Historically Black Colleges and Graduate Institutions	230	255	264
Hispanic-Serving Institutions	68	86	89
TRIO Programs	730	802	802
GEAR UP	295	285	285
Education Research, Statistics and Assessment			
Research and Dissemination	186	189	243
Statistics and Assessment	120	197	190
All other programs	6,461	8,136	8,042
Subtotal, Discretionary budget authority adjusted [1, 2]	40,124	48,520	51,125
Remove contingent adjustments	–21	–20	–20
Discretionary modification of a mandatory account	—	—	795
Total, Discretionary budget authority	40,103	48,500	50,310
Emergency Response Fund, Budgetary resources	—	10	—
Mandatory Outlays:			
Federal Direct Student Loans	255	–26	212
Federal Family Education Loans	–2,404	2,584	3,023
Legislative proposal	—	—	45
All other programs	2,006	2,139	2,462
Subtotal, Mandatory outlays adjusted [2]	–143	4,697	5,742
Remove contingent adjustments	–2	–3	–2
Total, Mandatory outlays	–145	4,694	5,740

Department of Education—Continued

(In millions of dollars)

	2001 Actual	Estimate	
		2002	2003
Credit activity:			
Direct Loan Disbursements:			
Federal Direct Student Loans (FDSL)	10,764	11,162	11,972
FDSL Consolidations	7,402	8,643	5,307
Subtotal, FDSL disbursements	18,166	19,805	17,279
Other direct loans	–12	–39	–35
Total, Direct loans	18,178	19,844	17,314
Guaranteed Loans:			
Federal Family Education Loans (FFEL)	23,582	25,920	27,855
FFEL Consolidation	6,955	8,335	6,877
Total, Guaranteed loans	30,537	34,255	34,732

[1] The 2002 estimate does not include $1,276 million requested in supplemental funding to cover a shortfall in the Pell Grant program.

[2] Adjusted to include the full share of accruing employee pensions and annuitants health benefits. For more information, see Chapter 14, "Preview Report," in *Analytical Perspectives.*

DEPARTMENT OF ENERGY

The President's Proposal:

- Fulfills the President's commitments to increase conservation and clean power through the Weatherization Assistance Program and the Coal Research Initiative;
- Invests in a new, fuel-efficient automotive technology venture—Freedom CAR—to develop technologies, such as hydrogen-based fuel cells that will reduce reliance on imported oil;
- Strengthens the security of the United States through the military application of nuclear energy and reduces the global threat from terrorism and weapons of mass destruction;
- Accelerates the cleanup of nuclear waste and advances reforms that will result in more cleanup at less cost while protecting workers, the public, and the environment; and
- Provides a new tax credit for the purchase of hybrid and fuel cell vehicles.

Department of Energy

Spencer Abraham, Secretary

www.energy.gov 202-586-8100

Number of Employees: 15,000 Federal and 100,000 Contractor

2002 Spending: $19.1 billion

Facilities: Twelve operations and field offices oversee four Power Marketing Administrations, 26 laboratories, and 24 other facilities.

The Department of Energy (DOE) has four major functions. These are: 1) national security; 2) environmental quality; 3) science and technology; and 4) energy resources. In the area of national security, the National Nuclear Security Administration maintains the nation's nuclear weapons stockpile and manages non-proliferation efforts to reduce threats from weapons of mass destruction. The environmental quality function is largely conducted by the Office of Environmental Management, which cleans up the environmental contamination resulting from over 50 years of nuclear material production. The Office of Science sponsors a broad range of basic research that supports other DOE programs and operates a suite of scientific facilities for the benefit of the entire U.S. research community. Finally, the Offices of Fossil Energy, Nuclear Energy, and Energy Efficiency and Renewable Energy conduct applied research aimed at improving energy conservation and supply. Recently, Secretary Abraham declared that the

Department's single overarching mission is supporting national security, which includes energy and economic security. This mission provides direction to all four functions as described below.

Overview

The Department faces some of the most daunting technical challenges of any federal agency. For instance, DOE must certify the safety and reliability of the nation's nuclear stockpile—and do so without nuclear testing. It must clean up sites contaminated by over 50 years of weapons testing and production—an area equal in size to Rhode Island and Delaware combined. The Department must design, site, build, and operate a 10,000-year repository to safely store the nation's nuclear waste. DOE also sponsors an extensive research portfolio encompassing issues ranging from the universe's earliest matter to how to make homes more energy efficient. It carries out most of these tasks using a contractor workforce operating both an aging infrastructure and many large, expensive, one-of-a-kind research facilities. In all these areas, careful planning, rigorous prioritization, and management reforms are particularly important for improving DOE's performance.

Secretary Abraham announced national security as DOE's primary mission in October 2001. He established the following priorities:

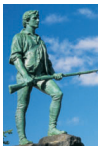
- Supporting homeland defense with a focus on the threat of weapons of mass destruction and emphasis on nonproliferation efforts abroad; guaranteeing the safety and reliability of the nuclear stockpile, and ensuring that research and development (R&D) and production plans support the Administration's nuclear strategy; and providing safe, efficient, and effective nuclear power for Navy ships;
- Assuring energy security through infrastructure protection; implementing the President's National Energy Policy; exploring new energy sources and technologies with dramatic environmental benefits; and directing R&D budgets to innovative new ideas while ensuring application of mature technologies; and
- Accelerating the cleanup and closure of sites where there is no longer a national security mission.

Improving management and performance is the unifying theme of the 2003 President's Budget. The Administration's proposals to return value to the taxpayer and address performance issues are organized along the four main "functional areas": National Security; Environmental Management; Science and Technology; and Energy Resources. Nonetheless, safeguarding national security remains the paramount objective.

National Security

Created by Congress in 1999, the DOE's National Nuclear Security Administration's (NNSA) mission is to strengthen the security of the United States by: 1) applying nuclear science and technology to military purposes; and 2) reducing the global threat from weapons of mass destruction. To accomplish this mission, NNSA manages defense-related programs to:

- maintain and enhance the safety, security and reliability of the nation's nuclear weapons stockpile;
- provide the Navy with safe and effective nuclear propulsion plants for ships; and
- prevent the spread of weapons of mass destruction and their components.



Stockpile Stewardship

Since 1993, DOE has developed and is operating the Stockpile Stewardship program to certify the safety and reliability of the U.S. nuclear stockpile in the absence of underground testing. NNSA achieves this goal by relying on improved science, technology, and computational techniques to detect and predict problems in the aging nuclear stockpile. NNSA is also charged with effectively maintaining and refurbishing existing nuclear warheads, as well as sustaining the design and manufacturing base to produce a new weapon if required.

To maintain a safe and reliable nuclear deterrent, NNSA's federal workforce of about 1,700 oversees a vast complex that includes Los Alamos, Sandia, and Lawrence Livermore national laboratories; the Nevada Test Site; and extensive production facilities in Amarillo, Texas, Kansas City, Missouri, Aiken, South Carolina, and Oak Ridge, Tennessee. These facilities have a combined contractor workforce of approximately 25,000. This complex carries out four kinds of activities:



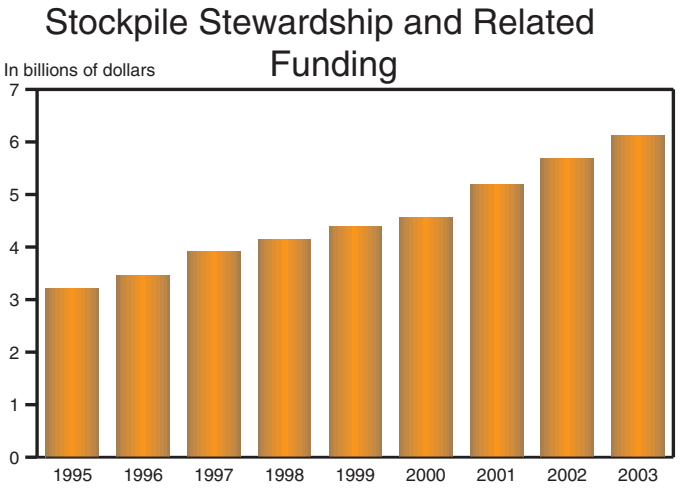
The B-61 bomb, undergoing refurbishment, has approximately 6,000 component parts.

- Directed Stockpile Work programs support DOD's nuclear weapons requirements by maintaining and refurbishing warheads to ensure their safety, reliability, and performance. Programs include research, development, and production associated with weapons maintenance, life extensions, and certification of continued reliability. For example, NNSA is in the process of refurbishing an aircraft-delivered weapon, the B-61 bomb, which first entered the stockpile in 1979.
- Science Programs develop and maintain capabilities needed to certify the reliability of the nuclear stockpile into the future. One example is the Inertial Confinement Fusion Ignition Campaign that includes construction and operation of the National Ignition Facility at Lawrence Livermore Laboratory in California. This is a technically challenging effort that has led to significant cost growth and delays. However, because this facility is important to understanding the physics of nuclear explosions, DOE continues to place a high priority on allocating a significant amount of resources to it. DOE laboratories also operate some of the world's largest and fastest computers to perform advanced simulations of nuclear weapons explosions. The size and speed of these computers enable DOE to perform calculations and simulations that, previously, were impossible to perform because of their complexity.
- Infrastructure Programs operate and maintain existing facilities and construct new facilities that underpin the stockpile work. Since the end of the Cold War, some of these facilities have decayed, and NNSA is beginning to improve conditions.
- Security Programs protect the nuclear warheads and their supporting facilities, whether mobile or stationary.

Managing the Stockpile Stewardship program without nuclear testing has proven to be challenging, because much of the work requires DOE to use new and untested techniques. Throughout the Cold War, DOE maintained a viable nuclear stockpile by designing and producing

new weapons every 15 to 20 years. New production and underground testing ensured the effectiveness of the weapons.

However, the United States last produced a new weapon in 1991, and last conducted a nuclear test in 1992. Now, DOE must develop new tools to manage the stockpile without the type of design and testing that has supported the stockpile since 1945. This work will remain critical even as DOD draws down the number of operationally deployed warheads to between 1,700 and 2,200 over the next 10 years.



For those reasons, NNSA's stockpile stewardship program is a fast-growing effort. Funding has grown by 88 percent since 1995. The accompanying graph shows the growth in funding since 1995 for stockpile stewardship work, the infrastructure that underpins that work, and the associated security requirements. The 2003 Budget requests $6.1 billion for Stockpile Stewardship and associated administrative activities, $455 million above the 2002 level. Beyond 2003, the Administration will work with DoD to provide resources to meet DOE's requirements outlined in the Nuclear Posture Review.

Naval Reactors

In 2003, the Naval Reactors program will add to its record of 124 million miles steamed without a reactor accident or a significant release of radioactivity into the environment.

One true success story of the nuclear age is the development and operation of safe and reliable nuclear-powered warships. DOE's Naval Reactors Program is responsible for all naval nuclear propulsion work, beginning with technology development, continuing through reactor operation and, ultimately, to reactor plant disposal. The program ensures the safe operation of the reactor plants in operating nuclear-powered submarines and aircraft carriers (comprising about 40 percent of the Navy's major warships), and develops new nuclear propulsion plants to meet evolving national defense requirements. By the end of 2003, the goal is to complete 99 percent of the design of the next generation of submarine reactors and to continue work on the design of the next generation of aircraft carrier.

Preventing the Spread of Weapons of Mass Destruction

Preventing the spread of weapons of mass destruction around the world is vital to the nation's security. The importance of this was made clearer after the September 11th terrorist attacks. This Administration is fully committed to a comprehensive nonproliferation effort that will reduce the threat of weapons of mass destruction and stop the flow of the materials and expertise required to

build such weapons. The President's Budget includes a significant funding increase to step up efforts in these programs.

The NNSA will manage over $1 billion in nonproliferation programs in 2003 aimed largely at securing or eliminating materials in states of the former Soviet Union. NNSA focuses its efforts on those activities that do the most to minimize the potentially catastrophic results of these weapons or materials falling into the wrong hands. For example,

- NNSA operates a program, known as International Nuclear Materials Protection and Cooperation, to secure nuclear materials in the former Soviet Union. These programs include upgrading security at Russian nuclear sites, securing fissile materials that could be used to build weapons, and improving security at Russian borders. By the end of 2003, NNSA will have supported completion of comprehensive security upgrades to 54 of 95 identified former Soviet nuclear sites and will have begun work to secure roughly 80 percent of the weapons-grade nuclear material at these sites.

> *…And almost every state that actively sponsors terror is known to be seeking weapons of mass destruction and the missiles to deliver them at longer and longer ranges… Working with other countries, we will strengthen nonproliferation treaties and toughen export controls. Together, we must keep the world's most dangerous technologies out of the hands of the world's most dangerous people.*
>
> Remarks at the Citadel
> President George W. Bush
> December 11, 2001

- NNSA manages international security programs aimed at limiting the production of weapons-usable fissile material, facilitates retrieving and securing radioactive spent nuclear fuel, helps engage Russian scientists in non-weapon-related projects, and assists Russia in downsizing its nuclear weapons complex.
- NNSA's Nonproliferation Research and Development program develops technologies needed to detect and deter nuclear proliferation abroad, and to detect and respond to chemical and biological attacks in the United States.
- NNSA's Fissile Material Disposition Program covers activities in both the U.S. and Russia to dispose of weapons-usable fissile materials such as enriched uranium and plutonium. The 2003 Budget supports the first year of a newly-revised program for plutonium disposition. Beyond 2003, the Administration is committed to providing the resources necessary to fully support this new plan.

While the nonproliferation programs are critical to national security, DOE in previous years has been slow to spend the funds the Congress provided. A key impediment has been timely access to Russian sites, which sometimes requires lengthy negotiations. The Administration is committed to resolving problems and accelerating its nonproliferation effort.

Status Report on Select Programs

The Administration is reviewing programs throughout the federal government to identify strong and weak performers. The budget seeks to redirect funds from lesser performing programs to

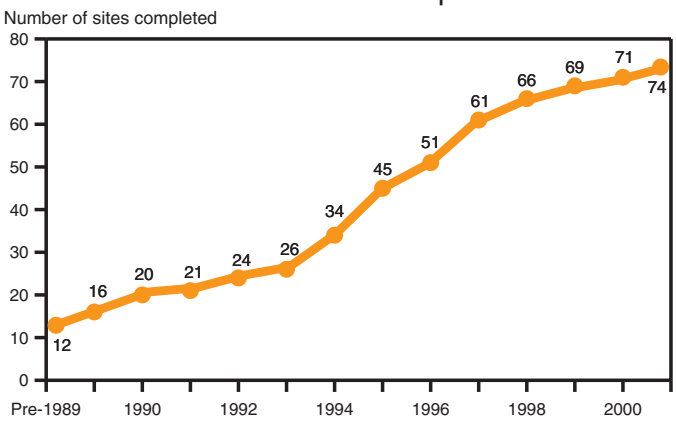
more effective or higher priority programs. The following ratings of selected DOE programs are illustrative. Some programs are discussed in more detail in this chapter.

Program	Assessment	Explanation
National Nuclear Security Administration—Naval Reactors	**Effective**	Outputs are identifiable and make key contributions to national security. Delivery schedules are consistently met. Contracts have positive and negative incentives, and include performance requirements.
National Nuclear Security Administration—Weapons Activities	**Moderately effective**	Certifies safety and reliability of nuclear weapons stockpile and maintains a high-quality scientific capability. However, it needs to improve its long-range planning and resource allocation process and better link stockpile requirements to available resources.
Defense Environmental Restoration and Environmental Management	**Ineffective**	Many sites are behind schedule for cleanup. Completion costs are escalating. "Compliance agreements," signed before the breadth of problems was known, make it difficult to effectively manage the program.
Office of Science	**Effective**	Supports world-class basic research. Effectively operates a large suite of scientific user facilities.
Fossil Energy R&D	**Ineffective**	Broad mission, lack of investment criteria and unmeasurable performance goals allow for funding of virtually any project. This leads to corporate subsidies. Program has contributed little to improving the prospects for new energy technology.
Nuclear Energy, Science and Technology	**Ineffective**	Resists competitive, peer-reviewed research awards. Resource allocation does not support priorities identified by external experts.

Environmental Quality

Environmental Management

Number of Environmental Management Sites Cleaned Up



Source: Office of Environmental Management, DOE.

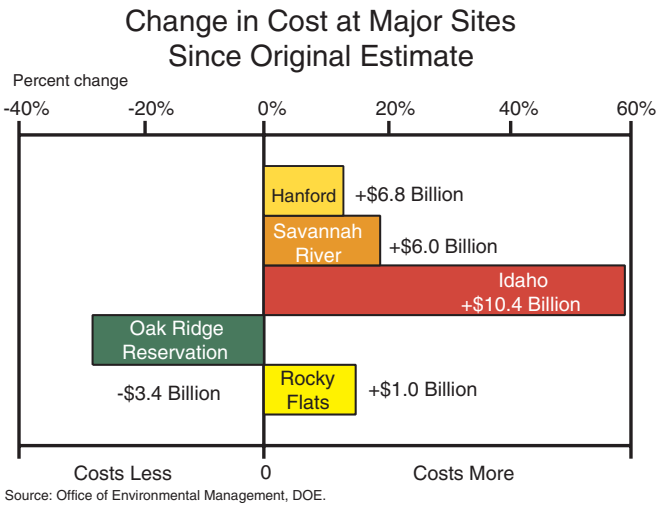
Decades of nuclear weapons production and energy research have generated vast amounts of hazardous waste and radioactive contamination. The Environmental Management (EM) program is responsible for cleaning up 114 sites where the Energy Department and earlier government agencies tested and produced nuclear weapons or conducted nuclear energy research. In 1998, the EM program published *Accelerating Cleanup: Paths to Closure*, which outlined a plan to complete the 53 sites remaining (one site was added to the list after *Accelerating Cleanup* was published), at an estimated cost of $147 billion during the period 1997 to 2070. The current cost estimate for cleaning up this set of 53 sites is $220 billion, an increase of 50 percent in just three years. As of 2001, DOE has completed 14 of those 53 sites.

What accounts for these delays and cost increases? Some result from technical uncertainties. But another problem is that the program has become less focused on cleaning up sites and has instead turned into a local "jobs" program. The Administration finds 2070, well beyond the life span of most Americans alive today, as an unacceptable deadline to complete the cleanup of existing sites.

Progress vs. Payroll

In 2000, DOE reallocated $30 million from priority cleanup projects at Savannah River, S.C., Hanford, Wash., and Idaho National Lab. The Department decided to use these funds instead to revive the EM laboratory-directed research and development program suspended by the Congress and to employ workers displaced when the Congress terminated the DOE Office of Field Integration.

For more than a decade, the General Accounting Office has designated DOE's contract administration and management of its EM projects as a high-risk area, vulnerable to fraud, waste, and abuse. Problems in this area include cost and schedule overruns and DOE's inability to hold contractors accountable. At the Savannah River site in South Carolina, for example, the EM program selected a process to separate radioactive waste from liquids in storage tanks. In 1985, EM estimated it would take three years and $32 million to construct the necessary facility. In 1999, after more than a decade of delays and spending about $500 million, the EM program terminated the project because the facility could not operate within required safety margins. Problems of this type persist. The accompanying figure shows the change since 1989 in estimated costs to clean up the five major sites. Some of the variance is due to more complete information regarding the extent of contamination, but the program has also failed to meet cost, schedule, and performance goals.



Source: Office of Environmental Management, DOE.

Today, the Department recognizes the significant management challenges facing the EM program and is moving to meet them. In March 2001, Secretary Abraham ordered the Office of Environmental Management to do a top-to-bottom review and identify ways to improve performance. Management improvements instituted by the Department will accelerate cleanup and lower costs. The program is scheduled to complete cleanup of Missouri's Weldon Spring site in 2002, and Kentucky's Maxey Flats Disposal site in 2003. The total number of EM sites completed by the end of 2003 will be 76 of 114.

Environmental Management Performance

Geographic Site	Rating Criteria			Overall
	Mission	Performance	Reform	
Idaho National Lab, ID	🔴	🔴	🔴	🔴
Savannah River, SC	🟡	🔴	🔴	🔴
Hanford, WA	🟡	🔴	🟡	🟡
Rocky Flats, CO	🟢	🟡	🟡	🟡
Oak Ridge Reservation, TN	🟡	🟡	🔴	🟡

The EM scorecard above presents the Administration's baseline assessment of performance at the five largest EM sites as of early 2001. These sites account for roughly 60 percent of EM's total resources, or about $3.8 billion a year. This evaluation is based upon the following criteria: "mission" assesses whether plans and resources are adequately focused on completing site cleanup; "performance" evaluates whether cleanup activities are consistent with cost, schedule, and performance baselines; and "reform" indicates whether sites recognize performance problems and are attempting to improve performance.

- Even though the Idaho National Engineering and Environmental Laboratory receives substantial earmarked funding through the EM Office of Science and Technology, it is unable

to complete projects on time and within budget. The Administration proposes accelerating the completion date from the current date of 2050 and closing the lab.

- The Savannah River Site spent $500 million on a radioactive waste treatment plant that could not operate as required, yet DOE rewarded the contractor with a contract extension in 2000. The site resists project management improvements, and it too should be placed on an accelerated cleanup track.
- Hanford appears to be improving its management, despite a history of significant problems managing large capital projects and a cleanup that is behind schedule and over budget.
- Rocky Flats has generally performed well, but recent schedule slippage for critical-path nuclear material stabilization raises concerns about attaining the primary goal of closure by December 2006.
- Oak Ridge has performed reasonably well. The site has focused on the easy work, not on higher risk reduction activities. This misdirection of effort accounts for the mediocre rating for the site.

The President proposes $6.7 billion for the Environmental Management program. This amount includes $800 million in a new "reserve" fund to implement fundamental program changes, with the expectation that the proposed reforms will improve cleanup efficiency by completing construction projects within baselines, reducing the cost of waste treatment and disposal, and integrating cleanup strategies across different sites. The proposed EM budget focuses resources on sites with better performance, while the Department implements reforms identified by the Secretary's top-to-bottom review at those sites with poor performance. The budget adds funding for higher priority, better managed activities such as waste treatment at Hanford, closure of the Fernald site, and cleanup at the Oak Ridge National Lab, by reducing funding for congressional earmarks, poorly performing projects in the EM Office of Science and Technology, and excess administrative staff.

Radioactive Waste Disposal

Growing quantities of spent nuclear fuel and high-level radioactive waste have been accumulating at commercial nuclear reactor sites and storage facilities across the country for half a century. As required by law, DOE has investigated the suitability of a storage site at Yucca Mountain, Nevada, 100 miles northwest of Las Vegas, for over 20 years.

Based on sound science and compelling national interest, the Secretary of Energy has informed the Governor of Nevada of his intent to recommend the Yucca Mountain site to the President for development as a geologic repository for the nation's nuclear waste. Should the site be formally designated this year, current plans call for the repository to open in 2010.

The Budget provides sufficient funding for DOE to prepare a license application to meet that deadline. If the site is designated, the Administration will seek additional funding to begin construction of essential transportation facilities and infrastructure within Nevada, and provide a long-term management and financing plan for the entire licensing and construction effort. The Administration is committed to ensuring the environmentally sound and safe disposal of the nation's radioactive waste.

Congressional Earmarks

The President's Budget generally allocates funding for specific programs, such as research and cleanup programs, based on an analysis of objective factors including the results of peer review and engineering capabilities. Congressional earmarks skew these determinations and divert funds from higher priority and more effective programs. For instance, in 2002 the Congress earmarked 134 DOE projects totaling $300 million. Unfortunately, this trend is getting worse. Earmarks in the Office of Science increased 60 percent over the previous year, to $72 million, and 400 percent more than 1999. One adverse effect is that during 2002, DOE will only be able to operate its scientific user facilities at approximately 75 percent of the optimally available hours. Had these funds been allocated to facility operations as needed, a broader segment of the research community could have benefited, and the return on the federal investment would have been higher.

In other programs, earmarking is having an even more damaging effect. In 2002, the Congress earmarked almost one-fourth of the funding for applied research in renewable energy technologies. For example, the Congress earmarked $3 million "for the Winona, Mississippi, biomass project, where the current investment in the plant shall count as the required demonstration project cost share." Although the National Energy Policy promotes applied research in biomass to help the nation utilize its resources, congressional earmarks such as this one bypass the competitive awards process that results in better, more relevant science to advance national goals. This earmark is particularly troubling because the project had previously failed to win a funding award in a DOE competitive solicitation, and the earmark circumvents the cost-sharing requirements prescribed by the Energy Policy Act. The budget supports the President's commitments and tackles the most pressing energy issues by increasing resources for high priority programs by wasting less on ineffective ones or earmarked projects.

Science and Technology

Redirecting earmarked funds to the frontiers of science where DOE is working is one good place to invest. The Department performs a broad array of basic research in fields from applied math to physics to biology. It is the primary federal agency supporting research in particle physics, nuclear physics, fusion energy sciences, and chemistry of the radioactive elements. The Department's basic research programs are generally effective, with Office of Science-supported researchers winning numerous awards and honors. In the past decade, seven Nobel Laureates won Nobel Prizes in Chemistry or Physics for work that DOE sponsored.

The Office of Science also operates a suite of 27 scientific user facilities—such as x-ray light sources, fusion devices, particle accelerators and colliders—used each year by over 18,000 university, industry, and government scientists. Researchers traveling to use these facilities expect that the photon, neutron, proton, electron, or other beams will be provided for their experiments on schedule. DOE facilities delivered 99 percent of scheduled operating hours over the period 1997–2001. More importantly, these facilities deliver scientifically. As just one example, 11 of the 12 irreducible building blocks of all known matter were discovered at particle physics facilities the Department has run over the last 50 years. The only one not discovered at a U.S. high-energy physics facility was the electron, discovered in England in 1897.

Access to DOE facilities is allocated by peer-review to the most scientifically promising of the proposed experiments. Awarding research funds through a peer-reviewed, competitive process is the preferred method to improve chances for higher quality results. Agencies, and programs within

them, vary in the degree to which they award funds competitively. Overall, only 24 percent of DOE research funds are competed, while another 49 percent are subject to limited competition. For the Office of Science, 45 percent of the research funds not spent on facility operations are fully competed; 55 percent are subject to merit review with limited competition.

Agency	Percent of Research Competed in 2001
National Science Foundation	94
Department of Health and Human Services	83
National Aeronautics and Space Administration	75
Department of Commerce	42
Department of Energy	24

The Office of Science spends 37 percent of its research funds on facility operations. To maintain operations of its user facilities at the highest level possible, Office of Science advisory committees periodically review both the operational efficiency and scientific productivity of DOE's user facilities. These reviews have teeth. In 1997, the Basic Energy Science Advisory Committee undertook a review of the Advanced Light Source (ALS) at Lawrence Berkeley Laboratory. Finding the facility's performance wanting, DOE cut its budget, the director resigned, and the facility embarked on a path to recovery. Last year, the advisory committee revisited the facility and re-evaluated its scientific output. Noting that none of the criticisms in the earlier report were still valid, the review panel found that the ALS had established areas of excellence in a number of important scientific areas. It singled out for special mention the unique capabilities of the ALS to study ultrafast processes in solids and gases, which have application for chemical reactions, phase transitions, surface dynamics, and a wide variety of critical biological processes.

The budget proposes $3.3 billion for DOE Science programs. Consistent with the Administration's emphasis on shifting funds to higher priority programs, the budget redirects funding for the particle physics fixed target program at Brookhaven to operations at Fermi National Accelerator Laboratory.

Energy Resources

DOE performs research and development on energy production, use, and conservation over a wide spectrum of technologies such as nuclear, solar, wind, fossil, and many others. Other programs in this area include energy security activities of the Strategic Petroleum Reserve and the Northeast Heating Oil Reserve.

Presidential Initiatives

The budget continues to fulfill the President's commitments to increase funding for the Weatherization Assistance Program over the next 10 years to assist 1.2 million low-income families while improving the nation's energy conservation. The program's energy conservation construction

measures for homes help save each low-income family an estimated $218 annually on utility bills, at an average one-time cost of $2,000 to $2,500 each. With an average life span of 20 years, the improvements generate more than $4,000 in total utility bill savings per home. The budget proposes to weatherize 123,000 homes in 2003, a 17 percent increase over 2002.

The budget also continues to fulfill the President's commitment to search for technology that will allow us to burn coal cleanly and more efficiently. Last year's budget added $150 million to existing coal research towards the President's commitment to spend $2 billion over 10 years on clean coal research. In this budget, all coal programs are brought under one umbrella—the President's Coal Research Initiative. This approach, using a more transparent budget structure, will improve the management and oversight of this $326 million program. Funds from the earlier, much-criticized demonstration program of the 1980s will be redirected to the Coal Research Initiative, freeing up almost $500 million that has languished unexpended and unproductive for years.

Old Clean Coal

The old Clean Coal program was intended to demonstrate technologies that could reduce acid rain-producing emissions from coal-fired power plants. Projects required a minimum 50 percent cost-share from industry. Commercially successful projects were supposed to reimburse the federal investment. Less than $2 million of the $1.6 billion expended—about one tenth of one percent—has been repaid. Of the 50 projects funded, 12 costing $97 million were terminated or withdrawn prior to completion.

The General Accounting Office examined 13 projects: six were behind schedule by two to seven years, and two were bankrupt.

Getting More for Each Research Dollar

The federal government needs to spend each dollar carefully, recognizing it is the taxpayers' money, not its own. In an effort to better prioritize research and development spending, the Administration, in consultation with the National Academy of Sciences and many others, developed investment criteria for applied R&D programs. The Administration is using the specific R&D criteria to recommend funding levels for the Department's applied R&D programs that support the President's National Energy Policy.

This is the first application of these criteria to specific programs to ensure that programs fulfill an essential federal role, have well-developed plans to achieve objectives, and achieve results that benefit the nation. Next year, the Administration will develop investment criteria for basic research programs and extend the application of applied R&D criteria throughout the government for use in development of the 2004 Budget.

Application of the criteria indicated that data on the expected performance of many R&D projects are not readily available. For instance, some of the 19 fossil energy R&D programs failed to report any performance data at all, and those that did tended to report goals rather than the current cost performance of technologies under development. The Department is addressing this lack of performance data. In addition, the grading method needs to be improved to distinguish between programs more carefully. For instance, about 80 percent of the programs graded by DOE achieved a maximum score.

R&D Investment Criteria at Work

Despite these initial problems, the criteria supplied enough guidance to determine some higher and lower performing programs. For example, ideas about a concept called "whole-house design" show significant promise for reducing the cost of solar water heating and developing a "zero-net energy home." While the Concentrating Solar Power program succeeded in lowering the cost of power produced by solar collectors, the price tag for this technology still cannot come close to competing with conventional power sources. Therefore, the budget increases funding to the Solar Building Technology Research program by shifting funding from the Concentrating Solar Power program.

The R&D investment criteria also directed funding shifts in the Department's wind power programs. Due in part to DOE's historical support for wind R&D, wind energy capacity in the United States increased 50 percent in 2001, to about 4,200 megawatts—enough electricity to meet the needs of one million households each year. Wind technology can compete on cost in some areas of the country with high average wind speeds. Now, the Department will turn its focus toward developing wind power technologies to compete in lower wind-speed areas.

Even high-performing R&D programs may conduct research that could or should be funded by industry. For example, the fossil energy program proposed an expansion of research efforts into offshore drilling techniques. Yet, this area carries a great incentive for industry to invest its own resources, and industry has a long history of doing just that. So there is little reason for taxpayers to help them out. The budget proposes reductions to programs that are poorly performing, misdirected, or are corporate subsidies. Some of this funding is redirected to programs recommended by the National Energy Policy, such as hydrogen and superconductivity research and other programs performing particularly well.

Improving R&D Investment Criteria

The National Academy of Sciences recently reported that from 1978 to 2000 the Department of Energy's energy efficiency and fossil energy R&D programs produced a return of $40 billion off an investment of $13 billion. Dampening this piece of otherwise good news was the fact that three-quarters of these benefits were attributable to three projects that cost only $11 million. What happened to the rest of the money? Good question.

Many projects that set taxpayers back billions of dollars generated little or no economic benefit. Take the Coal Liquefaction program, which has spent more than $2 billion on improving the conversion of coal to liquid fuels. Despite its technical success, the program has made little progress toward manufacturing economical coal-derived fuels. For the effort to be profitable at the current level of development, oil prices would have to reach a sustained level of $45 per barrel, more than twice what the commodity currently trades for.

The R&D investment criteria developed in the President's Management Agenda will help agencies select broadly beneficial projects that individual firms would be unlikely to undertake. Achieving the greatest possible return on each taxpayer dollar is an essential part of the Administration's performance-based focus.

Following the lead of the National Energy Policy, the budget accelerates commercialization of stationary fuel cells in the next three to four years. It adds a $54 million capstone to the more than $1.2 billion spent developing this technology over the last two and half decades. Also in keeping with

the National Energy Policy, the budget furnishes $50 million to research fuel cells for transportation technologies.

Remodeling a Public-Private Partnership

The National Energy Policy also recommends funding R&D programs that are "performance-based and are modeled as public-private partnerships." The Administration proposes a new venture with the auto industry called Freedom CAR (Cooperative Automotive Research). The partnership aims to develop technologies, such as hydrogen-based fuel cells, that solve many of the problems associated with the nation's reliance on oil.

Freedom CAR replaces the Partnership for a New Generation of Vehicles (PNGV), which had a misguided focus and insufficient accountability due to its multi-agency structure. The new joint effort will build on some of the PNGV's technical successes and address the program's shortfalls, including its poor management structure. Partners will include DOE and the U.S. Council for Automotive Research (USCAR), an umbrella organization of major U.S. automakers. The automakers will provide technical experts to conduct peer-review of project proposals, but direct federal support of automakers will be limited.

This new venture will have clear goals. DOE will develop performance measures and assess research projects annually, and independent technical experts will peer review the program biennially. The venture will be funded solely through DOE, and will be managed by one accountable DOE program manager. The new venture will embrace the President's Management Agenda's investment criteria for applied R&D programs, including a strict adherence to the cost-sharing guidelines.

Renewable Tax Incentives

The budget proposes significant tax incentives primarily targeted at encouraging energy efficiency and use of renewable resources. These total $9.5 billion over 10 years. The budget includes several new energy tax incentives and extensions of existing ones, including incentives recommended by the National Energy Policy. Specific proposals would:

- Extend and modify the tax credit for producing electricity from environmentally friendly sources, such as biomass and wind ($1.9 billion);
- Provide a tax credit for residential solar energy systems ($75 million);
- Provide a new tax credit for the purchase of certain hybrid and fuel cell vehicles ($3.0 billion);
- Provide a tax credit for energy produced from landfill gas ($1.1 billion);
- Extend the ethanol tax exemption;
- Provide a tax credit for investment in combined heat and power ($1.2 billion); and
- Modify the tax treatment of costs associated with decommissioning nuclear power plants ($2.1 billion).

The Administration also proposes $51 billion to permanently extend the Research and Experimentation tax credit for all sectors of the economy.

Legislative Proposals

The Administration proposes opening a small part of the Arctic National Wildlife Refuge (ANWR) to oil and gas exploration. The Administration would devote $1.2 billion of the bonus bid receipts, paid for the right to explore in a small part of ANWR, to increasing renewable energy R&D. This research will help the nation reduce its dependence on fossil fuel. Another portion of expected receipts from future royalties will be devoted to increasing land conservation and reducing maintenance backlogs on public lands in the Department of the Interior.

Power Marketing Administrations

The Western, Southwestern, Southeastern, and Bonneville Power Marketing Administrations (PMAs) market electricity generated at 133 multipurpose federal dams and related facilities. Overall, they manage more than 33,000 miles of federally owned transmission lines. The 2003 Budget provides $183 million in new discretionary budget authority for Western, Southwestern, and Southeastern. The PMAs will continue to meet their performance goal of providing safe and reliable service. To do that, each PMA must achieve a "pass" rating each month under the North American Electricity Reliability Council's industry-wide performance standards.

The National Energy Policy report directs federal agencies to remove constraints on the interstate transmission grid to help ensure that the nation's electricity can flow more freely. The Administration has made considerable progress this past year working with the state of California and private utilities to secure private-sector financing for construction of transmission facilities that will relieve the transmission bottleneck in northern California.

PMAs receive their power from hydroelectric dams operated by the Corps of Engineers and Bureau of Reclamation. In 2003, Southeastern, Southwestern and Western will begin to directly finance the Corps of Engineers' power-related operating and maintenance expenses. In past years, the Corps obtained appropriations to pay these expenses, and the PMAs repaid the costs to the U.S. Treasury.

The Bonneville Power Administration (BPA) finances its $3 billion annual cost of operations and investments from its annual power revenues and through borrowing from the U.S. Treasury. The budget proposes to increase BPA's current borrowing authority ceiling of $3.75 billion by $700 million to enable BPA to finance transmission system, conservation, and hydropower improvements. BPA will encourage non-federal or joint financing of all its future investments in transmission system upgrades and other investments. It will report its evaluation of these financing opportunities to DOE before using its borrowing authority.

Strengthening Management

DOE is making progress in addressing the President's Management Agenda and anticipates much improvement through 2002. For example, DOE is making strides in improving its financial management and has received an unqualified audit opinion on its financial statements in four of the last five years. DOE is working with OMB to integrate budget and performance. However, E-Government, especially management of its Information Technology (IT) investments, is DOE's weakest link. Previously, DOE failed to prioritize and report on its IT investment portfolio or manage IT strategically. The Department is currently consolidating its IT portfolio under the Chief Information Officer (CIO), who reports directly to the Deputy Secretary.

One additional management area particularly important for DOE is contract reform and project management. DOE spends more than 90 percent of its budget through contracts. It is essential that DOE integrate cost and performance standards down to the project level into the competitions for large contracts. DOE traditionally competes large contracts first and then negotiates performance and cost standards after the award. DOE plans to enhance and improve contract and project management by increasing the technical skills and resources it needs to make its managers accountable for achieving project and contract cost, schedule, and performance goals.

Initiative	2001 Status
Human Capital—DOE has two main problems: an aging workforce and imbalances in core skills needed to carry out its missions. The Department has not effectively used existing statutory and regulatory flexibility as part of an overall strategy to address workforce issues. DOE's Workforce Restructuring Plan lacks a vision of the staffing needed for its scientific and technical missions. It does not include a proposal for streamlining headquarters and field offices to reduce management layers. DOE's 100,000-plus contractors are not included in the scope of its workforce restructuring plans. With one of the highest contractor-to-federal staff ratios (7:1), DOE must have skills necessary to provide substantive oversight and management of its contracts. DOE will revise its workforce-restructuring plan to: • Address skill gaps in contract administration and project management; • Develop and maintain science and technical staff; • Eliminate headquarters and field office redundancies; and • Integrate human resources into budget and strategic plans.	
Competitive Sourcing—The Department prepared a 2000 inventory of 9,941 commercial positions performing tasks that are commercial in nature, more than a third of which are within the Power Marketing Administrations. The Department's competitive sourcing plan must meet the President's Management Agenda goal to compete 15 percent of the agencies' commercial positions through 2003, in an effort to eventually compete 50 percent of all commercial activities.	
Financial Management—DOE was one of only six agencies to receive an unqualified audit opinion on its first consolidated financial statement. It has continued to receive unqualified opinions every year, except 1998 because of its environmental liabilities. DOE was also one of four agencies whose financial systems met the Federal Financial Management Improvement Act requirements. Despite these successes, DOE is still reporting material management control weaknesses. DOE will continue to work on resolving these issues and will: • Develop a financial management plan that includes a schedule and addresses system integration, especially with its contractor systems; • Integrate financial, budget, and program information in its systems in order to provide cost information related to performance; and, • Ensure implementation of its Business Management Information System (BMIS) is on track and that it will correct managerial accounting issues as planned.	

Initiative	2001 Status
E-Government—DOE reports only 10 percent of its IT investments as "major," which excludes too many relevant projects from oversight and justification of continual investment. DOE has significant weaknesses in its capital planning and investment control process, use of enterprise architecture in decision making, and the effectiveness of its security policies. Because of a lack of information or business case for its IT investments, it is impossible to evaluate DOE's compliance with e-government standards. Its financial management system does have some enterprise resource planning management capabilities. DOE must make much more progress in this area by providing complete, accurate, and timely submissions that are justified by a good business case for all of its major IT investments. The Department needs to implement the capital planning and investment control process, and should: • Redefine its major IT investments to include a majority of the $1 billion in annual IT investments; • Consolidate the IT portfolio and manage it at a departmental level; and • Provide strong leadership from the CIO.	
Budget/Performance Integration—Historically, planning and budgeting have been separate activities that were not sufficiently coordinated. Strategic and performance plans tend to be submitted after the budget, rather than informing budgets. There has been little attempt to tie resources to results. Although DOE has been working to correct some of these problems, there is still a long way to go. Use of R&D investment criteria should reduce "justification by anecdote", helping DOE to focus on outcomes and how programs influence them. The Department needs to capture meaningful data on performance. Each program should develop performance metrics for all priority programs that will inform and justify budget request decisions.	

Department of Energy

(In millions of dollars)

	2001 Actual	Estimate	
		2002	2003
Spending:			
Discretionary Budget Authority:			
National Security			
National Nuclear Security Administration	6,950	7,249	8,039
Other Defense Activities	601	548	472
Energy Resources	2,468	2,704	2,669
Science and Technology	3,227	3,248	3,293
Environmental Quality	6,803	7,137	7,269
Corporate Management and all other programs	138	80	176
Subtotal, Discretionary budget authority adjusted [1]	20,187	20,966	21,918
Remove contingent adjustments	–70	–73	–71
Total, Discretionary budget authority	20,117	20,893	21,847
Emergency Response Fund, Budgetary Resources:			
Weapons Activities	5	131	—
Defense Nuclear Nonproliferation	—	226	—
Defense Environmental Management	—	8	—
Other Defense Activities	—	4	—
Total, Emergency Response Fund, Budgetary resources	5	369	—
Mandatory Outlays:			
Existing law	–766	–1,326	–1,253
Legislative proposal	—	—	149
Total, Mandatory outlays	–766	–1,326	–1,104

[1] Adjusted to include the full share of accruing employee pensions and annuitants health benefits. For more information, see Chapter 14, "Preview Report," in *Analytical Perspectives*.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

The President's Proposal:

- Strengthens capacity to prevent, identify, and respond to incidents of bioterrorism;
- Advances the President's Management Agenda by consolidating buildings and facilities management and other administrative offices;
- Continues implementation of the President's Faith-Based and Community Initiative;
- Completes the commitment to double funding for the National Institutes of Health;
- Builds on the 2002 Community Health Centers and National Health Service Corps Presidential Initiatives;
- Invests in activities to educate students on preventing unintended pregnancies and sexually transmitted diseases through abstinence;
- Enhances drug treatment to narrow the treatment gap;
- Enhances public health by investing in patient safety, food safety, and community-based disease prevention;
- Fully funds the President's child welfare initiatives;
- Reauthorizes major welfare programs maintaining funding for the Temporary Assistance for Needy Families program;
- Dedicates resources for immediate steps to improve and modernize Medicare benefits, consistent with the President's framework for strengthening Medicare, including a prescription drug benefit;
- Increases coverage and efficiency in the Medicaid and State Children's Health Insurance Program by giving states more flexibility to meet health care coverage goals; and
- Supports the President's health insurance tax credit by allowing states to use their health insurance purchasing pools to provide affordable private health insurance options.

Department of Health and Human Services

Tommy G. Thompson, Secretary

www.hhs.gov 202–619–0257

Number of Employees: 65,000

2002 Spending: $459.4 billion

Divisions: Food and Drug Administration; Health Resources and Services Administration; Indian Health Service; Centers for Disease Control and Prevention; National Institutes of Health; Substance Abuse and Mental Health Services Administration; Agency for Healthcare Research and Quality; Centers for Medicare and Medicaid Services; Administration for Children and Families; Administration on Aging; Office of the Secretary; Office of the Inspector General; and Program Support Center.

The Department of Health and Human Services (HHS) is one of the largest federal departments, the nation's largest health insurer, and the largest grant-making agency in the federal government. The Department is charged with promoting and protecting the health and well-being of all Americans, and provides world leadership in biomedical and public health sciences. HHS addresses these objectives through an array of programs in basic and applied science, public health, income support, child development, and the financing of health and social services.

HHS Priorities

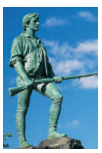
Fighting Bioterrorism

No HHS activity is now more important than its role in national bioterrorism preparedness. By Presidential directive, HHS is the lead federal agency in preparing to combat bioterrorism. HHS prevents, identifies, and responds to incidents of bioterrorism through the Office of the Secretary, the Centers for Disease Control and Prevention (CDC), the Food and Drug Administration (FDA), the Health Resources and Services Administration (HRSA), and the National Institutes of Health (NIH).



National Pharmaceutical Stockpile supplies are stored strategically in secure locations around the country to ensure swift mobilization to the site of a disaster.

Through the CDC, HHS provides assistance to state and local entities to build increased laboratory capacity for quick and accurate identification of dangerous agents, and to enable rapid and secure communication. The CDC also maintains laboratory facilities to hold and study dangerous biological agents and works with the states to confirm the identity of such



agents in the event of a potential attack. Existing and new funding will help improve and update these laboratories. HHS trains and maintains federal public health emergency response teams to be rapidly deployed in the first stages of a bioterrorist incident. HRSA works with states and the nation's hospitals to ensure their preparedness on a regional basis.

HHS also maintains the National Pharmaceutical Stockpile, which is increasing its capacity to cover over 20 million individuals during 2002. To ensure that medicines and supplies can be quickly delivered to the site of an emergency, HHS is acquiring a national supply of antibiotics and smallpox vaccine, and is working to develop and approve innovative new drugs and therapeutics.

HHS is taking a new approach to managing and distributing funds for state and local bioterrorism preparedness. This process will ensure that public health departments, hospitals, emergency medical services, and other first responders develop integrated detection and treatment systems to provide a seamless response to potential acts of bioterrorism.



Secretary Thompson and New York State Health Commissioner Dr. Antonia Novello speak with rescue workers on September 13, 2001, at the site of the World Trade Center terrorist attacks.

The FDA works to ensure the safety of the nation's food supply. The budget supports a substantial increase in the amount of safety inspections of FDA-regulated products imported into the country. In an effort to protect public health, the FDA will conduct three times the current inspections of imported foods to keep them from being used as a conduit for terrorism. The FDA will also improve blood screening processes to assure availability of a safe national supply of blood and related products in the event of an attack or its aftermath.

These HHS efforts were brought to national attention by the speedy delivery of medical supplies to New York on September 11th, and in the assistance provided to state and private parties involved in the subsequent anthrax attacks. The threat of bioterrorism is now a reality, and the budget includes resources to respond at HHS and across the government.

Measuring effectiveness is extremely difficult in this rapidly evolving area. So it is essential that assessments are conducted, planning procedures are established, and rigorous standards are lived up to. Under the leadership of the President, these steps will be taken at all levels of government.

A Citizen-Centered HHS: Streamlining Bureaucracy

A key objective of the President's Management Agenda is a more responsive, more "citizen-centered" federal government. In few federal agencies is the need for organizational reform more acute than at HHS, where a long history of decentralized decision-making has produced a Department with 13 operating divisions functioning with relative autonomy. As a result, a complex web of ever-proliferating offices has distanced HHS from the citizens it serves, and has produced a patchwork of uncoordinated and duplicative management practices that hinder its efforts to accomplish its mission efficiently.

This Administration is committed to solving this problem through Secretary Thompson's One Department initiative, which will eliminate unnecessary layers of bureaucracy and consolidate duplicative functions into unified offices. Streamlining efforts in 2003 will focus on HHS' human resources, public affairs, legislative affairs, and building and facilities management functions.

Talent Agencies

Currently, the Department does not leverage itself with respect to bringing on new talent by combining the resources of all of its agencies. The most recent example occurred at a recruiting fair in Puerto Rico the Program Support Center attended—along with several other HHS agencies, all with different booths and HR personnel, and all looking and appearing as separate government entities. The costs [were] all being borne individually by the different agencies.

HHS Workforce Analysis
June 2001

Human Resources. HHS today has 40 different human resources offices, all of which conduct independent—and often competing—recruitment, hiring, and training activities. In 2003, that number will be cut to four, as HHS consolidates personnel matters into offices in Baltimore, Rockville, and Bethesda, Maryland, and Atlanta, Georgia.

Public Affairs and Legislative Affairs. Currently, HHS has more than 50 public affairs offices and more than 20 legislative affairs offices. Spread throughout 13 operating divisions and dozens of bureaus, these offices deliver separate—and sometimes conflicting—messages. In 2003, this structure will be streamlined to create one office for public affairs and one centralized legislative affairs office.

Buildings and Facilities Management. HHS agencies seek to make certain the nation's biomedical research and health care services are conducted in safe labs and hospitals. In the past, NIH, CDC, and HRSA each administered their own building maintenance and construction projects.

HHS' performance in building construction can be improved. One challenge facing the federal government's main social service agency is uneven project planning and oversight. HHS does not have a department-wide performance measure that articulates national priorities for health care facilities. As a result, construction projects often get selected for reasons other than merit, including congressional earmarks. The President's Budget addresses this challenge by: 1) concentrating leadership, programmatic expertise, and project oversight in the HHS Office of the Secretary; 2) instituting a comprehensive framework that prioritizes all capital projects across HHS; and 3) implementing a department-wide measure linked to program outcomes.

Which Of These Projects Would You Fund?

NIH Parking Facility: NIH is planning to construct a new $14 million on-site parking facility to accommodate its employees, visitors, and patients. Since 1996, over 1,500 parking spaces have been lost because of new construction projects, including the Clinical Research Center and the East Child Care Center.

Indian Health Service Sanitation Facilities: Investment in sanitation facilities projects has contributed to improvements in American Indian/Alaska Natives (AI/AN) health status. However AI/AN homes are still seven times more likely to be without clean water than all other U.S. homes. One of IHS' most important missions is to construct sanitation facilities for AI/AN homes. IHS has identified a backlog of $1.8 billion in sanitation construction projects but, within the overall IHS budget, is able to fund only two percent annually.

The budget consolidates facilities construction and maintenance activities for NIH, CDC, and HRSA in the Office of the Secretary so that HHS can manage buildings competitively across the Department. In 2004, FDA and IHS will be included in this consolidation. This consolidation will give HHS tremendous flexibility in allocating funding to the highest priority projects and is fully in line with the Secretary's vision for a unified HHS.

Promoting the President's Initiatives

> *The paramount goal is compassionate results, and private and charitable groups, including religious ones, should have the fullest opportunity permitted by law to compete on a level playing field, so long as they achieve valid public purposes, like curbing crime, conquering addiction, strengthening families and overcoming poverty.*
>
> President George W. Bush
> January 29, 2001

Faith-Based and Community Initiative

On January 29, 2001, the President announced the Faith-Based and Community Initiative and, at the same time, created a White House office dedicated to this issue along with parallel offices at five key Departments: HHS, Justice, Housing and Urban Development, Labor, and Education. This initiative aims to enrich social services by drawing on the strengths of religious and community groups. These organizations have long played a critical role in furnishing their own aid, but have been unfairly or unwisely excluded from playing a more direct role in delivering federally supported services.

The initiative expands the access of community and faith-based organizations on a non-discriminatory basis to existing federally funded programs.

Last summer, the White House Office on Faith-Based and Community Initiatives and the five departmental centers reviewed artificial regulatory or administrative barriers to full participation by faith-based organizations. The results were published in the August 2001 report, *Unlevel Playing Field: Barriers to Participation by Faith-Based and Community Organizations in Federal Social Service Programs.* The report found that many of the barriers to fuller participation were needlessly burdensome administrative creations. The Faith-Based and Community Initiative's part of the President's Management Agenda will measure the progress of the five Departments in removing these barriers. In addition, the budget funds the following four competitive grant programs, targeted at faith- and community-based organizations that can provide innovative services at the grassroots level.

Compassion Capital Fund: To build on the efforts of community-based, charitable organizations, the budget provides $100 million to help small charities increase their capacity to deliver services and grants by financing the start-up costs of charitable organizations.

Mentoring Children of Prisoners: The President recognizes that, as a group, the more than two million children with parents in prison have more behavioral, health, and educational problems than the population at large. Mentoring by caring adults serving as positive role models can brighten the outlook for these children. Therefore, the budget includes $25 million for competitive grants to faith and community-based groups for programs providing mentors to children of prisoners.

Promoting Responsible Fatherhood: Over 25 million children live in homes without fathers. To assist non-custodial fathers to become more involved in their children's lives, the budget provides $20 million in competitive grants to faith-based and community organizations.

Maternity Group Homes: The Administration also increases support to community-based maternity group homes by providing young, pregnant, and parenting women with access to community-based coordinated services such as childcare, education, job training, and counseling. The budget includes $10 million in competitive grants to meet the needs of these women and their children.

Unlevel Playing Field

- A funding gap exists between the government and the grassroots. Smaller groups, faith-based and secular, receive little federal support relative to the size and scope of services they provide.
- A widespread bias against faith- and community-based organizations in federal social service programs exists.
- There are some legislative restrictions, but many of the restrictive regulations are needlessly burdensome administrative creations.
- Charitable Choice legislation has been almost entirely ignored by federal administrators who have done little to help or require state and local governments to comply with new rules for faith-based service providers.

Unlevel Playing Field: Barriers to Participation by Faith-Based and Community Organizations in Federal Social Service Programs
White House, August 2001

Partnering with Faith-based and Community Organizations

The San Antonio Weed & Seed Coalition consists of 120 community, neighborhood, and law enforcement organizations whose mission is to reduce drug-related crime and victimization. The coalition has helped to reduce crime in San Antonio by 43.5 percent from 1992–2000. One of the coalition partners, Love Demonstrated Ministries (LDMI), is a faith-based organization which focuses on youth offenders, gang members, and high risk youth. Over the past three years, 135 of 165 young offenders entering its Life Skills and Parenting Camp have graduated from LDMI, a success rate of 82 percent.

Charitable Tax Provisions: The Administration favors a charitable deduction for taxpayers who don't itemize their deductions on their tax returns of up to $100 for singles and $200 for joint returns in 2002, increasing in stages to $500 for singles and $1,000 for joint returns in 2012. This proposal would also permit tax-free distributions from IRAs for charitable contributions, increase the percentage limitation on corporate charitable contributions, and make several changes related to trusts and foundations. The effect on federal receipts would be $2 billion in 2003, and $41 billion for 2003–2012.

Individual Development Accounts (IDAs): The Administration also supports the establishment of additional IDAs, a savings vehicle designed to encourage assets development and

help participants enter the financial mainstream. Program participants can withdraw accrued savings, matched contributions, and investment earnings for qualified expenses, such as higher education, homeownership, and business start-up.

The IDA initiative creates a tax credit available to financial institutions to generate matching contributions to participants' savings accounts. A 100 percent IDA tax credit would allow a bank to reduce its federal tax liability on a dollar-for-dollar basis for matching participant savings up to $500 per year. For example, if a participant deposits $500 into an IDA account, the bank would match this amount and claim a $500 tax credit on their federal tax return. This initiative will create up to 900,000 accounts over the next six years.

The National Institutes of Health

Begun in 1887 as a one-room laboratory within the Marine Hospital Service, the National Institutes of Health has become the world's leading research institution for biomedical and behavioral research. NIH now supports more than 50,000 scientists working in 2,000 institutions across the United States. These scientists, with the help of federal grant support, have been making great advances in the prevention, diagnosis, and treatment of diseases. As we look to the future, medical science stands at the threshold of profound research advances that were unthinkable a decade ago. Researchers are identifying the genes responsible for the abnormalities that cause many diseases. What researchers learn could help bring us closer to a cure for Alzheimer's, Parkinson's, cardiovascular disease, AIDS, diabetes, and other diseases.



Research is the lifeblood of NIH work.

During the presidential campaign, the President promised to double the budget of NIH by 2003 to $27.2 billion, from the 1998 level of $13.6 billion. The Administration is committed to fulfilling that promise. The budget includes the final installment of $3.9 billion over 2002 needed to achieve doubling. With this increase, NIH will further its efforts to support research on diseases affecting the lives of Americans.

2003 Budget Completes Doubling of the NIH Budget
(Discretionary budget authority in million of dollars)

1998 NIH Budget	13,622
2003 NIH Budget—Doubles 1998 Funding Level	27,244
Adjustments for Accrual of Employee Pension and Annuitant Health Benefits	+91
2003 NIH Budget with Accrual Adjustments	27,335

This NIH funding increase will also finance important research needed for the war against terrorism. Over its history, NIH has been an important contributor to the nation's wartime efforts. During World War II, NIH was instrumental in developing the oxygen mask to prevent pilots from blacking out at high altitudes. Now, as the country faces new bioterrorism threats, NIH is prepared to research the effects of bioterrorism and develop treatments in the event of attack. The budget includes $1.8 billion for bioterrorism research, including development of an improved anthrax vaccine, and laboratory and research facilities construction and upgrades related to bioterrorism.

Public/Private Partnership: A Major Step to an HIV Vaccine

The National Institute of Allergy and Infectious Diseases (NIAID), one of the National Institutes of Health, has entered into an agreement with Merck & Co. to collaborate on human testing of promising HIV vaccines developed by the company. Under the agreement, the vaccines will be evaluated in collaboration with NIAID's International HIV Vaccine Trials Network (HVTN). To date, 30 potential HIV vaccines have been evaluated in NIAID-supported clinical trials. With an estimated 5 million new HIV infections worldwide this year—about 14,000 each day—developing a vaccine against HIV is a top biomedical research priority. In the U.S., collaboration between the biomedical, pharmaceutical, medical, and public health communities have contributed to the steep decline in HIV/AIDS deaths and HIV/AIDS acquired through childbirth. By combining the laboratory strengths of NIAID's HVTN with Merck, rapid progress in evaluating the safety, immune response, and effectiveness of these vaccines is expected.

While the nation fights the war against terrorism, it also continues to fight the war on cancer. Each day more that 1,500 people in the United States die from this disease; the annual death toll from cancer exceeds fatalities from all wars fought by the United States in the last century. Thirty years ago, when the war on cancer was declared, many scientists believed that cancer was one disease that would have a single cure. Recent research indicates that cancer is actually hundreds of diseases, all of which require different treatment regimens. Promising research is leading to breakthroughs in treating various forms of cancer. The budget includes a $5.5 billion investment in cancer research at the National Cancer Institute and other NIH Institutes.

The President recognizes research will advance the health and well being of Americans and those living beyond our borders. The budget continues to invest in the Global Fund to Fight HIV/AIDS, Malaria, and Tuberculosis by allocating $100 million of NIH funds for this effort.

NIH is composed of 25 institutes and centers with an overall mission to sponsor and conduct biomedical research and training that leads to better health for all Americans. While the NIH conducts research in its own laboratories, the vast majority of its funding supports researchers through grants to them and to their universities, hospitals, and research institutions. Panels of scientists review grant requests and then fund them for their scientific merit. New knowledge often leads to the development of medical advances to treat and cure diseases. The budget expands scientific discovery by increasing the number of research grants funded. In 2003, NIH will support 35,920 grants, an increase of more than 8,800 from those underwritten in 1998.



NIH Research Grants

	Actual				Estimate	
	1998	1999	2000	2001	2002	2003
All Research Project Grants	27,073	28,715	30,669	32,546	34,686	35,920
New Grants	7,578	8,566	8,880	9,186	9,377	9,854
Continuing Grants	19,495	20,149	21,789	23,360	25,309	26,066

Community Health Centers

Community health centers (CHCs) provide family-oriented, preventive and primary health care to over 11 million patients at over 3,400 sites. CHCs seek to improve the health status of underserved populations and provide access to critical health care services for the uninsured.

The budget builds on the 2002 Community Health Centers Presidential Initiative to increase and expand the number of health center sites by 1,200 in order to serve another 6.1 million patients by 2006. This expansion complements the President's proposals to increase health insurance coverage in private and public insurance programs, to help ensure that all Americans have access to health care. The professional care provided at health centers reduces hospitalizations and emergency room use and helps prevent more expensive chronic disease and disability. For example, while health center patients typically have high blood pressure rates far exceeding that of comparable racial, ethnic and socioeconomic groups, they are more than three times as likely to report that their blood pressure is under control compared to non-health center patients.



Doctor helping patient at a Community Health Center.

	Increasing and Expanding Community Health Care Sites	New Community Health Care Sites Since 2001
2001	3,307	—
2002	3,559	+252
2003	3,737	+430
2004	3,967	+660
2005	4,237	+930
2006	4,507	+1,200

National Health Service Corps

Community Health Centers often work with the National Health Service Corps (NHSC), the goal of which is to provide safety net support for the uninsured and underserved by directing health care professionals into medically underserved areas. The NHSC funds scholarships and loan repayments for health professionals who serve for a minimum of two years in areas suffering shortages of health professionals.

The 2002 President's Budget launched a management reform initiative to place NHSC clinicians in the neediest, underserved areas. This management reform initiative better defines areas of the country that have a shortage of health professionals. The budget increases funding for the NHSC and its sister program, the Nursing Education Loan Repayment Program, so that more health care providers will practice in underserved areas.

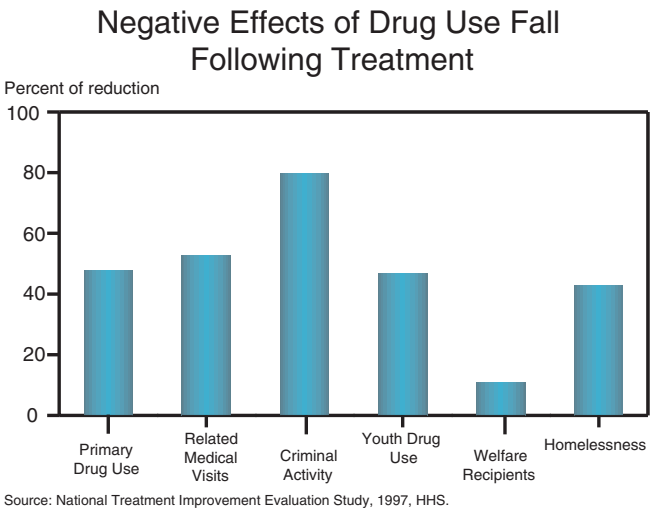
Promoting Abstinence

Teen pregnancy and out-of-wedlock sexual activity remain a major problem. In 1999, half of all high school students engaged in sexual activity, including eight percent before age 13. To ensure that more children receive the message that abstinence is the best option for avoiding unintended pregnancies and sexually transmitted diseases, the budget makes a substantial investment in abstinence education. The budget's more targeted performance measures also will evaluate abstinence education's effectiveness.

Drug Treatment Initiative

Research has consistently shown that drug abuse treatment can be effective in reducing drug use and the consequences of addiction. Yet many people go untreated. The Administration is committed to narrowing the drug treatment gap.

According to a national survey by the Substance Abuse and Mental Health Services Administration (SAMHSA), an estimated 129,000 people report that they were unable to obtain treatment for a drug problem, despite making an effort to get treatment. In the 2003 Budget, SAMHSA will support an estimated 52,000 additional drug abuse treatment slots to help narrow the treatment gap.



Source: National Treatment Improvement Evaluation Study, 1997, HHS.

Narrowing the Treatment Gap Changes Lives

William Cope Moyers began experimenting with marijuana and alcohol as a teenager in the quiet suburbs of Long Island, New York. By the time he was 30 he was addicted to hard drugs and living in a crack house in Harlem. After his third treatment, Moyers succeeded in overcoming his addiction.

Today I hold a job and pay taxes, own a home, raise a family, and vote all because I got help in overcoming the ravages of my addiction to alcohol and drugs. I am living proof that comprehensive treatment works and pays great dividends to all of society.

William Cope Moyers,
Hazelden Foundation, Saint Paul, Minnesota

To capture the quarter-million people who recognize they are in need of treatment but are not seeking help, SAMHSA will work to improve linkages among drug treatment and mental health, healthcare, and criminal justice systems. SAMHSA will use newly available data on the drug treatment gap, by state, to guide grants and other assistance.

Enhancing Public Health

The 2003 Budget will make other targeted investments in public health improvement. The Administration will invest in patient safety and health care quality improvement, eliminating costly medical errors and encouraging more effective use of up-to-date methods of treatment. HHS will also increase FDA food safety inspections of high risk and imported foods. Finally, HHS will initiate innovative community grants to prevent and treat diabetes, asthma, and obesity.

Taking the Next Step in Reforming Welfare

The Administration's Welfare Reform Reauthorization Agenda

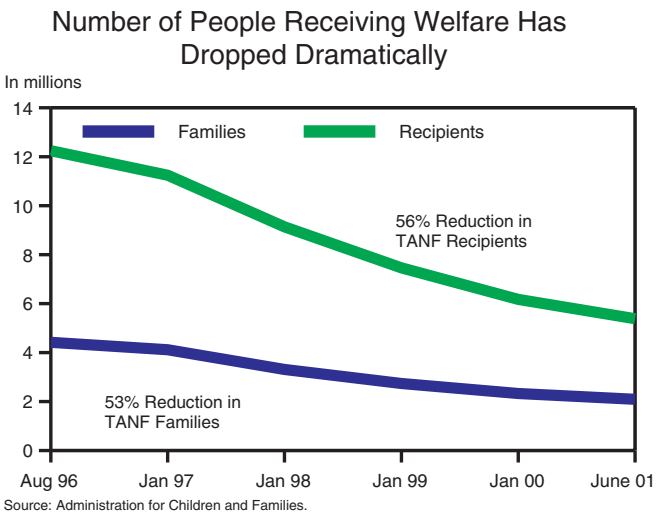
The budget includes a proposal that pursues the following three goals:

- *Continue Moving People to Self-Sufficiency.* The budget retains the approach of the 1996 legislation, which helped millions of people move from welfare dependence toward self-sufficiency. It builds upon this success by strengthening the work components while simplifying program administration.
- *Strengthen the Goals of Work and Independence.* The budget strengthens the requirements to work while providing more support to low-income workers. The proposal phases in stronger work participation requirements in Temporary Assistance for Needy Families. In the Food Stamp program, low-income workers would be able to own reliable transportation for getting to work. More former welfare recipients would receive the full child support payment.
- *Simplify Program Administration.* Complex program rules are administratively burdensome for both agencies and recipients. The budget would simplify complicated Food Stamp rules, and simplify the calculation of child support payments for families who have left welfare.

Additional Food Stamp provisions are described in the Department of Agriculture chapter.

Welfare Reform Reauthorization

In 1996, the Congress passed legislation to create the Temporary Assistance for Needy Families (TANF) program, replacing Aid to Families with Dependent Children and related welfare programs. TANF is a $16.7 billion a year block grant with bonuses for high performance and reduced nonmarital births. States were given significant flexibility in designing the eligibility criteria and benefit rules for their TANF programs, which require and reward work in exchange for time-limited benefits.



TANF is probably the most successful federally funded domestic program in decades. Nationally, the TANF caseload (number of cash recipients) has declined 56 percent since the program's inception, while the percentage of welfare recipients working has increased threefold. Due to state flexibility, an increasing portion of welfare dollars is now spent on services to help individuals retain and advance in their jobs.

Building on its success, the Administration proposes to reauthorize TANF. Specifically, it maintains block grant funding, provides for supplemental grants to address historical disparities in welfare spending among states, strengthens work participation requirements, retains state maintenance of effort requirements, and continues a system of high-performance bonuses. In addition, the budget proposes to reauthorize a modified contingency fund to assist states in times of severe economic downturns. Also as part of welfare reform reauthorization, the Administration will work across agencies to identify opportunities to better coordinate programs, simplify administration and support work.

The budget eliminates the current illegitimacy reduction bonus as there is no evidence that it encouraged states to develop initiatives to reduce out-of-wedlock births. The Administration is committed to encouraging the development of effective programs to reduce out-of-wedlock births and to promote family formation. The budget redirects the funds through a combination of grants, research, and technical assistance to develop a more effective approach to achieving this goal.

Reviewing the way child welfare services are structured and financed: Often criticized as complex and inflexible, the Administration will review federal child welfare programs to ensure an appropriate balance between flexibility and accountability that promotes the best outcomes for vulnerable children and families. In the year ahead, the Administration will have discussions with interested parties about this issue.

Child Support Enforcement: To benefit families who once received welfare, the budget allows states the option to provide them with the full amount of child support collected on their behalf. For current welfare recipients, the budget includes, also as a state option, federal matching for states to provide up to $100 per month in child support collections to the family. These policies are offset by proposals that strengthen child support collection tools, collect a $25 user fee from non-TANF

families that benefit from the child support enforcement program, and require states to review child support orders more frequently.

Child Support Enforcement Successes

Sometimes the true value of automation gets forgotten amid its speed and efficiency. In the Child Support Enforcement Program, federal automation projects have revolutionized local governments' whole way of doing business. In Pennsylvania, for example, "Sylvia" and her 13-year-old daughter received welfare. Unfortunately, a wage attachment couldn't be used to collect child support from the noncustodial father, because he was self-employed. He neither paid child support regularly nor in full. Over time, because of his sporadic payments, outstanding child support payments grew to $9,000. The father made payments of $2 a week toward the back support, telling the judge that was the best he could do. But with the advent of the Financial Institution Data Match (FIDM) program, the county child support agency located about $9,000 of his assets and seized them to pay off the entire amount of back support owed.

In another Pennsylvania case, the National Directory of New Hires was used to identify the new employment of an absent parent who had not paid any support since 1983. The parent skipped out on his new employment immediately, but the employer gave the local child support agency his forwarding address. Now, he pays $100 in support every two weeks.

Promoting Safe and Stable Families

To strengthen states' ability to promote child safety, permanency, and well-being, the budget would increase funding for the Promoting Safe and Stable Families program to $505 million, $130 million over the 2002 level. These additional resources will help children remain with or return to their biological families if safe and appropriate, or to place children with adoptive families.

Education Assistance for Older Foster Children

The budget includes $60 million in the Independent Living program to help older foster youth transition to adulthood and self-sufficiency after leaving foster care. Approximately 16,000 young people leave foster care each year. This initiative would provide vouchers of up to $5,000 for education or vocational training to help youth aging out of foster care develop the skills to lead independent and productive lives.

Providing Health Care to Disabled, Elderly, and Low-Income Citizens

Through the Medicare, Medicaid, and SCHIP programs, the federal government spends over $400 billion to increase access to high quality health care for nearly 80 million disabled, elderly, and low-income individuals. These programs face serious challenges, however, in furnishing affordable, efficient, and up-to-date benefits for these vulnerable groups. Through the budget, the Administration proposes to improve these programs so that they give beneficiaries the care they need today, and continue to do so tomorrow.



The Administration proposes to increase beneficiary access to prescription medicines.

Medicare

Medicare will spend over $230 billion in 2003 on about 40 million senior and disabled citizens. Medicare was established in 1965 to address a serious national problem in health care: the elderly, especially those with limited incomes or costly health needs, often could not afford to buy health insurance. The program was later expanded to address similarly situated people with disabilities. Medicare thus improved access to quality health care. However, while the private health insurance market has made dramatic strides to update coverage and improve health outcomes over the last 40 years, Medicare has lagged behind.

The program's outdated benefit package does not cover prescription drugs, provide consistent coverage for many preventive treatments, support coordinated management of chronic diseases, or, for that matter, protect beneficiaries against the high cost of treating serious illnesses. Moreover, Medicare is not financially secure for the retirement of the Baby Boom generation. The Administration is committed to modernizing Medicare and addressing its financial security. In July 2001, the President announced the following framework:

The President's Principles for Strengthening Medicare

- All seniors should have the option of a subsidized prescription drug benefit as part of modernized Medicare.
- Modernized Medicare should provide better coverage for preventive care and serious illnesses.
- Today's beneficiaries and those approaching retirement should have the option of keeping the traditional plan with no changes.
- Medicare should make available better health insurance options, like those available to all federal employees.
- Medicare legislation should strengthen the program's long-term financial security.
- The management of the government Medicare plan should be strengthened to improve care for seniors.
- Medicare's regulations and administrative procedures should be updated and streamlined, while the instances of fraud and abuse should be reduced.
- Medicare should encourage high-quality health care for all seniors.

While nearly three-quarters of beneficiaries had prescription drug coverage in 1998, just over 10 million had no drug coverage at all. About one-half, or 5 million of these beneficiaries, had incomes below 175 percent of the poverty level—roughly $19,000 for a family of two. Two million of these beneficiaries had incomes below the poverty level. Many of these beneficiaries do not qualify for Medicaid—which provides prescription drug coverage to low-income beneficiaries—because their incomes or assets are too high. Yet, their incomes are not high enough for them to afford to purchase drug coverage on their own.

Medicare's most pressing challenge is the lack of coverage for prescription drugs. …Frank Van der Linden was a newspaper reporter, and a good one. Now he's being squeezed behind Medicare premiums and drug costs. Or Bob Cherry, he's a senior coordinator at the Florida Avenue Baptist Church, right here in Washington. He pays close to 40 percent of his income for prescription drugs and Medicare co-payments. Or Gwendolyn Black, who spends $2,400 a year to put four healing drops a day into each of her eyes.

President George W. Bush
July 2001

A prescription drug benefit is part of the President's framework for strengthening Medicare, but this will take time. So, the Administration is taking steps now to assist beneficiaries with the greatest need. This year, HHS seeks to implement a Medicare-endorsed prescription drug card to give beneficiaries immediate access to drug discounts and other valuable pharmacy services. Medicare will endorse prescription drug cards that meet high standards for managing pharmacy services and providing discounts, and will give seniors the information they need to find the card that offers the best services and discounts for their needs. Medicare beneficiaries will be able to select one card that will grant them access to discounts on medicines, including rebates from manufacturers, and assistance from their neighborhood drugstores. Through the ability of cards to move market share, this program will give beneficiaries access to the same tools widely available to Americans with private insurance to get discounts from manufacturers. The Medicare-endorsed prescription drug card is neither a drug benefit nor a substitute for one. But it will give both beneficiaries and the Medicare program needed experience with competitive choices for prescription drug assistance so that a competitive drug benefit can be implemented more efficiently.

…[W]hen it comes to health care, 1965 is not the state of the art. We need to bring Medicare into the 21st Century, to expand its coverage, improve its services, strengthen its financing, and give seniors more control over the health care they receive.

President George W. Bush
July 2001

The budget builds upon the President's framework. It dedicates $190 billion over 10 years for targeted improvements and comprehensive Medicare modernization, including a subsidized prescription drug benefit, better insurance protection, and better private options for all beneficiaries. To pave the way, the budget proposes immediate steps to begin to improve Medicare benefits, including an infrastructure for a prescription drug benefit and incentives to expand and maintain private health plan options. In addition to proposing some new funding to improve Medicare benefits, the budget also proposes new Medigap plans, a full view of Medicare solvency, and other program improvements. The budget also proposes efforts aimed at addressing Medicare's financial status, such as ensuring that Medicare payments are efficient and appropriate.

Providing Access to Prescription Drug Coverage. While drugs were not a standard part of health insurance coverage at Medicare's creation, today they are integral to modern medicine. Not only do they relieve pain and speed recovery, they may reduce health care costs by avoiding more costly treatments, hospitalizations, and complications.

With few exceptions, however, Medicare does not cover outpatient prescription drugs. Thus, many beneficiaries must get prescription drug coverage from other sources or pay out of pocket for medicine. In 1998, 73 percent of Medicare beneficiaries had some form of supplemental insurance with a drug benefit for at least part of the year.

The Administration also proposes to begin to phase in comprehensive drug coverage for lower-income Medicare beneficiaries up to 150 percent of poverty, as envisioned in all major prescription drug proposals. This proposal would allow states to expand drug coverage to Medicare beneficiaries up to 100 percent of poverty—about $12,000 for a family of two—at current Medicaid matching rates, much like existing programs that subsidize Medicare premiums and cost-sharing for low-income Medicare beneficiaries. Further, as an added incentive for states to expand coverage up to 150 percent of poverty—about $17,000 for a family of two—the federal government would pay 90 percent of the states' costs of expansion above 100 percent of the poverty level with states being responsible for the remaining 10 percent. This policy eventually would expand drug coverage for up to 3 million beneficiaries currently without prescription drug assistance.

Funding for Strengthening Medicare

(In billions of dollars)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2003–2007	2003–2012
Steps Toward Modernization												
Low-Income Drug Assistance	1.2	2.6	3.9	5.5	7.5	8.9	10.0	11.2	12.4	13.9	20.7	77.1
Medicare+Choice [1]	0.6	1.2	1.5	–	–	–	–	–	–	–	3.3	3.3
Coordinated Care Plan Incentive Payments [2]	0.1	0.1	0.2	–	–	–	–	–	–	–	0.4	0.4
Medicare Premium Assistance for Low-Income Seniors	0.1	–	–	–	–	–	–	–	–	–	0.1	0.1
New Medigap Plans	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.6	–1.3
Competitive Bidding for Durable Medical Equipment	–0.2	–0.3	–0.3	–0.3	–0.4	–0.4	–0.4	–0.5	–0.5	–0.5	–1.5	–3.8
Medicare Secondary Payer	*	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.4	–1.0
Graduate Medical Education	–	–	–*	–*	–*	–0.1	–0.1	–0.1	–0.1	–0.1	–0.1	–0.5
Medicare Modernization	–	–	–	12.6	15.6	16.0	16.6	17.6	18.3	19.3	28.2	116.0
Total Medicare Costs	1.7	3.4	5.1	17.5	22.5	24.3	25.9	27.9	29.8	32.2	50.1	190.2

[1] Medicare+Choice pricing reform sunsets when competitive reform is implemented.
[2] These payments continue when competitive reform is implemented as part of Comprehensive Medicare Modernization.
* $50 million or less.

Prescription Drug Waivers. Medicaid is the source of drug coverage for approximately four million Medicare beneficiaries, those whose incomes are low enough for them to be eligible for both programs. A number of states would like to use the Medicaid program to extend drug-only coverage to senior citizens and individuals with disabilities, who are not otherwise eligible for Medicaid.

States are also concerned about rising drug costs in Medicaid. Net of manufacturer rebates, prescription drug spending in Medicaid is expected to reach $26 billion ($15 billion federal share) in

2003 and to grow to almost $62 billion ($36 billion federal share) by 2012. States have been exploring common private-sector cost-control mechanisms like preferred drug lists and prior authorization to moderate drug spending, but Medicaid law and federal regulations make using these types of management tools more difficult.

The Administration will develop model drug waivers to allow states to both reduce drug expenditures and expand drug-only coverage to more Medicare beneficiaries. States would have the flexibility to use competitive approaches to provide drug benefits, including through Medicare-endorsed drug cards. These changes are a part of the Administration's overall strategy to provide Medicare recipients with access to prescription drugs and to take steps toward a universal, competitive Medicare drug benefit as envisioned in drug benefit proposals sponsored by members of Congress from both parties. Because several states have already expressed interest, waivers will increase significantly the number of Medicare beneficiaries with access to prescription drug coverage before a universal benefit can be fully implemented.

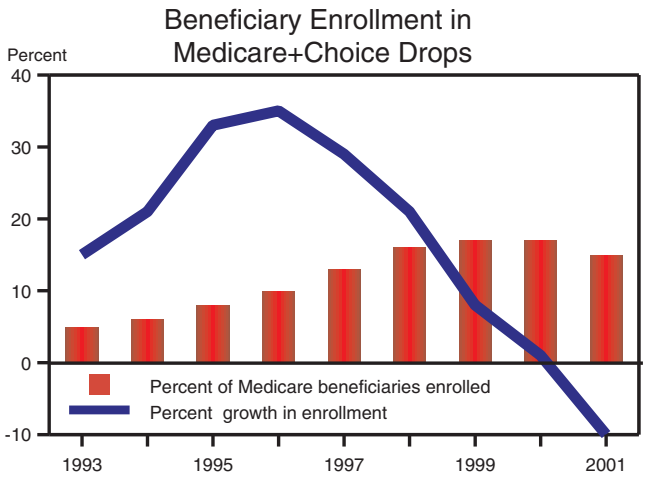
Sustaining and Enhancing Medicare+Choice. The absence of prescription drug coverage is not the only serious gap in the Medicare benefit package: beneficiaries who obtain coverage through Medicare+Choice do not feel secure that this benefit will continue to be available. Established in 1997, Medicare+Choice was intended to offer beneficiaries comprehensive private plan options for their health insurance coverage—and those private health plans that still participate in Medicare+Choice do just that. Such plans offer additional benefits, such as prescription drug coverage, vision and dental care, and usually at a price well below that of a comparable supplemental policy. However, the program faces significant challenges that threaten beneficiary choice. Few new types of plans, such as preferred provider organizations, have entered Medicare+Choice, and many have withdrawn.

Plans Exiting Medicare+Choice, 2000–2002

	2000	2001	2002
Contract Terminations.....	41	65	22
Affected Enrollees	327,000	934,000	536,000

As plans exit, hundreds of thousands of beneficiaries must switch to a different Medicare+Choice plan or return to Medicare's Fee-For-Service program, which is usually more expensive for them. As a result, enrollment in Medicare+Choice has fallen dramatically.

The most important reason that private plans are withdrawing from Medicare, even as they continue to provide reliable and up-to-date coverage for other Americans, is that federal payments to Medicare+Choice have not kept pace with rising health care costs in many areas of the country. The pricing system that controls payments to Medicare+Choice plans has artificially held down payment increases to plans as health care costs have steadily risen. So, plans find it increasingly difficult to continue to provide beneficiaries with additional benefits and choices.



Source: Centers for Medicare and Medicaid Services. Data represent Section 1876 Risk Plan enrollment through 1998, then Medicare+Choice enrollment from 1999.

Preserving choice for Medicare's beneficiaries requires fixing Medicare+Choice's payment system so that existing plans remain in the program and new plans are encouraged to join. The budget proposes reforming the current payment system, which is failing Medicare beneficiaries. This includes tying plan payments to the health care cost increases plans are actually experiencing. It also includes adjusting payments to better reflect beneficiaries' health status. In addition, the budget gives managed care plans more flexibility in designing their plans and proposes bonus payments for new types of private plans that enter Medicare+Choice. The bonuses will encourage new managed care plans, such as PPOs, to enter Medicare+Choice, and will increase enrollment up to 400,000 people by 2007—more than seven percent of Medicare+Choice enrollment.

Modernizing Medigap. Medicare does not sufficiently protect beneficiaries against the high cost of medical care, particularly catastrophic medical expenses. Sicker beneficiaries generally pay a greater share of their health care costs. So, in contrast to private plans which might charge only $100 per admission, Medicare charges beneficiaries over $800 for each hospital stay. Then, there are the added deductibles and co-payments patients must absorb for physician and outpatient visits. In fact, on average, Medicare beneficiaries spend nearly $3,000 a year out-of-pocket for medical expenses.

Due to Medicare's benefit limits, more than 85 percent of beneficiaries in traditional Medicare enroll in a plan to supplement its coverage gaps. Some beneficiaries receive supplemental coverage through Medicaid or an employer, but more than one-quarter purchase Medigap coverage that typically has higher premiums.

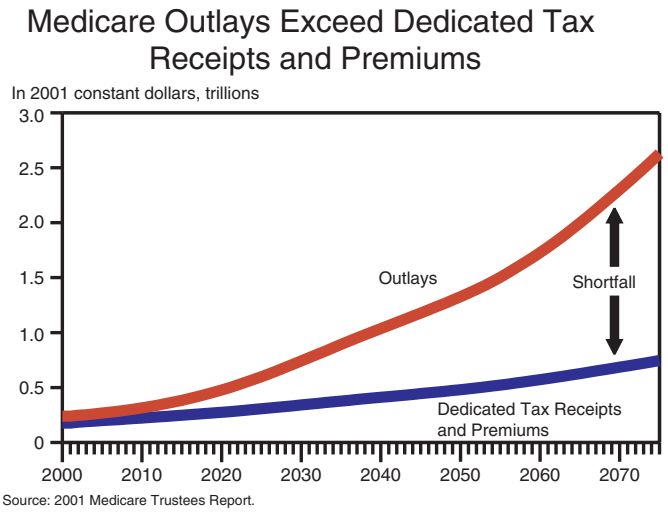
Medigap plans are antiquated and poorly tailored to meet the health care needs of today. Unlike many private plans, they provide coverage for up-front deductibles, but offer only very limited prescription drug coverage. This first-dollar coverage drives up Medicare costs and beneficiary premiums. Premiums for plans that do not offer drugs have increased by 25 percent to 45 percent over the past three years, and premiums for plans with drugs have increased at an even greater rate.

As we move toward more comprehensive Medicare modernization, the 2003 Budget proposes to add two Medigap plans to the existing 10. These plans improve upon the existing ones by offering prescription drug coverage, protecting beneficiaries against catastrophic illness, and including nominal beneficiary cost sharing at a lower premium cost than the most popular Medigap plans today.

A Full View of Medicare's Solvency. The Medicare Hospital Insurance (HI) Trust Fund, which provides hospital insurance to seniors, will collect $189 billion through payroll taxes and spend $150 billion on benefits in 2003, yielding a $39 billion surplus. Medicare's trust fund for the other half of the program, the Supplemental Medical Insurance (SMI) Trust Fund, is financed mainly from general revenue transfers and premiums. Currently, the best known measure of Medicare solvency considers only the HI Trust Fund.

Using this approach to solvency, the Medicare Trustees project that HI expenses will exceed new revenues (excluding interest income) by 2016, and the HI Trust Fund will head rapidly toward insolvency by 2029.

However, there is no comprehensive solvency measure accounting for the finances of both trust funds. This current view of solvency only tells half the story. The SMI program also is also running a large shortfall, since premiums collected from beneficiaries cover only about 25 percent of program costs. A comprehensive analysis of both trust funds reveals that the program is actually running a shortfall of $553 billion over the next 10 years, not a surplus.



The singular focus on HI solvency underestimates the magnitude of Medicare's financial problem. The Medicare Trustees acknowledged this disconnect in their 2001 Trustees report when they stated, "Although this report focuses on the financial status of the HI Trust Fund, it is important to recognize the financial challenges facing the Medicare program as a whole and the need for integrated solutions."

Thus, the budget proposes new comprehensive measures of solvency accounting for both the HI and SMI Trust Funds. This larger view of Medicare's finances facilitates more careful planning for the future.

Measures of Medicare Solvency

	Current Measure	New Comprehensive Measure
Hospital Insurance	-1.97	-1.97
Supplemental Medical Insurance	—	-3.37
Total	-1.97	-5.33
Total needed to balance the program in 75 years	$4.7 trillion	$12.9 trillion

The current measure of Medicare solvency looks only at the status of the HI Trust Fund. Under this measure of solvency, the HI Trust Fund has a deficit equal to 1.97 percent of taxable payroll, or $4.7 trillion, over the next 75 years. This measure of solvency does not address the fact that the SMI Trust Fund is also running a shortfall, and the SMI Trust Fund will remain solvent only because of a growing infusion of general revenue funds. Thus, this measure does not provide a complete picture of Medicare's overall budgetary impact. The Administration is proposing additional measures of solvency that provide a more comprehensive view of the program's financial status by looking at both the HI and SMI Trust Funds. This measure of solvency acknowledges that SMI actually has a deficit equal to 3.37 percent of taxable payroll over the next 75 years. In combination, both trust funds have a deficit equal to 5.33 percent of taxable payroll, or $12.9 trillion, over the next 75 years.

Additional Medicare Improvements:

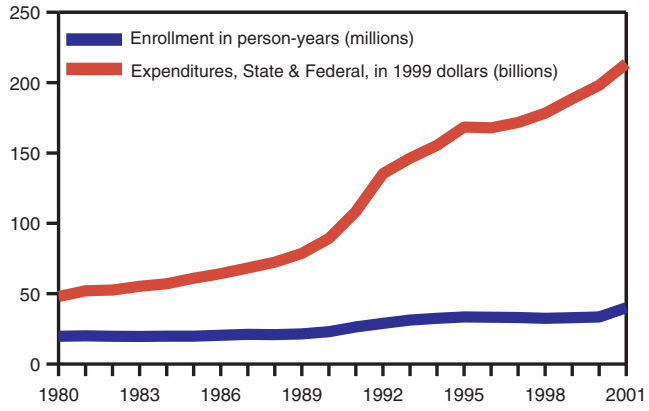
- Medicare pays too much for medical equipment such as hospital beds and oxygen as well as for prosthetics and orthotics. The budget proposes a nationwide competitive bidding system for this equipment to encourage suppliers to provide quality services and supplies at lower prices than what Medicare currently pays.
- The Administration recognizes that Medicare's extremely complex provider payment systems, based on regulated prices, do not always function smoothly and equitably over time. For example, while the system Medicare uses to pay physicians has been working as intended, recent short-term adjustments have been large. At the same time, provisions that have held down growth of other payment systems toward historical growth rates are set to expire. The Administration is willing to work with the Congress to smooth out such payment adjustments through reforms in payment policy that, in both the short and long term, are budget neutral across provider payment updates.
- Medicare and the Federal Employees Health Benefits Program (FEHBP) finance health insurance for 2.1 million federal retirees and their dependents, yet the programs are neither formally coordinated nor offer insurance plans tailored to the federal retiree. The Administration will work with stakeholders to develop additional FEHBP options for retirees that improve choice by making available a full range of private health insurance options.
- Medicare sometimes pays too much in health insurance claims because it mistakenly pays when another insurer should have paid most or all of the claim. But Medicare rarely collects on these overpayments. To correct this, the budget proposes a requirement that insurers and those sponsoring group health plans periodically report those beneficiaries for whom Medicare could be the secondary payer.
- While Medicare pays for only a few outpatient drugs, the current Medicare payment mechanism results in the program overpaying billions of dollars, according to the HHS Inspector General, the General Accounting Office, and other witnesses who testified at recent hearings before the House Energy and Commerce Committee. Congress has expressed a clear bipartisan interest in addressing this issue while ensuring providers are adequately compensated for the cost of caring for patients. The Administration this year intends to improve the payment system for these drugs consistent with quality care.
- The budget proposes to extend the subsidy of Medicare premiums for certain qualified individuals.
- In addition, the budget proposes to continue steps already underway to address variations in graduate medical education payments.

Medicaid and the State Children's Health Insurance Program (SCHIP)

Medicaid. Almost 37 million individuals were enrolled in Medicaid in 2001. Medicaid covers one-fourth of the nation's children and is the largest single purchaser of maternity care and nursing home/long-term care services. The elderly and disabled comprise one-third of Medicaid beneficiaries but account for two-thirds of Medicaid spending.

SCHIP. SCHIP was established in 1997 to make available approximately $40 billion over 10 years for states to provide health care coverage to low-income, uninsured children. SCHIP gives states broad flexibility in program design while protecting beneficiaries through federal standards. Approximately 4.6 million children were enrolled in SCHIP programs in 2001.

Medicaid Spending and Enrollment



Source: Centers for Medicare and Medicaid Services.

Both Medicaid and SCHIP rely on state and federal sharing of program expenditures, with the federal contribution based on state per capita income. The federal share of Medicaid ranges from 50 percent to 77 percent, with an average match rate of 57 percent. Medicaid spending will be an estimated $280 billion ($159 billion federal share) in 2003. SCHIP matching rates vary from 65 percent to 85 percent. About $3.2 billion is available to states for SCHIP programs in addition to almost $11 billion in unspent funds from previous years. According to HHS, more than 1 million additional people have gained Medicaid or SCHIP coverage since January 1, 2001.

The budget proposes several initiatives for the Medicaid and SCHIP programs. The first set gives states greater ability to expand health insurance coverage to targeted populations, while the second set promotes fiscal integrity.

Medicaid/SCHIP Reform. While there is considerable discretion under Medicaid, many states and other stakeholders have complained that the web of Medicaid laws and administrative guidelines are confusing, burdensome, and serve to limit state flexibility. The creation of the SCHIP program added further complexity to the already intricate rules for expanding coverage to low-income Americans. States frequently request additional flexibility through waivers to tailor their public programs to their specific insurance markets or to expand eligibility to the uninsured beyond mandatory populations. Additionally, many states have requested that the Administration grant the same flexibility in their Medicaid programs through waivers of Medicaid law and regulation that they have in their SCHIP programs. As a first step, the Administration introduced the Health Insurance Flexibility and Accountability (HIFA) demonstration initiative, which gives states the flexibility they need to design innovative ways to increase access to health insurance coverage for the uninsured.

The Administration will continue to build on the HIFA initiative by developing proposals that will give states: a) the statutory authority to provide broader coverage to low-income uninsured Americans; and b) the flexibility to design innovative programs without seeking waivers. States will

be encouraged to use current resources to extend coverage to more of their neediest residents and reduce the number of people without health insurance coverage.

Health Insurance Flexibility and Accountability Demonstration Initiative

In August 2001, the Administration announced the Health Insurance Flexibility and Accountability (HIFA) Demonstration Initiative. The HIFA initiative:

- Encourages states to develop comprehensive health insurance coverage approaches that utilize available Medicaid and SCHIP funding to address insurance coverage for individuals with incomes less than twice the official poverty level, who comprise most of the uninsured;
- Gives states the flexibility to increase health insurance coverage through support of private group health coverage;
- Simplifies the waiver application process by providing clear guidance and data templates; and
- Increases accountability within the state and federal partnership by ensuring that Medicaid and SCHIP funds are effectively being used to increase health insurance coverage.

On December 12, 2001, the Administration approved the first HIFA waiver for Arizona. The state plans to expand health coverage to parents of children enrolled in Medicaid or KidsCare (Arizona's SCHIP program) with family incomes between 100 percent and 200 percent of poverty. Arizona expects ultimately to provide health insurance to more than 25,000 currently uninsured adults. Arizona's HIFA waiver will explore ways to improve coordination between public and private coverage options for the uninsured using employer-sponsored insurance.

Extending the Availability of Expiring SCHIP Funds. The Balanced Budget Act of 1997 made funds available for state use in a two-step process. The first allows states three years to use their allotment. For the second step, HHS redistributes unused funds among the states. A year later remaining funds return to the U.S. Treasury. According to current estimates, $3.2 billion in funds will return to the Treasury at the end of 2002 and 2003.

Medicaid/SCHIP Reform

(In millions of dollars)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2003–2007	2003–2012
New Freedom Initiative	8	15	39	64	81	92	100	107	115	120	207	741
Extension of Expiring SCHIP Funds	–10	90	250	60	60	20	*	10	10	20	450	510
Extension of Transitional Medicaid	350	—	—	—	—	—	—	—	—	—	350	350
Rationalizing Prescription Drug Payments	–290	–650	–1,090	–1,620	–1,800	–1,990	–2,200	–2,420	–2,660	–2,920	–5,450	–17,640
Effects of SSA and other proposals	–	17	–4	–20	–43	–69	–96	–126	–154	–184	–42	–671
Total	58	–528	–797	–1,516	–1,702	–1,947	–2,196	–2,429	–2,689	–2,964	–4,485	–16,710

* 500 thousand or less.

The Administration proposes to extend the availability of these expiring funds until 2006. According to current estimates, this extension will allow every state to retain enhanced-match funds. This proposal will provide additional support for their current coverage levels as well as

provide additional health insurance coverage to more Americans under the Administration's HIFA initiative.

Transitional Medicaid Assistance (TMA). TMA was created to provide health coverage for former welfare recipients after they entered the workforce. TMA extends up to a year of health coverage to families who lose eligibility for welfare-related Medicaid due to earnings from employment. This provision will expire September 30, 2002; however, the Administration proposes a one-year extension.

Program Integrity

Strengthening the fiscal integrity of Medicaid while ensuring that its beneficiaries have access to care remains a top Administration health priority. The joint federal-state nature of the Medicaid program promotes ownership and mutual investment in its activities. The complexity of Medicaid funding rules, however, has also made ensuring program integrity both more difficult and more vital. As program spending has grown over the years, so too have concerns that Medicaid dollars are not being used to provide services to eligible beneficiaries.

Upper Payment Limits. The Administration proposes to build on past efforts to curb the costly Medicaid Upper Payment Limit (UPL) loophole by strengthening the management and enforcement of federal payment policies.

School-Based Health Services. Medicaid is authorized to pay for health services provided to Medicaid-eligible children pursuant to the Individuals with Disabilities Education Act (IDEA). In past years, billing inconsistencies have plagued the program because the federal government has never articulated clear guidance. In 2002, the Administration will release guides that will address all aspects of school-based Medicaid billing.

After issuing the guides, the Administration will address problematic areas within school-based health services. Often, school districts are not familiar with the Medicaid program and they do not have the administrative capacity to properly submit claims to the government. As a result, schools hire private consulting firms to assist them, paying them on a contingency fee basis for their services.

Undermining Medicaid's Program Integrity

Over the past year, HHS has been working to close a controversial Medicaid payment loophole that permits states to pay some public nursing homes and hospitals more than the actual costs of providing medical services. Through the loophole, health facilities may be required to return the excess payment to the state. States then get reimbursements from Uncle Sam beyond those intended under federal Medicaid law.

During 2000, one state made $76 million in excess payments to 14 public nursing homes. Of the $76 million, the nursing homes returned $66 million to the state treasury and the state was able to use the money for non-Medicaid purposes. Now facing a budget crisis, the state in question seeks to expand this program to obtain more than $250 million from the federal government to match additional payments made to nursing homes and subsequently returned to the state for non-Medicaid purposes.

The HHS Inspector General stated in September 2001, that unless curbed, this financing loophole threatens the financial stability of the Medicaid program.

School-based Claims in Medicaid

Medicaid is authorized to reimburse schools for medical services including physical, occupational and recreational therapies as well as related administrative costs and transportation costs for many children enrolled in special education. Many school districts do not have the administrative capacity to submit Medicaid claims. As a result, school districts have come to rely on national consulting firms that help them claim Medicaid funds from the federal government.

In some cases where schools pay firms on a contingency fee basis, federal investigators have found evidence that consulting firms have advised school districts to overcharge the Medicaid program. A contingency fee is a form of payment in which a consulting firm retains a percentage of the federal Medicaid claim reimbursement. The General Accounting Office and the HHS Inspector General have found that Medicaid costs can be unsubstantiated and, in some cases, unallowable under consultants' guidance when a contingency fee is involved.

Ultimately, contingency fees divert money from school districts and create a financial incentive for consulting firms to submit questionable claims. This practice undermines the integrity of the Medicaid program and its ability to provide health care to Medicaid children.

Evidence from the General Accounting Office suggests that consulting firms incorrectly profit from Medicaid overpayments. The Administration believes that these practices should stop and is proposing a regulation to ban contingency fees in the area of school-based health services and will take strong action to end abuses.

Improving Medicaid Drug Payment Integrity. The drug rebate is currently one of the primary cost-control mechanisms in Medicaid. The rebate, which is the greater of the difference between a drug manufacturer's best price and its Average Manufacturer's Price (AMP) or a percentage specified in statute, has not changed substantially since its inception in 1990. The Administration proposes to improve the drug rebate system and more explicitly link state payment to pharmacies with the manufacturer rebates. The HHS Inspector General estimates that the disconnect between manufacturer rebates and pharmacy reimbursement is costing the states and federal government billions of dollars. In addition, the Administration proposes to ensure that all necessary price information is reported, and that states collect all rebates owed to them. States and the federal government will work together to ensure that Medicaid does not pay for prescription drugs that third parties, like private insurers, should cover.

Enhancing Medicare, Medicaid and SCHIP Program Integrity. HHS has realized early success in reducing Medicare payment errors, as evidenced in part by the declining Medicare error rate. Medicare's estimated error rate was 6.8 percent in 2000, roughly half of the 14 percent rate estimated in 1996, the first year that the Inspector General conducted an audit to estimate Medicare's overall error rate. Future successes will depend on further refinements and actions on Medicare program integrity measures. The budget proposes developing a Medicare fraud yardstick that will measure the magnitude of Medicare overpayments made in error and those that result from fraud.

HHS has not, however, devoted the same attention to Medicaid and SCHIP. In 2003, HHS will devote more resources to Medicaid and SCHIP program integrity. To that end, the budget proposes to strengthen federal oversight of states' financial practices and Medicaid program integrity efforts. This effort will include increasing the number of audits and evaluations of state Medicaid programs, reestablishing and elevating the importance of financial management oversight at Centers for

Medicare and Medicaid Services (CMS), and outsourcing appropriate activities to private firms. The budget proposes to allocate $10 million in Health Care Fraud and Abuse Control funding in 2003 to help finance this Medicaid and SCHIP program integrity initiative.

Other Expansions of Health Coverage

New Freedom Initiatives. On February 1, 2001, the President announced the New Freedom Initiative as part of a nationwide effort to further integrate people with disabilities into society. The President followed up on this commitment by asking federal agencies to work together to identify barriers to community living and propose solutions to eliminate them. As part of this effort, the Administration proposes a number of new initiatives, including: the Direct Service Worker National Demonstration, in which HHS and a limited number of states will address shortages of community service direct care workers; a 10-year demonstration allowing states to set up home- and community-based alternatives for children currently receiving services in psychiatric residential treatment facilities; and two new national demonstrations allowing states to provide respite care services for adults, and respite care services for children with substantial disabilities.

Tax Credits for Health Insurance Coverage. Federal tax laws help finance private health insurance coverage. Most notably, employer contributions for health insurance premiums are excluded from employees' taxable income, a tax incentive of $99 billion in 2003 and $581 billion from 2003 to 2007. In addition, starting in 2003, self-employed individuals may deduct 100 percent of what they pay for health insurance for themselves and their families. All current law health-related tax incentives, including other provisions, will cost an estimated $118 billion in 2003, and $692 billion from 2003 to 2007.

To encourage private health insurance coverage, the budget proposes a new refundable tax credit for low- and moderate-income individuals and families who are neither covered by an employer plan nor enrolled in public programs, and who may have the most difficulty finding affordable health insurance today. To improve the tax credit's purchasing power, the Administration also proposes a health insurance tax credit buy-in as part of the 2003 Budget. This would permit certain tax credit recipients, at state option, to purchase private insurance through private purchasing groups, state-sponsored insurance purchasing pools, and high-risk pools. Additional details about the refundable health insurance tax credit can be found in the Federal Receipts chapter of *Analytical Perspectives*, as well as forthcoming Treasury Department publications.

The budget also includes new tax provisions to improve and permanently extend Medical Savings Accounts (MSAs), a new deduction for long-term care insurance premiums that will help those with long-term care costs, and an additional personal exemption to caretakers of family members in need of long-term care services. In addition, the budget would improve flexible spending accounts (FSAs) by allowing up to $500 in unused benefits to be distributed as taxable income, rolled over into an MSA, or invested in a 401(K) or similar plan.

Congressional Earmarks

In 2002, the Congress earmarked funding for 690 projects in HHS, totaling $532 million. The practice of earmarking grants bypasses the competitive peer and grant review processes. Further, earmarks undermine the Department's ability to reward effective programs by diverting resources to unrequested, non-competitive projects. For example, in 2002, 100 percent of the $312 million

appropriated for health facilities construction was earmarked by the Congress, leaving HHS with no discretion in deciding which construction projects would be funded. To eliminate the impact of earmarks, the Administration will consolidate facilities construction and maintenance activities to be managed competitively across the Department. This consolidation will also give HHS flexibility to set priorities and allocate funding accordingly.

Status Report on Select Programs

The Administration is reviewing programs throughout the federal government to identify strong and weak performers. The accompanying table displays selected HHS programs and their ratings.

Program	Assessment	Explanation
Health Resources and Services Administration (HRSA)—Community Health Centers	**Effective**	CHCs are effective at providing primary health care services and increasing health care access to uninsured and underserved patients regardless of their ability to pay.
HRSA—National Health Service Corps (NHSC)	**Effective**	Through scholarships and loan repayments, NHSC has placed over 22,000 health care providers in underserved areas over the last 29 years.
HRSA—Health Professions	**Ineffective**	Discussion appears below in the Improving Performance section of this chapter.
HRSA-Community Access Program (CAP)	**Ineffective**	CAP was initiated in 2000 to assist health care providers in integrating health care systems. CAP has yet to develop clear goals or performance measures.
Centers for Disease Control and Prevention (CDC)—Childhood Immunizations Program	**Effective**	The CDC and Medicaid Vaccine for Children programs together largely reach CDC's stated goal of reducing the number of vaccine-preventable cases of disease among children and ensure that children are appropriately immunized, although some management improvements are needed.
CDC—Chronic Diseases	**Unknown**	There is limited nationwide data on the impact of CDC-funded activities and health outcomes in the area of chronic diseases.

Program	Assessment	Explanation
Administration for Children and Families (ACF)—Temporary Assistance for Needy Families (TANF)	**Effective**	Performance has exceeded expectations.
Indian Health Service (IHS)	**Moderately Effective**	IHS is moderately effective at providing health care services to Native Americans, reducing health disparity, constructing new and replacement hospitals, and managing self-governance activities.

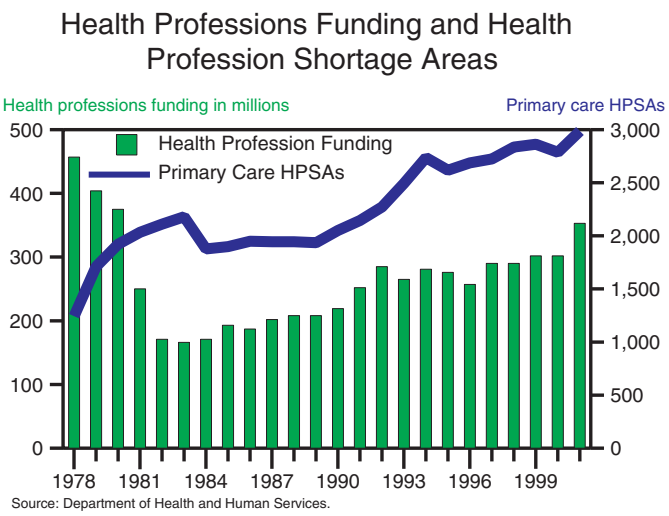
Improving Performance

Health Resources and Services Administration

The mission of the Health Resources and Services Administration (HRSA) is to ensure access to health care for all Americans in partnership with states, universities and colleges, and other entities. HRSA has identified four broad strategies to guide its diverse grant portfolio: 1) eliminate barriers to care; 2) eliminate health disparities of minority populations; 3) assure quality of care; and 4) improve public health and health care systems.

The budget reflects the Administration's commitment to ensure the efficient and effective use of resources to improve overall health and access by including funding increases to support new and expanded health care access points for those who lack any form of health care. The budget funds placement of more doctors, nurses, and other health care professionals in underserved areas. The budget also streamlines and phases out activities that lack clear goals, have not proven to be effective, or could be accomplished through existing activities.

Health Professions Training Grants. The health professions training grants, awarded to institutions and individuals, were established over 40 years ago to address the supply and distribution of health professionals and the recruitment and retention of minorities in health professions schools. However, rather than improving the supply and distribution of health providers, the program has splintered into numerous small grants that address more than 40 objectives—some completely unrelated to the core intent of the training grant program. It is virtually impossible to measure the national impact of the grants and the annual multi-million dollar investment that funds them.



Despite 40 years of funding, most of the health professions grants have not proven to be effective because they do not accurately address current health professions problems. For example, since 1993, the number of residents enrolled in primary specialties has grown, but the demand for primary care physicians is still acute in health professional shortage areas. Over the last two decades, almost $7 billion has been invested in health professions training grants and during this time the population of areas with shortages of primary care health professionals has increased by 140 percent.

Health professions training grants as currently administered do not provide an incentive for grant recipients to work in underserved areas. Most of those who receive federal health professions training support do not practice in underserved areas. As a result, health professions training grants effectively subsidize the education of students who do not help address the distribution problem. Of the roughly 20 percent who do serve in shortage areas, there is no data on how long they actually remain. For the size of this investment, totaling over $375 million in 2002, more of our health professional shortage areas should be filled. In contrast, community health centers, subsidies for health insurance coverage, and other policies are more cost-effective approaches to improving access to care in underserved areas.

The 2003 Budget reforms health professions grants by eliminating those that are not the most efficient way to address health care workforce problems. The budget makes investments in two key areas: 1) increasing opportunities for minority and disadvantaged populations to enter in the health professions; and 2) warding off a potential future nursing shortage.

Minority enrollment in health professions programs has declined in recent years. Since 1996, the number of individuals from minority groups enrolled as first year medical students has dropped eight percent. The budget increases funding to finance scholarships for health professions students from disadvantaged backgrounds. These grants will be awarded to schools that have a successful program for recruiting and maintaining students from disadvantaged backgrounds. Students who receive these grants must demonstrate a commitment to serve in a public or non-profit health care site after graduation. The Administration is committed to ensuring equal opportunity for minority and disadvantaged Americans in the health professions.

The nation's nursing corps is aging, and, unfortunately, few young people are considering nursing careers. The total number of full-time registered nurses per capita is expected to peak around 2007 and decline steadily thereafter as the largest groups of nurses retire. The situation will likely worsen due to a steady decline in nursing school enrollment and reasonable predictions of a growing demand for nursing services. The budget includes $99 million to help boost the supply of nurses by providing grants to schools of nursing to help attract and educate the next generation of American nurses.

Substance Abuse and Mental Health Services Administration

The Substance Abuse and Mental Health Services Administration (SAMHSA), in partnership with states and local communities, aids the nation's effort to prevent and treat mental illness and substance abuse. The budget funds the treatment of mental illness and the prevention and treatment of substance abuse.

A recent evaluation of SAMHSA's Projects for Assistance in Transition from Homelessness (PATH) found that the formula grant is effective in helping states expand community mental health services, alcohol and drug treatment, and support services for homeless individuals facing a serious mental illness. Building on this success, the budget includes additional funds for PATH to reach out to 163,000 homeless individuals to help them recover from mental illness and substance abuse, find housing, and gain meaningful employment.

Administration for Children and Families

The Administration for Children and Families (ACF) runs programs that seek to promote the economic and social well-being of children, youth, and families. ACF focuses particular attention on low-income children, refugees, Native Americans, and the developmentally disabled.

Social Services Block Grant. The Administration funds the Social Services Block Grant (SSBG) at $1.7 billion. This program provides flexible funds to states for social services for low-income individuals and families.

Head Start. The President has proposed to reform Head Start and return it to its original focus – getting children ready to learn. The budget provides an increase of $130 million in 2003 to maintain participation and program quality. HHS and the Department of Education are forming a task force to assess ways to improve Head Start and lay the groundwork for its proposed transfer to the Department of Education as part of the program's reauthorization.

Low-Income Home Energy Assistance Program (LIHEAP). In response to Department of Energy forecasts of lower fuel costs, the budget contains $1.7 billion to help low-income households cover home heating and cooling costs. This amount includes a contingency fund of $300 million for unanticipated needs that may arise. The legislatively established formula currently used to distribute LIHEAP block grant funds to states is based on 20-year old population and winter heating cost data. The Administration is interested in options that would make block grant allocations more equitable by basing the formula on current home energy expenditures paid by low-income households.

Child Care. Child care is funded through both the Child Care and Development Block Grant ($2.1 billion) and the Child Care Entitlement to States ($2.7 billion).

Community Services Block Grant. The budget proposes to fund the Community Services Block Grant (CSBG) at $570 million, a reduction of $80 million from the 2002 level of $650 million. The CSBG program provides a small fraction of the budget to a largely static group of organizations. Very little performance data exists on the outcomes from the CSBG funding. Consequently, this reduction was used to fund other high-priority, high-performing programs.

Administration on Aging

The budget proposes $1.3 billion for Administration on Aging (AoA) programs. The budget proposes to merge the smaller Department of Agriculture Nutrition Services Incentive Program with AoA's nutrition programs. Although funding for home and other meals programs for the elderly is now provided through both HHS and the Department of Agriculture, HHS is the lead agency and has greater interaction with the states and service providers. This merger will improve program oversight and streamline reporting requirements.

Strengthening Management

[T]he biggest challenge to HHS is the relative independence of all of the operating agencies. In other words, we are our own worst enemy.

HHS Program Support Center Workforce Analysis
June 2001

HHS will intensify its management reform efforts substantially in order to meet the ambitious objectives of the President's Management Agenda. Because of the relative autonomy enjoyed by each of its 13 operating divisions, the Department currently finds itself with numerous different policies and practices in areas such as personnel management, information technology (IT), financial management, and program performance measurement.

The "Citizen-Centered HHS" section of this chapter (see above) describes the proliferation of duplicative personnel, public affairs, and legislative affairs functions within HHS, and outlines how the Administration will consolidate them into more efficient and effective offices. The Department also faces serious problems in several other management areas. HHS' inadequate financial management systems failed to prevent $12.5 *billion* in overpayments for services in its Medicare Fee-for-Service program in 2000. In the increasingly critical area of IT management, HHS faces numerous challenges created by an unnecessarily complicated infrastructure. The Department currently maintains seven separate networks using 10 different operating systems, and has as many computer servers as computer professionals—about 2,900 of each at last count.

Talking Past Each Other

Soon after his swearing in as head of HHS, Secretary Thompson experienced firsthand the Department's chaotic computing environment. He discovered that he could not send an e-mail from his desk on the sixth floor of HHS' Washington headquarters to another office in the same building just one floor away! The incompatibility of his own computer with others in the building forced the Secretary to resort to having important papers carried from office to office rather than sent instantly with just a "point and click." This startling experience highlighted the need for dramatic change in HHS' inadequate, uncoordinated IT systems. Today, the Secretary's agenda includes more rigorous control of IT investment decisions, better coordination of IT systems, and a more streamlined deployment of IT personnel throughout the Department.

Finally, HHS has lagged in implementing bold, innovative ideas for opening federal positions that are commercial in nature to private competition. In 2003, HHS will compete some positions that could have been performed by the private sector long ago, such as locksmithing, plumbing,

printing, TV studio production, web design, and facility security. The Department has begun to implement reforms by drafting a workforce restructuring plan, instituting performance-based contracts for all senior managers, leading federal government efforts on E-government projects, consolidating financial management systems, and identifying federal positions it will open up to private competition. Still, much more remains to be done.

Initiative	2001 Status
Human Capital—HHS has not implemented the comprehensive restructuring reforms needed to create a citizen-centered department. Excessive organizational layers persist, and planning for redeployment of managers to the front lines is incomplete. Workforce restructuring plans reflect a decentralized Department in which few operating divisions consider coordinating reform efforts. In 2003, HHS will consolidate 40 personnel offices into four, and more than 70 public affairs and legislative affairs offices into single offices for each function.	
Competitive Sourcing—Though HHS has identified 1,621 positions that may be put up for competition, it has not yet met the President's goal to conduct public-private competitions for 15 percent of its commercial positions by 2003. HHS will implement a competition plan that meets the President's 15 percent goal, and will conduct competitions involving selected facilities, security, and fire protection functions.	
Financial Management—HHS' financial management systems have been non-compliant with federal laws and regulations since 1996, and its systems remain inadequate to produce reliable financial information. To solve these problems, HHS will begin implementation of a seven-year Unified Financial Management System project. The Department will also measure the level of erroneous federal payments to social programs administered by the states, and will work with the states to decrease these levels.	
E-Government—HHS must assert central control of IT decision-making by coordinating IT development efforts across operating divisions and emphasizing elimination of duplicative IT projects. The Department must strengthen IT planning and address IT security issues, and must focus on converting paper transactions to computers to improve customer service and reduce private sector burden. To address IT management problems, HHS will consolidate IT staff, develop a comprehensive E-Gov strategy, and lead the federal government's E-Grants and Health Informatics initiatives.	
Budget/Performance Integration—HHS' annual performance plan, containing 15 volumes and nearly 750 performance measures, reflects a decentralized process with little value for making budget decisions. Rather than setting national health outcome goals, HHS reports narrowly on specific program outputs. HHS will link its budget with Departmental priorities and national health outcome goals; describe how program activities support each priority; and outline strategies and resources.	

Department of Health and Human Services

(In millions of dollars)

	2001 Actual	Estimate	
		2002	2003
Spending:			
Discretionary Budget Authority:			
Food and Drug Administration	1,144	1,270	1,432
Program Level	*1,315*	*1,453*	*1,727*
Health Resources and Services Administration	5,603	6,141	5,395
Program Level	*5,603*	*6,141*	*6,014*
Indian Health Service	2,690	2,824	2,884
Centers for Disease Control and Prevention	3,817	4,177	4,011
Program Level	*4,069*	*4,382*	*5,696*
National Institutes of Health	20,447	23,333	27,335
Substance Abuse and Mental Health Services Admin	2,968	3,142	3,197
Agency for Health Research and Quality	107	3	–
Program Level	*272*	*300*	*252*
Centers for Medicare and Medicaid Services: [1]			
CMS Program Administration	2,293	2,466	2,538
Program Level	*2,355*	*2,528*	*2,599*
MedPAC/OCR/GDM/AHRQ Administration	13	17	18
Legislative proposal	–	–	–130
Administration for Children and Families:			
Existing law	12,399	12,939	13,028
Legislative proposal	–	131	30
Administration on Aging	1,104	1,201	1,342
Buildings and Facilities	175	250	184
Office of the Inspector General	42	45	50
Office of the Secretary	354	382	422
Program Level	*439*	*539*	*612*
Public Health and Social Services Emergency Fund	241	243	2,295
Subtotal, Discretionary budget authority adjusted [2]	53,397	58,564	64,031
Remove contingent adjustments	–320	–343	–357
Total, Discretionary budget authority	53,077	58,221	63,674
Emergency Response Fund, Budgetary Resources:			
Bioterrorism	5	2,638	–
Response and Recovery	121	179	–
Total, Emergency Response Fund, Budgetary resources	126	2,817	–
Total HHS Bioterrorism Spending	*300*	*2,830*	*4,329*

Department of Health and Human Services—Continued

(In millions of dollars)

	2001 Actual	Estimate	
		2002	2003
Mandatory Outlays:			
Medicare:			
Existing law	214,061	222,723	228,951
Legislative proposal	–	–	1,680
Medicaid/SCHIP:			
Existing law	133,073	148,440	163,054
Legislative proposal	–	–	58
All other programs	–	–	–
Existing law	29,497	29,817	31,014
Legislative proposal	–	–	–6
Subtotal, Mandatory outlays adjusted [2]	376,631	400,980	424,751
Contingent adjustments	–	–	104
Total, Mandatory outlays	376,631	400,980	424,855

[1] Amounts appropriated to SSA from HI/SMI accounts are included in the correspondng table in the Social Security Admininstration chapter.

[2] Adjusted to include the full share of accruing employee pensions and annuitants health benefits. For more information, see Chapter 14, "Preview Report," in *Analytical Perspectives*.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

The President's Proposal:

- Increases housing opportunities by providing a tax credit for developers of affordable single-family housing;
- Helps to increase minority homeownership rates by expanding homeownership opportunities;
- Strengthens and reforms public housing;
- Strengthens housing assistance programs and promotes self-sufficiency efforts;
- Seeks to end chronic homelessness over the next decade;
- Reforms the Community Development Block Grant program and eliminates poor performing community and economic development programs; and
- Improves agency management by setting aggressive short- and long-term goals to overcome chronic weaknesses.

Department of Housing and Urban Development

Mel Martinez, Secretary

www.hud.gov 202–708–1112

Number of Employees: 10,300

2002 Spending: $30.9 billion

Field Offices: 80, including most major cities.

The Department of Housing and Urban Development (HUD) subsidizes housing costs for about five million low-income households through rental assistance, construction grants, and loans. It also helps revitalize over 4,000 localities through community development programs and provides housing and services to help families and the homeless toward self-sufficiency. HUD also encourages homeownership by providing mortgage insurance for over six million homeowners, many of whom otherwise might not qualify for loans, and by managing billions of dollars in both guarantees of mortgages and mortgage-backed securities.

Overview

The budget proposes to maintain or increase support for housing assistance and other programs to help low-income families and communities achieve their goals. It provides 34,000 new housing vouchers targeted to ensure they provide assistance to those most in need and increases other effective programs to help meet HUD's strategic objectives.

In some cases, however, HUD programs have trapped families in poor quality buildings or neighborhoods with safety concerns and with limited educational and economic opportunities. Requiring families to accept these conditions in order to receive housing assistance is unacceptable.

This budget, therefore, proposes to improve housing quality and choice for the people HUD assists. It will strengthen public housing using an "asset management" approach modeled on private sector practices to address the large backlog of capital needs and provide better incentives for sound local management. It will provide subsidized families with increased ability to move when their needs or conditions warrant, without giving up their subsidy.

HUD Strategic Objectives

- Reduce complexity, paperwork, and costs of the homebuying process.
- Help families move from rental housing to homeownership.
- Improve the quality of public and assisted housing, and help families find affordable housing.
- Strengthen and expand faith-based and community partnerships.
- End chronic homelessness and increase housing opportunities for other homeless households.
- Embrace a new sense of ethics and accountability.
- Ensure equal opportunity and access to housing.
- Support community development efforts.

Helping families with their shelter costs is an important goal, yet HUD would fail in its mission if families were not moving toward eventual self-sufficiency. An important measure of HUD's success should be the number of families that no longer need to reside in assisted housing because they have moved to safe, decent, and affordable private housing. To that end, the Administration will propose changes and work with the Congress to ensure that HUD programs support self-sufficiency efforts.

The budget also proposes reforms to the Community Development Block Grant (CDBG) program to return its focus to low-income communities by redirecting funds from the wealthiest, highest-income communities to lower-income areas. Requiring that more CDBG funds be provided to those communities with the greatest need will make the program truer to its intended purpose and less like a general revenue sharing program.

The budget includes proposals addressing other ambitious goals for HUD, such as increasing homeownership rates among minority households and ending childhood lead poisoning in 10 years.

Status Report on Select Programs

The budget seeks to redirect funds from poorly performing programs to higher priority or more effective ones, while working to improve the management of ineffective programs.

Program	Assessment	Explanation
Public Housing	**Ineffective**	Serves 1.2 million low-income households, but properties are too often of poor quality and in high poverty or isolated locations.
Housing Vouchers	**Effective**	Cost-effective, market-driven portable rental assistance. Serves over 1.8 million low-income households.
Federal Housing Administration	**Moderately effective**	Increases homeownership opportunity. But inadequate, out-dated systems and controls hamper ability to monitor private partners.
Homeless Program	**Unknown**	Provides flexibility to serve homeless families and individuals through coordinated local planning and consolidated funding. Lack of data makes it difficult to measure progress toward achieving nationwide objectives.
Community Development Block Grant	**Unknown**	Designed to boost low-income communities, its effectiveness is diluted by the inclusion of some of the richest cities in the country. Its flexibility permits use for a wide variety of community and economic development activities. Because each community has different needs and goals, it is difficult to assess performance, despite over $100 billion in grants since 1974.
Lead Hazard Control Grants	**Effective**	Program has clear, measurable objectives, and use of efficient technology is emphasized.

Congressional Earmarks

The County Sheriff's Department of Ashland, Wisconsin, received $80,000 as a congressional earmark to purchase an Ice Angel Windsled, similar to the one shown here. Windsleds have been used during the winter for rescue activities. Ashland's gain was Wisconsin's loss, however, because if earmarked funds had been distributed through the CDBG formula, Wisconsin would have received an additional $2.5 million. That's enough for 30 windsleds, if you believe windsleds are the best possible use of community development funds.



The Administration objects to the Congress's traditional practice of funding unrequested earmarks. In 2002, the $336 million that might have been used for HUD's programs was earmarked instead for 831 congressional projects. These earmarks avoid the competitive process and often come at the expense of more urgent needs. For example, Carmel, Indiana, with a poverty rate of one percent and median household income over $77,000, received $1 million for its parks. On the other hand, Gary, Indiana, with a 26 percent poverty rate and a median income less than a third of Carmel's, did not receive a project grant. Since 1998, the Congress has siphoned off over $1.2 billion for unrequested earmarks in HUD appropriations.

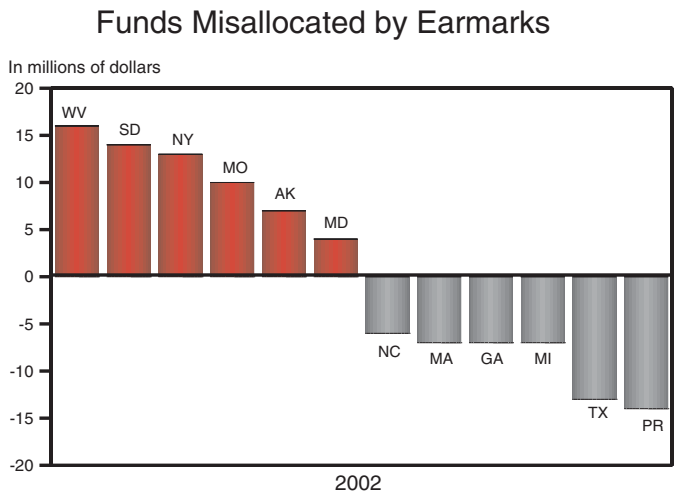
Notable Congressional Earmarks

$2,250,000 for the city of Fairbanks, AK to provide winter recreation opportunities at the Fairbanks North Star Borough Birch Hill recreation area;

$1,000,000 for the Southern New Mexico Fair and Rodeo;

$2,450,000 to restore six zoos; and

$340,000 to restore opera houses in Connecticut, Michigan, and Washington.



Moreover, many states do not receive their share of earmarked funding—that's a natural consequence of earmarking. The accompanying chart shows each state's earmarked dollars less the amount of funds they would have received if the $336 million had been distributed through the congressionally authorized state CDBG formula.

Reform Community Development Block Grants and Eliminate Poor Performing Community and Economic Development Programs

Under a two decade old formula, over 1,000 cities, urban counties, and the states (for non-metropolitan areas) receive about $4.3 billion of CDBG funds annually. CDBG supports various community development activities that are supposed to be directed primarily at low- and moderate-income persons. Several smaller programs are also funded within CDBG. A three-fold increase for the Self-Help Homeownership Opportunity Program will provide $65 million for competitive grants to non-profit faith-based and community-oriented organizations that support homeownership.

Reform CDBG

While it favors poorer communities, the current distribution of CDBG formula funds includes many grants to higher income cities and counties. The budget proposes a legislative change to reduce grants to the wealthiest one percent of eligible communities, defined as those with per capita income two times the national average. The savings from this proposal will fund a regional initiative to enhance the availability of affordable housing, economic opportunity, and infrastructure in the Colonias. Colonias are communities within 150 miles of the U.S.-Mexican border that lack adequate infrastructure and other basic services. These communities have greater needs and fewer resources, and are better targets for such funds.

In addition, the CDBG formula program grows by $95 million in 2003, giving communities an increase in their annual allocations. As 2000 Census data become available, HUD will develop proposals for a new CDBG allocation formula and process, to allocate more to those who need these funds and will use them effectively.

Tale of Two Cities

	Newton, MA*	Compton, CA
Population	83,829	93,493
Per capita income	$28,840	$7,842
Average home sale price	$512,000	$120,000
CDBG dollars per resident	$31.76	$31.16
Annual CDBG funds 2002	$2.663 million	$2.914 million
Proposed CDBG funds 2003	$1.359 million	$2.987 million

* Newton allocated $30,000 of its CDBG funding to design a traffic signal and $80,000 to fund a historic lighting project.

Wealthiest CDBG Entitlement Communities		
Community	Per capita income as a multiple of the national average	2002 CDBG Funds
Greenwich, CT	3.2	$1,157,000
Newport Beach, CA	3.2	$490,000
Colorado Springs, CO	3.1	$3,199,000
Lower Merion, PA	2.9	$1,407,000
Naples, FL	2.9	$149,000
Penn Hills, PA	2.8	$849,000
Virginia Beach, VA	2.6	$3,012,000
Palo Alto, CA	2.3	$808,000
Malden, MA	2.2	$1,780,000
Westchester County, NY	2.1	$7,004,000
Santa Monica, CA	2.0	$1,787,000
Brookline, MA	2.0	$1,872,000
Newton, MA	2.0	$2,663,000

Eliminate Poor Performing and Duplicative Community and Economic Development Programs

To stem mission creep, this budget proposes to streamline HUD's efforts to promote community and economic development by eliminating two community planning and development programs, Rural Housing and Economic Development grants and Round II Empowerment Zones grants. Since 1999, these two programs have received over $430 million. Evaluations and other performance information provide no convincing evidence that adding grants to the tax benefits of Empowerment Zones increases that program's effectiveness. Moreover, HUD's CDBG program lets localities meet the same needs. For example, through CDBG, smaller communities will receive $1.3 billion in 2003 for locally designed programs that meet their own housing and economic development needs. The savings from eliminating these programs will be reinvested in the CDBG program.

Reinvigorating Renewal Communities and Empowerment Zones

To help develop the economies of distressed urban and rural areas, HUD has just designated 40 Renewal Communities (RCs) and seven additional Round III urban Empowerment Zones (EZs). Private investors in both RC and EZ areas are eligible for tax benefits over the next 10 years tied to the expansion of job opportunities in these locations. Like CDBG, these programs allow communities to design and administer their own economic development strategies with a minimum of federal involvement.

Strengthen Public Housing

HUD low-income housing assistance programs, including public housing, other project-based subsidies, and housing vouchers, help approximately five million low-income families pay the rent. They do much good, but the Administration is committed to improving their operation.

The budget will improve the physical condition and financial management of the 1.2 million public housing units subsidized by HUD, and give new choices to the families who live there. As a whole, these properties have approximately $20 billion in modernization needs. While most are inhabitable, 30 percent fail HUD's physical quality standards.

The reform of public housing introduces a way to end the practice of subsidizing substandard housing. More specifically, the reforms, introduced on a voluntary basis in 2003, will contribute to:

- Meeting two goals stated in the President's Management Agenda—that 84 percent of public housing units will meet HUD's physical standards by 2005; and that HUD, working with the Congress, will ensure families are not required to live in substandard housing as a condition of retaining their subsidy;
- Providing better management of public housing with less intrusive federal micro-management;
- Using the market to test projects' viability and guide local investment decisions;
- Introducing choice and competition in public housing; and
- Substantially reducing, and within a decade eliminating, an estimated $20 billion of accumulated capital needs.

Local housing authorities will be able to employ real estate management and financing practices that are standard in the private sector. This approach to public housing will treat each property as a separate real estate investment. Housing authorities will finance the capital needs of their individual properties with private mortgages, while the federal government will continue to subsidize operating and debt service costs not covered by rent collections. Properties that cannot support a private mortgage but are deemed worthy investments by local communities can use other local resources to make mortgages affordable and finance capital improvements.

The Administration also proposes to extend choice to families living in public housing properties that are refinanced and rehabilitated under this model. As the program operates now, low-income families are required to reside where public housing exists as a condition of receiving rental assistance—even if properties fail HUD's physical standards. The Administration's plan would allow families to move after the initial one year lease period and retain their subsidy, giving them choice in the selection of their housing and creating parity among HUD's assisted-housing programs. When residents have the option to leave a property, housing authorities must do a good job serving them or they will move out. Competitive market forces are thereby introduced and a property is more likely to be well managed and stay in good condition. This model corresponds to the existing project-based voucher program.

Strengthen Housing Assistance to Increase Affordable Housing and Promote Self-Sufficiency

The budget includes both funding increases and management reforms to create a full "toolbox" of options for overcoming particular obstacles to affordable housing. HUD will measure performance

against the goals for assisted housing, including a new measure to keep a count of the number of families moving from subsidized housing assistance to self-sufficiency.

- The number of households leaving assisted housing and achieving housing self-sufficiency will increase from 2002 to 2003.
- The number of households with worst case housing needs will drop three percent between 2001 and 2003.
- The share of assisted multifamily units that meet HUD-established physical standards will rise by 1.5 percentage points between 2002 and 2003.

The number of households assisted is maintained by renewing all subsidy contracts that expire in 2003. The budget also expands assistance with over 34,000 new housing vouchers that will give families the financial power to choose from a variety of housing options in the private rental market. The Administration favors vouchers because they are proven to provide greater benefits at lower cost than older subsidy approaches. By relying on the private market and competitive forces, vouchers allow families to choose the best available housing. Vouchers also relieve HUD of the difficult management burden of overseeing numerous housing properties.

Vouchers Have Lower Costs and Greater Benefits

On average, the cost per unit of public housing exceeds the voucher program by 18 percent.

All HUD subsidy programs target low-income households. However, 26 percent of all voucher recipients live in neighborhoods with poverty levels below 10 percent, while only about eight percent of public housing residents live in such areas. Vouchers give low income families a better chance of residing in a more economically diverse neighborhood.

Comparison of Housing Assistance Approaches

	Public Housing	Housing Vouchers	Project-based Subsidies
Choice and Mobility	Low	High	Low
Cost Effectiveness and Avoidance of Federal Liability	Low	High	Low

The budget supports other approaches for increasing affordable housing, by including a $100 million increase for the HOME block grant, a flexible program that localities can tailor to their particular housing needs. This program will produce about 23,000 new affordable rental units in 2003 and rehabilitate another 23,000. Other programs in the budget that support the supply of affordable housing are CDBG and the low-income housing tax credit. The budget increases CDBG formula funds, about 30 percent of which goes to housing, by $95 million. The tax credit was recently increased by 40 percent and now supports the production of about 100,000 units of moderate-rent housing a year. HUD is working to ensure that tax credit and HOME units are available in all cases to voucher families.

End Chronic Homelessness in 10 Years

The Administration has made ending chronic homelessness in the next decade a top objective. The chronically homeless number perhaps 100,000 to 200,000 persons who are without a home for long periods of time, or on many occasions. They typically have many difficult-to-treat disabilities or mental health problems that lead to severe personal suffering. Serving this group consumes a large share of all resources dedicated to the homeless. HUD will work to move more of the chronically homeless from the dangerous streets to safe, permanent housing.

HUD will establish a baseline measure in 2003 of the chronic homeless population in communities with Homeless Management Information Systems. The performance measure for those communities will be achievement of a reduction in the number of chronically homeless persons by up to one-half over five years.

HUD's homeless assistance programs, along with those of the Department of Health and Human Services (HHS) and five other Departments, will all contribute to this result. Federal spending for the homeless will increase in 2003 to $2.2 billion, including $1.1 billion in HUD.

The budget proposes consolidating HUD's largest homeless programs into one. It also transfers two homeless programs from departments with other missions to departments with major responsibility for aiding the homeless. The result of the new structure will consolidate program administration into five agencies rather than the current structure that includes seven. The Federal Emergency Management Agency's Emergency Food and Shelter program will be shifted intact to HUD, where it will continue to operate with its non-profit, private sector partners. The Department of Labor's Homeless Veterans Reintegration program will be moved to the Department of Veterans Affairs. Both transfers will allow agencies to focus on the mission of reducing chronic homelessness without reducing programs that are vital to the homeless population.

Expand Homeownership Opportunity

Families took advantage of strong economic conditions in recent years, increasing the national homeownership rate to a record level of 68.1 percent in 2001. The homeownership rate among minority households also increased over this period, reaching 47.8 percent in 2001. HUD's goals for 2003 are to increase the homeownership rate for minority households and protect the recent homeownership gains nationwide. HUD's homeownership efforts will seek to increase the homeownership rate among minority households to 50 percent.

The Administration will use several means to reach these objectives:

- To promote the development of affordable single-family housing in low-income urban and rural neighborhoods, the budget proposes a tax credit of up to 50 percent of the cost of constructing a new home or rehabilitating an existing property. Eligible homebuyers would be required to have incomes of not more than 80 percent of area median income.
- The budget quadruples the President's Down Payment Assistance Initiative from its 2002 level to $200 million. Through HUD's HOME program, this initiative provides state and local governments with matching grants to provide down payment assistance to first-time home buyers.
- The budget triples funding to $65 million for the Self-Help Homeownership Opportunity program, which helps families realize their homeownership dreams through sweat equity.

Neighborhood Reinvestment Corporation

I look forward to the day when we measure compassion not by the number of families living in assisted housing, but the number of families who have moved into a home of their own.

Secretary Martinez
December 13, 2001

Continued support for the Neighborhood Reinvestment Corporation is another element of the Administration's homeownership strategy. The Corporation is a non-profit organization outside of HUD and chartered by the Congress. It is primarily funded by the American taxpayer. The Corporation's Campaign for Homeownership enabled over 34,000 low-income families to become new homeowners since 1998 by using $155 million in public funds to generate $2.3 billion in private investment (a 15–to–1 ratio).

Meet the Simpsons



Dimple Simpson, a single mother of three living in Nashville, Tennessee, yearned to own a home, but thought she faced overwhelming odds. As a cook and cashier at an area high school, her income plunges during the summer break, making it a challenge to save for a down payment. She had received HUD housing assistance for the last 16 years, but did not know how she could afford to purchase a home or find her way through an unknown process.

Through an innovative programmatic partnership among HUD, the Neighborhood Reinvestment Corporation and a private lender, Ms. Simpson's dreams became a reality. She purchased the home she longed for by using her HUD voucher as part of the financing structure, and relying on the Neighborhood Reinvestment Corporation and local partners to guide her through the process.

After building home equity for a few years, Ms. Simpson will be self-sufficient, thereby freeing up her housing subsidy to help another needy family. "I have proved to my girls that [their] Mom… can do ANYTHING," Simpson says. "This was a hand up, not a hand out."

Other HUD Programs

Lead Paint Hazards

HUD is committed to eliminating childhood lead poisoning by 2010, working with other federal agencies, including HHS and the Environmental Protection Agency. HUD's primary role in keeping

children from lead exposure is through grants to localities for control of lead paint hazards in low-income housing. HUD promotes the use of new, low-cost technologies that can be replicated across the nation. For 2003, the budget proposes a 15 percent increase (to $126 million) for this program.

Faith-Based and Community Initiatives

HUD is one of the five agencies that has established an Office of Faith-Based and Community Initiatives in response to the President's Executive Order published in January 2001. Expanding the opportunities and success of faith-based and community development organizations is a HUD strategic goal. More information on the coordinated effort across the federal government regarding faith-based and community initiatives appears in the HHS chapter.

Strengthening Management

HUD is one of the nation's largest financial guarantors, with large mortgage obligations and exposure. It is responsible for managing more than $500 billion worth of insured mortgages, more than $700 billion in outstanding mortgage-backed securities, and about $120 billion in still-to-be-outlayed funds from past appropriations. To meet its commitments, HUD must improve its management capability and performance.

HUD's chronic management weaknesses are well documented. The General Accounting Office labeled HUD at high risk of waste, fraud, abuse, and mismanagement from 1994 to 2000. HUD's weaknesses harm those whom the agency was created to serve. For example, subsidized families are sometimes trapped in substandard, poorly maintained housing; homebuyers are exposed to fraudulent practices; and some families receive excessive rental subsidies that could have been used to aid others in need. HUD has resolved to fix these problems as part of the President's Management Agenda. HUD will adopt a rating system to objectively measure subsidized housing performance with mandatory remedies for lack of performance. HUD will greatly reduce fraudulent practices in FHA by holding lenders accountable for the performance of brokers and appraisers. HUD will develop an expert system to help lower the 60 percent error rate in calculating the rents of subsidized tenants.

Initiative	2001 Status
Human Capital—HUD has the oldest workforce of any Cabinet department. After many years of downsizing, HUD faces a potential retirement wave and loss of experienced staff. HUD's managers for many years have been hindered by a lack of workforce measurement tools to evaluate how long tasks take or determine staff productivity. In addition, after several reorganizations, HUD workers are not all in the right places with the right skills to do priority work. The Department is taking actions to correct these deficiencies. HUD is expanding recruitment programs, including a new intern program to help replace those who could retire soon. The Department is delegating more hiring to the field offices to accelerate the filling of vacancies. The Department's new work measurement system will complete its first full year of data collection in December. Managers then will create a staffing plan based on needs to better align work effort with priority tasks.	
Competitive Sourcing—HUD works primarily through intermediaries or grantees to deliver its programs to recipients, seeking to maintain a proper balance between in-house expertise and oversight capacity and outsourcing. The General Accounting Office and the HUD Inspector General have repeatedly found long-standing deficiencies in HUD's program oversight. HUD has failed to analyze regularly its tasks to determine if competition of functions identified as commercial would result in better performance and value for the government. However, given HUD's significant downsizing over the past decade, opportunities for additional outsourcing may be limited. In an effort to eventually compete 50 percent of all commercial activities in accordance with the President's Management Agenda, HUD will need to compete at least five percent, or 290 positions, in 2002 and an additional 10 percent, or 580 positions, in 2003.	
Financial Management—HUD's financial systems have been plagued with deficiencies for many years. HUD's financial statements improved last year to merit an unqualified audit opinion, albeit with citations for 10 reportable conditions and four material weaknesses. In 2002, the Department will continue progress by maintaining an unqualified audit opinion and eliminating at least three of its material weaknesses or reportable conditions. The Department will revamp its funds control system in 2002 to overcome internal control deficiencies that led to overspending of its appropriation in 2000. The Department will improve the inadequate FHA accounting system with a new FHA general ledger by October 2002. A Departmental task force has been working with HUD's intermediaries and clients for several months on plans to reduce the overpayment of rent subsidies; HUD will set aggressive interim targets to reduce overpayments in each of the next three years.	

Initiative	2001 Status
E-Government—HUD has encountered chronic implementation problems in delivering information technology (IT) systems. Often HUD's IT investments start well but then experience problems and start to lag, and some projects are never completed. Recently, HUD made improvements. It installed a capital planning process for all major IT systems. HUD now requires a business case to make better investment decisions. HUD stages projects in modular increments that can be more carefully tracked for success or failure. The challenge is to deliver IT systems on time and within budget.	
Budget/Performance Integration—HUD has too little focus on outcomes, or how programs influence them. Some programs do not measure important outcomes, only inputs. For example, HUD measures the amount of money spent to subsidize housing for a low-income household. However, HUD does not measure if that subsidized household now does better in terms of employment, earnings, children's education, or stability of the family, nor does it track the length of time the household continues to receive housing assistance. This lack of performance information inhibits HUD's ability to compare different types of programs and strategies. HUD is also hindered by inconsistent collaboration between performance planning and budgeting. Recently, though, HUD has made progress in simplifying its budget to a more understandable presentation. In the coming year, HUD will integrate its performance planning into the 2004 budget process in the proper sequence, i.e., to determine the outcomes it aims for first and then the program and resources required.	

Department of Housing and Urban Development

(In millions of dollars)

	2001 Actual	Estimate 2002	Estimate 2003
Spending:			
Discretionary Budget Authority:			
Community Development Block Grant:			
Existing law	5,112	5,000	4,716
Legislative proposal	—	—	16
HOME Investment Partnership	1,796	1,846	2,084
Homeless Grants			
Existing law	1,123	1,123	1,130
Legislative proposal	—	—	153
AIDS Housing Grants	257	277	292
Housing Certificate Fund (Housing Vouchers)	13,941	15,641	17,527
Public Housing	6,228	6,338	5,956
Revitalization of Severely Distressed Housing (HOPE IV)	574	574	574
Housing for Special Populations (elderly and disabled)	994	1,024	1,024
Federal Housing Administration (FHA)	–2,702	–2,066	–2,285
Fair Housing and Equal Opportunity	46	46	46
Lead Hazard Reduction	100	110	126
All other programs	943	–443	138
Subtotal, Discretionary budget authority adjusted [1]	28,412	29,470	31,497
Remove contingent adjustments	–55	–55	–56
Total, Discretionary budget authority	28,357	29,415	31,441
Emergency Response Fund, Budgetary Resources:			
Community Development Block Grant	—	2,700	—
Inspector General	—	1	—
Total Emergency Response Fund, Budgetary resources	—	2,701	—
Mandatory Outlays	921	–3,445	–1,607
Credit activity:			
Direct Loan Disbursements			
FHA	2	129	54
Other loans	24	17	1
Total, Direct loan disbursements	26	146	55
Guaranteed Loans			
FHA	122,687	150,584	141,566
Community Development Loan Guarantees	335	400	400
Other Guaranteed Loans	21	47	59
Total, Guaranteed loans	123,043	151,031	142,025

[1] Adjusted to include the full share of accruing employee pensions and annuitants health benefits. For more information on these items, see Chapter 14, "Preview Report," in *Analytical Perspectives*.

DEPARTMENT OF THE INTERIOR

The President's Proposal:

- Fulfills commitments to
  - fully fund the Land and Water Conservation Fund;
  - eliminate the backlog of repairs in our National Parks by 2006; and
  - replace and repair Bureau of Indian Affairs schools and improve the quality of education for American Indian children.
- Launches the Cooperative Conservation Initiative to protect and conserve the environment through partnerships;
- Supports, at record levels, major upgrades to our National Wildlife Refuges;
- Fully funds Indian trust reform efforts in the Office of the Special Trustee and the Bureau of Indian Affairs;
- Significantly advances the protection of threatened and endangered species and their habitat through cooperation and partnerships; and
- Encourages the establishment of a Royalties Conservation Fund to devote royalties from energy production to land conservation and the reduction of maintenance backlogs on public lands.

Department of the Interior

Gale Norton, Secretary

www.doi.gov 202–208–7351

Number of Employees: 69,718

2002 Spending: $10.3 billion

Organization: Eight bureaus: National Park Service, Bureau of Land Management, Fish and Wildlife Service, Bureau of Indian Affairs, Minerals Management Service, Office of Surface Mining, U.S. Geological Survey, and Bureau of Reclamation.

The Department of the Interior (DOI) manages over 507 million acres of land (roughly one-fifth of the land area of the United States), 700 million acres of subsurface minerals, and the nation's Outer Continental Shelf. DOI protects much of the nation's natural and cultural resources, including providing for their responsible use, and serves as the largest supplier and manager of water in the 17 western states. DOI is responsible for meeting many of the government's trust responsibilities to Indian tribes and affiliated island communities. The agency also disseminates U.S. earth science information and research findings to the public.

Overview

The nation's vast lands, waters, minerals, fish and wildlife, and other natural and cultural resources provide both social and economic benefits to our population. Careful management of these resources is required to ensure they are used in an environmentally responsible manner.

DOI's activities largely fall within four broad categories:

- Conservation (such as wilderness protection, habitat conservation, and historic preservation);
- Recreation (such as hiking, hunting, bird-watching, and camping);
- Energy and Other Resource Development (such as development of oil, gas, coal, and other minerals, as well as cattle grazing and timber production); and
- American Indian programs (including Indian education and trust fund management).

Major units include the 385 National Parks, 538 National Wildlife Refuges, 70 National Fish Hatcheries, 406 hydroelectric facilities and reservoirs, and 264 million acres of Bureau of Land Management (BLM)-administered public lands. DOI also manages trust funds and assets for more than 300 of the 558 American Indian tribes.

Improving management and performance is a common theme throughout the 2003 President's Budget. This chapter explains how the 2003 Budget will help improve management and performance within DOI. It begins with a status report on select DOI programs and identifies strong and weak performers. A short section on congressional earmarks discusses how these unrequested mandates have a tendency to detract from agency performance. The chapter then discusses how the President's Budget helps to address performance issues in key DOI programs. The programs discussed are separated into the four main categories that reflect the main thrust of the agency's work as identified above. The chapter concludes by identifying how DOI will address the specific government-wide management and performance initiatives included in the President's Management Agenda.

Status Report on Select Programs

The Administration is reviewing programs throughout the federal government to identify strong and weak performers. The budget seeks to redirect funds from lesser performing programs to higher priority or more effective ones. In limited cases, the answer to fixing less effective or ineffective programs is increased funding (e.g., increases for national park maintenance). In such cases, plans are underway to improve program performance. In other cases, an effective program—like the National Wildlife Refuge System—gets rewarded with additional funding offset by a reduction in funds from ineffective programs, such as the National Fish Hatchery System. The accompanying table illustrates specific programs that have been rated by the Administration, most of which are discussed in this chapter.

Program	Assessment	Explanation
National Wildlife Refuge System	**Effective**	Effectively prioritizes identified needs; better performance measures are still needed.
Offshore Minerals Management	**Effective**	Leases for offshore development are awarded competitively and managed efficiently.
Wildland Fire Management	**Unknown**	Lacks clear direction and adequate performance measures; program objectives have become muddled.
National Park Service Maintenance and Construction	**Unknown**	Lacks clear implementation plan and schedule for tracking facility maintenance progress.
National Fish Hatchery System	**Ineffective**	Lacks clear direction and adequate performance measures. State or private programs may be more effective.
Bureau of Indian Affairs School Performance	**Ineffective**	Academic performance of many students at BIA schools is far below public school counterparts.

Congressional Earmarks

DOI has, or is developing, systematic methods for determining priority projects for funding. For instance, the Fish and Wildlife Service (FWS) has established its Refuge Operations Needs System to monitor, manage, and prioritize operational staffing, resource conservation, and public use needs on refuges. The President's Budget largely reflects the results of such analysis.

Unfortunately, congressional earmarks divert funds from these high priority and effective programs. For example, in 2002, DOI received funding for 284 unrequested projects, totaling $323 million. Of this amount, $154 million in earmarks were for construction and land acquisition projects alone, representing 24 percent of all funding in these two categories (see accompanying table). While the Congress reduced its earmarking in 2002 of construction and land acquisition projects, more still needs to be done.

Congressional Earmarks DOI Construction and Land Acquisition Projects			
	Number	BA in millions of dollars	Percent of Total
2001.....	105	180	36
2002.....	101	154	24

Over the past 10 years, more than 40 percent of National Park Service (NPS) construction project funding was earmarked for lower priorities, at a time when national parks were struggling with a deferred maintenance backlog. Important projects that will be further deferred in 2002 due to earmarks include utilities and campground upgrades in Acadia National Park, preservation work on the Lincoln Memorial, and rehabilitation of the park headquarters building at Yellowstone National Park. For some unrequested projects, park construction funds are not even spent on park facilities—they are simply passed through to others; such is the case with the state-owned Palace of the Governors in New Mexico.

The following sections discuss how the Administration is working to improve the performance of DOI's programs, in part by redirecting earmarked funds to more effective uses.

Conservation



With one million visitors each year, BLM's Red Rock National Conservation Area near Las Vegas, Nevada is one of the many unparalleled sites managed by DOI.

DOI plays a key role in protecting and preserving some of the nation's most remarkable natural areas and is responsible for conserving and protecting threatened and endangered species. The President is committed to the conservation and stewardship of our lands, watersheds, and other natural resources.

To that end, this budget addresses a long-ignored problem by refocusing environmental stewardship on achieving results. For example, in 2003:

- FWS will restore 125,000 acres of wildlife habitat on refuges; help prevent three species from being added to the Endangered Species list; work to remove five more species from the list; and increase wildlife refuge visitation to 40 million visits.
- NPS will restore over 13,500 acres of targeted parklands that have been disturbed by development; contain or restore 102,600 acres of land impacted by invasive plants; and rehabilitate 270 park historic structures, bringing the total amount of park historic structures in good condition up to 46 percent.
- BLM will conduct 50,000 acres of proactive resource inventories; restore and protect 230 "at-risk" cultural and paleontologic sites; implement water quality improvement projects in 14 watersheds within priority areas; remediate 60 abandoned mines; and plug or reclaim 15 orphan wells.

- The U.S. Geological Survey (USGS) will expand data collection and management with 15 new terrestrial and aquatic biodiversity studies to inform land and resource management; add two more decision support systems for ecosystem restoration in the Everglades; and develop a new web-based information system to inform local urban development decisions in coastal areas.
- The Bureau of Reclamation (BOR) will provide approximately 2.5 million acre feet of water to conserve threatened or endangered species and preserve, restore, or establish over 9,776 acres of wetlands habitat and 15 miles of instream or riparian habitat to offset project impacts.

The agency will increasingly rely on these and other performance measures to guide conservation and resource management on DOI lands. In many cases, performance measures for DOI programs are scarce or inadequate, however, the agency has accepted the difficult task of better defining and tracking relevant indicators.

For example, performance measures for the Wildland Fire Management program have traditionally focused on achieving all-out fire suppression goals, regardless of effectiveness or the impact on long-term ecological health. DOI is working to improve its measures for this program, with a significant focus on cost effectiveness and integration of the various parts of the fire program. (See the Department of Agriculture (USDA) chapter for further discussion of the DOI/USDA Wildland Fire Program.)

Complementing this renewed emphasis on performance is an increased focus on utilizing partnerships. By partnering with states, local governments, conservation organizations, tribes, and interested private parties, DOI can leverage non-federal resources to achieve more conservation for each federal dollar spent. The federal government has a broad array of tools and programs to fulfill its conservation responsibilities, including the Land and Water Conservation Fund, the National Wildlife Refuge System, and the Endangered Species Act. The following sections discuss, in greater detail, a number of these important programs and initiatives and how the Administration is emphasizing partnerships within these programs.

Partnering for Conservation through Better Science

The Department's National Biological Information Infrastructure (NBII) increases access to data and information on the nation's biological resources in order to promote the use of science as a basis for determining local, regional, and national conservation strategies. The NBII website (www.nbii.gov) links the diverse, high-quality biological databases, information products, and analytical tools maintained by this growing network. Federal funding of $6 million in 2003 is expected to be matched many times over by the more than 200 partners in the NBII network. The amount of data accessible on the NBII site will more than double by 2003.

Land and Water Conservation Fund

The Land and Water Conservation Fund (LWCF) was established in 1965 to support natural resource conservation and outdoor recreation at the federal, state, and local levels. LWCF funding in recent years has focused on acquiring land. This past year, however, the LWCF funded two of the President's priorities, both of which recognize that federal acquisition is not always the best or only way to conserve land and other natural resources. These programs—Landowner Incentive Grants and Private Stewardship Grants—provide new ways to cooperate with private landowners to enhance habitat for imperiled species and encourage conservation efforts on private lands.

Innovation in Conservation

Conservation easements can benefit fish and wildlife as well as agriculture. David Mannix of the Mannix Brothers Ranch in Montana put it best when he said, "Agriculture and wildlife have much in common in that agriculture needs open space to stay in business and wildlife need open space to stay alive." The Fish and Wildlife Service purchase of easements from the Mannix Brothers Ranch provided the money necessary for expansion of their ranch, allowing future generations to stay on the land. Since the land remains in private ownership, local property taxes still flow to the local government, creating a winning scenario for fish, wildlife, agriculture, and the local community.

Conservation easements represent another tool in the effort to protect and conserve land. Easements provide flexibility for landowners who are interested in conserving their land but want to retain ownership (see accompanying box). In some cases, conservation easements can also be more cost effective than outright land purchases. For example, two recently acquired conservation easements at the Fish and Wildlife Service's Dakota Tallgrass Prairie Wildlife Management Area in North and South Dakota were less expensive than outright purchase of the land by 43 percent and 78 percent, respectively.

As promised, the President's Budget fully funds LWCF at over $900 million to promote conservation in a variety of ways. This includes the programs funded out of LWCF last year, plus an additional four conservation programs designated to receive funding through the LWCF:

Existing LWCF Programs	Added LWCF Programs
• Federal land acquisition • LWCF State Grants • State and Tribal Wildlife Grants • Landowner Incentive Grants • Private Stewardship Grants	• Cooperative Endangered Species Conservation Fund • North American Wetlands Conservation Fund • Forest Legacy Program[1] • Forest Stewardship Program[1] [1]Programs within USDA's Forest Service.

Each of these programs has a different emphasis, but they all recognize that partnerships encourage the stewardship of our natural resources and can be more powerful and effective than traditional land acquisition or litigation. For example, a dollar spent acquiring land through the North American Wetlands Conservation Fund could leverage anywhere from one to seven dollars in additional funding from partners.

Especially important among these programs is $200 million for LWCF state grants, including $50 million as part of the Cooperative Conservation Initiative discussed below. States often have a better sense than the federal government of areas that are locally or regionally important, so the President is proposing a 39 percent increase in these grants—the highest funding level since 1980.

Conservation Tax Credit

The President's Budget also includes an incentive for private, voluntary land protection through a 50-percent capital gains tax exclusion. Private landowners who voluntarily sell land or water to a government agency or qualified conservation organization for conservation purposes are eligible for the exclusion. This incentive is another example of a cost effective, non-regulatory, market-based approach to conservation.

Cooperative Conservation Initiative

We are all stewards of the land. Yet problems arise when national leaders dictate decisions from afar, rather than building partnerships with the states, local governments, and local citizens who are closest to the land and best know the problems and how to fix them.

Partnerships achieve more conservation for the same investment. An excellent example of this approach is the Cooperative Conservation Initiative (CCI). To leverage funds and promote conservation, the CCI allocates $100 million in matching funds for natural resource conservation projects. Projects can range from working with The Nature Conservancy to remove invasive species from Channel Islands National Park, to working with local communities to reclaim abandoned mine sites on public lands. Half of these funds would be allocated through cost-shared programs between non-federal partners and DOI's NPS, FWS, and BLM. The other half would be distributed to states as part of the LWCF state grant program. However, as with other LWCF programs, all of the funds have a common goal: to get more conservation results by working in concert with the people who know the land.

NPS Natural Resource Challenge

This initiative establishes a framework for measuring the Park Service's performance in preserving natural resource conditions in national parks. The Natural Resource Challenge is designed to collect and inventory baseline data on park resources and then identify and monitor the "vital signs"—such as nitrogen levels in streams or populations of waterbirds—that most effectively show changes in those resources. With an increase of $18 million in 2003, 52 parks will have monitoring programs to measure park resource health, and NPS will establish vital sign measures in 12 of 32 monitoring networks. Additionally, NPS will complete all resource inventories by 2008, two years earlier than previously planned.

National Wildlife Refuges

In 1903, President Theodore Roosevelt wrote a new chapter in conservation when he set aside land to protect pelicans and other birds on what is now called the Pelican Island National Wildlife Refuge in Florida. Some 95 million acres later, the 538 refuges in the National Wildlife Refuge System (NWRS) stand out as outstanding examples of efforts to effectively balance species conservation with public access.

On March 14, 2003, Americans across the nation will celebrate the Centennial anniversary of the National Wildlife Refuge System – a milestone in the history of fish and wildlife conservation in America.

But the NWRS is not without its problems. Due to poor prioritization of funding in the past and continuous expansion over many years, the refuge system has developed a backlog of unmet operations and maintenance needs. To address this backlog, the Fish and Wildlife Service has developed a well-prioritized list of these needs. These needs reflect an untapped potential for improving species protection and habitat restoration as well as enhancing public use opportunities.

The refuge system's centennial offers an excellent opportunity to highlight this effective program and improve the refuge system's performance. The President's Budget proposes an increase of $52 million for the highest priority operations, maintenance, and planning needs and provides an additional $5 million for challenge cost share programs on wildlife refuges through the CCI. In future years, the Royalties Conservation Fund proposed in the National Energy Policy would provide additional funds to help reduce maintenance backlogs for refuges as well as other federal lands.



Protecting songbirds, such as this endangered Golden-cheeked warbler, is part of the Department's mission.

The increase for refuges in the President's 2003 Budget will fund a variety of activities, such as monitoring and protecting listed species of the barrier beach ecosystem at Chincoteague National Wildlife Refuge in Virginia, and constructing viewing decks at Balcones Canyonlands National Wildlife Refuge near Austin, Texas to better observe endangered songbirds, such as the Golden-cheeked warbler. These and other projects in the President's Budget will help ensure that, in 2003, the top priority needs of the refuge system are met, 125,000 acres of habitat are restored, and the system is capable of handling the projected 40 million visitors.

Endangered Species

The Department of the Interior is also charged with conserving threatened and endangered species and their habitat. Preventing species from becoming endangered as defined by the Endangered Species Act (ESA), improving the status of listed species, and taking recovered species off the list are key measurements of the success of the program. In 2001, DOI's efforts helped to keep five species from being listed; stabilized or improved 320 of 616 species listed for a decade or more; and removed the Aleutian Canada Goose from the ESA list of "threatened" species.

The 2003 President's Budget provides $126 million for the FWS' Endangered Species program. This funding supports the direct efforts of FWS to implement the ESA. The budget also includes $25

million for DOI to help carry out the "reasonable and prudent alternative" of the Columbia River Basin biological opinion.

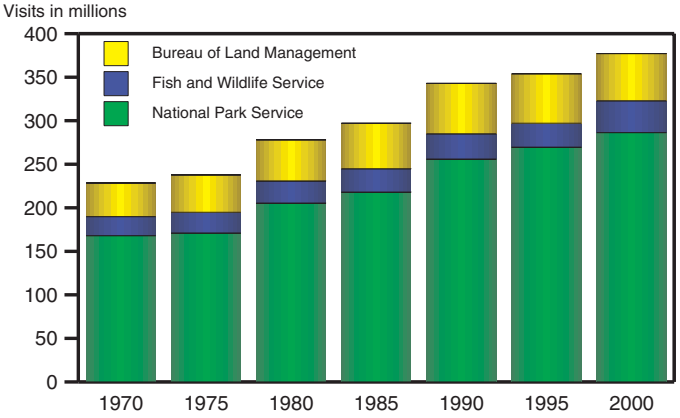
The Administration's main focus on imperiled species, however, involves working with partners to prevent listings in the first place and to recover those already listed. The budget provides over $200 million for such activities through various grant programs, including the Cooperative Endangered Species Conservation Fund and the State and Tribal Wildlife, Landowner Incentive, and Private Stewardship grant programs—the latter two of which are Presidential initiatives. These and other programs emphasize working with and encouraging states and landowners to protect a variety of species and their habitat, thereby garnering matching funds and support of these conservation efforts.

In 2003, the President's Budget will help prevent three species from becoming listed under the ESA, maintain or improve the status of roughly 376 listed species, and remove five species from the ESA list because of recovery efforts. Species that may be taken off the list include the Tinian monarch flycatcher, the Gulf coast population of the brown pelican, and the Douglas County (WA) population of the Columbian white-tailed deer.

Recreation

Protecting and preserving land and open space provides more than just environmental benefits: it benefits our economy as well. Outdoor recreation has become big business in the United States, and the public lands provide countless opportunities for many Americans to engage in healthy, wholesome activities. Every year, more and more Americans turn to DOI's public lands for a sense of peace and solitude in an increasingly crowded and fast-paced world, and recent events have only heightened this need. Much of the general public's exposure to the Department of the Interior comes by way of visits to national parks, wildlife refuges, and other public lands. The number of visits is a rough measure of recreational use of DOI lands.

Recreation Visits on DOI Lands



Source: Department of the Interior.

Visitation to DOI sites is steadily increasing. While over 90 percent of visitors to DOI's public lands rated their experience as good or very good, the quality of visits can be further improved.

In particular, national park facilities are buckling under the weight of heavy use, while funding is stretched by the continuous addition of new parks. Our national parks have a backlog of billions of dollars in deferred maintenance, as evidenced by the broken toilets, washed out trails, and crumbling roads found in many parks. Eliminating this backlog will improve the quality of visits and encourage more visits while protecting natural resources.

Recreation and user fees have greatly helped to reduce backlogs in national parks and other public lands, now that agencies can retain fee receipts and spend them on priority needs. The amount of fee receipts available to agencies has gone from less than $15 million in 1996 to nearly $200 million in 2000, principally due to the Recreation Fee Demonstration program, which the budget proposes to make permanent.



Fort Yellowstone jail is slowly crumbling from lack of maintenance. Water intrusion and subsequent freezing and thawing have caused half of this historic structure to erode.

National Park Service Maintenance Backlog

The President's Budget will make visiting our national treasures better than ever. First, the President committed to eliminating the current deferred maintenance backlog in national parks by 2006. This budget keeps that promise on track. NPS funding for facility maintenance and construction is at an all-time high (over $660 million, compared to $354 million as recently as 1996). In the future, the proposed Royalties Conservation Fund would also provide funds to reduce the maintenance backlog in our national parks.

But more money does not always mean the parks will get fixed faster. Therefore, the President's proposal also takes the first step to identify and prioritize what needs fixing and figure out a way to measure progress for getting the job done. The Service will complete initial assessments of park facility conditions by the end of 2003. As assessments are completed, NPS will compile a Facility Condition Index to evaluate the status of facilities and, starting with the 2004 Budget, measure agency performance in improving those conditions.

Energy and Other Resource Development

In addition to scenic vistas, wildlife habitat, and recreation, our public lands also provide critical resources such as oil, coal, minerals, and timber for the general welfare of our nation. DOI manages these natural resources for a strong economy, while balancing these needs with the need for a healthy environment.

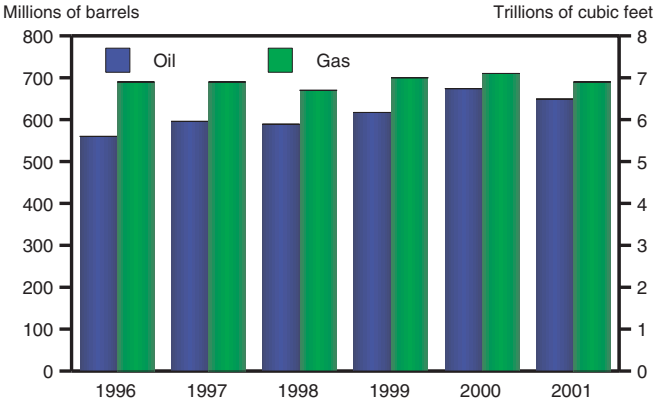
Oil and Natural Gas

The United States currently consumes about 19 million barrels of oil a day and almost 7 billion barrels every year, of which over half is imported. Of the oil and gas that is domestically produced, 29 percent and 35 percent is produced on federal lands, respectively. However, over the last five years, production on federal lands has leveled off.

The National Energy Policy proposes to expand and diversify our nation's energy supplies. Diversity is important not only for energy security, but also for national security. To carry out

the National Energy Policy, DOI's Minerals Management Service (MMS) and BLM are issuing or proposing leases on federal offshore (Outer Continental Shelf) and onshore tracts with known or probable petroleum deposits and where safe and environmentally sound mineral development can occur, consistent with current drilling moratoria. After review of the bids submitted to ensure fair market value, the company with the highest bid wins the lease and is encouraged to develop the resource as quickly as possible or risk losing the lease.

Oil and Natural Gas Production On Federal Lands



Source: Department of the Interior. Includes offshore and onshore production.

To ensure environmentally sound OCS oil and gas development, the MMS seeks to limit oil spilled to 10 barrels spilled per million barrels produced. In 2000, the actual oil spill rate was 5.35 barrels per million barrels produced. MMS estimates naturally occurring oil seeps introduce 150 to 175 times more oil into U.S. marine waters than do OCS oil and gas activities.

DOI is carrying out the National Energy Policy by:

- working with the Congress to authorize exploration and, if resources are discovered, environmentally responsible development of the most promising reserve areas within the coastal plain of the Arctic National Wildlife Refuge;
- moving forward with Outer Continental Shelf oil and natural gas leasing and approving exploration and development on predictable schedules;
- considering additional oil and natural gas development in the National Petroleum Reserve-Alaska (NPR-A), which the Congress established in 1976;
- promoting enhanced oil and natural gas recovery from existing wells through new technology; and
- implementing economic incentives for offshore oil and natural gas development.

Renewable Resources

DOI also manages the use of renewable resources such as rangeland forage, timber, and renewable energy sources such as hydroelectric, wind, solar, biomass, and geothermal power. The Bureau of Land Management administers over 21,000 grazing allotments, covering 161 million acres of public rangeland, and manages over 49 million acres of forested land for multiple uses, including supply of timber and other forest products. For several years, BLM has struggled with a grazing permit backlog resulting from insufficient planning and a spike in the number of expiring permits. In 2003, BLM will process approximately 1,500 expiring grazing permits, allowing the backlog to be completely eliminated by 2004.

The Bureau of Reclamation operates 58 hydroelectric plants that produce over 10 percent (or 42 billion kWh) of the electricity in 17 states, while the Bureau of Land Management administers geothermal leases in several high resource areas such as Nevada and Southern California. The National Energy Policy places a high priority on developing alternative energy sources that may reduce our dependence on foreign oil and eventually replace fossil fuels. Working closely with the Department of Energy, DOI is doing its part to evaluate and remove unnecessary impediments to the development of alternative energy on DOI lands, while ensuring that the environment is protected in the process. The two departments recently held a joint renewable energy summit to discuss opportunities to expand the use of renewable energy on our public lands. (See the Department of Energy chapter for additional discussion of renewable energy issues).



With development costs declining, wind farms–like this one on BLM land near Palm Springs, California–increasingly offer a clean, affordable alternative to fossil fuels.

Coal

As America's most abundant fuel source, coal is expected to remain the dominant fuel in meeting increasing electricity demand through 2020. Recognizing this, the National Energy Policy also calls for increased domestic coal production. New clean coal technologies show that air pollution can be reduced and energy efficiency increased. DOI plays a large role in domestic coal production. In 1999, coal mined on lands controlled by DOI's BLM accounted for about 35 percent of domestic coal production. However, unnecessary delays in lease application processing can be costly to businesses and may even result in missed opportunities. Currently, the average processing time for a coal lease application is 18 months. DOI is examining ways to expedite permits and other actions necessary for energy-related project approvals. The agency is also actively working to resolve disputes between coal and natural gas producers in one of the country's largest coal-producing regions, the Powder River Basin in Wyoming and Montana.

American Indian Programs

DOI is responsible for fulfilling the federal government's trust responsibilities to Native Americans and promoting self-determination on behalf of tribal governments, American Indians, and Alaska Natives.

Enhancing Educational Opportunities for American Indian Children

Through treaty requirements and federal statutes, the federal government has a responsibility to ensure American Indian children have access to quality educational opportunities through specific Indian education programs. The Bureau of Indian Affairs (BIA) operates, either directly or through tribal grants and contracts, 185 schools serving more than 48,000 students (approximately 10 percent of all Indian students in the country in elementary and secondary schools) in 23 states. While there have been some success stories, such as the Gila Crossing Day School, a recent General Accounting Office study found that "the academic achievement of many BIA students…is far below the performance of students in public schools." The President's 2003 Budget places new emphasis on improving academic performance at BIA schools and continues the 2002 initiative to eliminate the school maintenance and repair backlog.

Gila Crossing Day School in Laveen, AZ, serving 241 students in grades K through 6, is a success story for tribally operated schools. Gila Crossing's reforms include: standards-based math, after-school tutoring, guided reading, and an extended school year.

Over a period of three school years, student proficiency in math skills jumped from 33 percent to 63 percent, while language skills proficiency soared from 26 percent to 90 percent. Enrollment increased by 73 percent, while daily attendance also increased from 89 percent to 97 percent.

Academic Performance at BIA Schools

The President proposes to use competition to improve the worst performing BIA-operated schools and to enhance the opportunities for American Indian children to succeed in learning. The accompanying table illustrates the dramatic differences between student performance at BIA schools and public schools in the critical skills of reading, writing, and math in the grades tested. While external factors do contribute to poor academic performance, the time has come to reevaluate BIA's role in the education of American Indian children. Following tribal consultations, the BIA will solicit private entities to manage those schools that the tribes do not elect to contract themselves through self-determination grants.

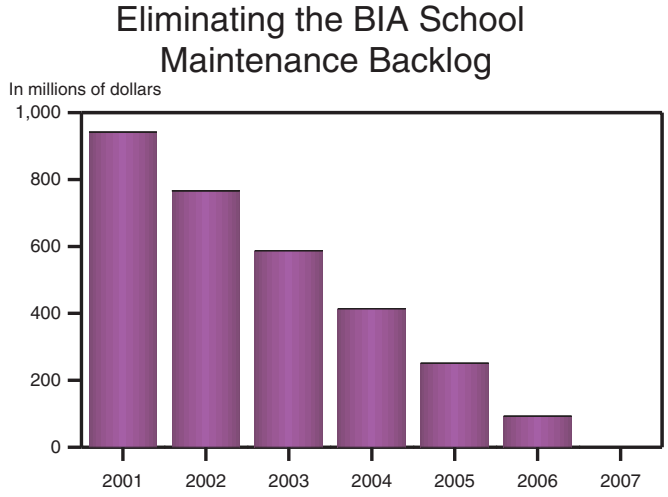
AVERAGE STUDENT PERFORMANCE
State Assessment Tests in 1999-2000 School Year

State	BIA Schools		Public Schools		Measure[1]
	Low	High	Low	High	
North Dakota.....	25	33	64	71	Percentile Range
South Dakota	25	28	60	67	Percentile Range
Arizona.....	—	27	15	71	Percent

Source: General Accounting Office Report O1-934

[1]North and South Dakota use average national percentile rankings while Arizona uses four categories—Falls Far Below, Approaches, Meets, or Exceeds. For Arizona, only students meeting or exceeding standards are represented here.

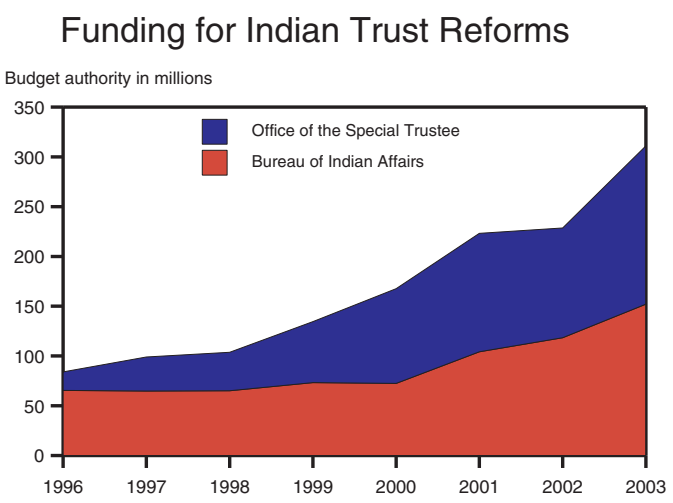
School Maintenance and Repair Backlog



In 2001, the backlog of BIA school maintenance and repair work was pegged at about $942 million. The President is committed to eliminating the backlog by the end of 2006. The 2003 Budget provides a second installment ($164 million) for school maintenance and repairs. When it is not feasible to repair an existing school, the entire facility will be replaced. The budget also provides $120 million to build six replacement schools, leaving only three schools on the BIA's current priority replacement list.

Indian Trust Fund Management

The President's 2003 Budget provides a significant increase of $84 million to remedy deficiencies in trust programs and meet the mandates of a U.S. District Court in the *Cobell v. Norton* case. For decades, Indian trust funds have lacked modern accounting systems, reliable management systems, and effective financial control systems. In December 1999, a federal judge ordered the agency to correct the breaches of trust responsibilities and file progress reports on trust reforms. Secretary Norton has undertaken actions to strengthen DOI's trust reform efforts.



BIA manages 56 million acres of Indian trust lands owned by tribes and their members. Over 110,000 oil, gas, timber, and other leases generate about $1.1 billion in annual income for the Indian landowners. The Office of the Special Trustee for American Indians (OST) is responsible for the distribution of $800 million each year to 1,400 tribal trust accounts and $300 million each year to about 285,000 individual trust accounts. The OST budget includes $161 million, a $49 million increase, to implement modern land title, leasing, and accounting systems; address probate backlogs and improve risk management analyses; consolidate fractionated ownership of trust lands; and undertake other related trust management improvements, such as improving information technology (IT) security. BIA's budget includes $153 million, a $35 million increase, to further expand trust program operations and services at headquarters, regional, and tribal levels. DOI is continuing to make changes to its trust reform strategy, organization and management, and improvement projects in response to recent court reports and independent consultant reviews.

Strengthening Management

Consistent with the President's Management Agenda, DOI intends to improve management and performance in 2003. One of the first steps is to address the government-wide management and performance initiatives identified in this agenda.

As DOI's performance measures reflect, it is charged with diverse responsibilities. The agency acts as steward for vast amounts of federal land, collects billions in oil and gas leasing revenues, serves as the trustee for Native Americans and Territorial Island communities, and contributes to a vast array of scientific disciplines.

Because of its large geographic domain and varied missions, DOI's bureaus have tended to go their own way—creating many management challenges for DOI as a department. Although DOI has centralized some management systems such as time and attendance, financial accounting, and contracting, the agency does not have standardized performance measures or program cost definitions. DOI plans to centralize more of its administrative operations to gain cost savings and increase the use of common standards. DOI will also develop an integrated financial and performance system, and will revise its strategic plan so that it is based on priority management goals and measures, rather than a loose collection of bureau plans.

The following table provides a snapshot of DOI's 2001 status for each of the five government-wide management initiatives along with descriptions of each initiative and the steps DOI is taking to improve in these areas.

Initiative	2001 Status
Human Capital—DOI, like most other federal agencies, faces human capital-related challenges such as an aging workforce with retirements expected in critical skill areas. For example, DOI's Fish and Wildlife Service expects 40 percent of its 201 law enforcement officers to retire by the end of 2005. The agency will develop a comprehensive five-year plan to coherently guide human capital management decisions to address these challenges. The plan will identify specific organizational changes to address competitive sourcing, skill-mix changes, streamlining and other management objectives. In addition, DOI will pursue co-location of BLM and USDA Forest Service field offices and conduct a Regional Office study for the FWS to help assess potential areas where it can become more citizen-centered.	
Competitive Sourcing—To meet the Administration's goal of completing public-private or direct conversion competition of federal employees performing commercial functions, DOI plans to compete or directly convert no fewer than 1,015 positions (five percent) in 2002. An additional 2,320 positions (10 percent) will be competed or directly converted in 2003 for a total of 3,335 positions, or 15 percent of the agency's commercial activities workforce. To provide guidance, assistance, and oversight of this effort, the Department is launching a Center for Competitive Sourcing Excellence in 2002 and has designated a senior coordinator for this initiative. DOI's plan has been offered as a model for other agencies to use in the development of their competition plans.	
Financial Management—Due to problems with its tribal trust accounting, DOI cannot provide assurances that its trust management systems and internal controls meet federal standards. All other DOI components, however, do meet these standards, and the department did receive a clean audit opinion. DOI has developed a High Level Implementation Plan to complete the trust accounting systems and implement the internal controls required to correct its trust accounting weaknesses. Additionally, DOI will finish an enterprise architecture study to launch a new financial system enabling it to better integrate performance and budget information.	

Initiative	2001 Status
E-Government—Historically, DOI has made major information technology (IT) investments without thorough analysis of realistic cost, schedule, and performance goals for new acquisitions. As a result, DOI puts large sums of public funds at high risk for failure and does not comply with either the Paperwork Reduction Act or the Clinger-Cohen Act. For example, the agency does not fully develop business cases for major IT investments and lacks an enterprise architecture to make Department-wide IT investment decisions. However, DOI is committed to improving its review and approval of IT investments centrally, and has already hired a contractor to survey DOI's IT environment and make recommendations, due in June 2002, that will guide future investment decisions. DOI's Inspector General is reviewing the Department's IT investment process as well. DOI has taken a government-wide leadership role as managing partner for an intergovernmental Recreation One-Stop project and a similar One-Stop project for geospatial information.	
Budget/Performance Integration—DOI cannot monitor with sufficient precision the cost and effectiveness of many of its programs. For example, DOI does not know how much it costs to house its park rangers or reservation school teachers. Many programs, such as wildland firefighting and national park facilities maintenance, lack measures to evaluate interim progress towards long-term outcomes. Performance measures for USGS are particularly weak. DOI's operating and financial systems are not linked, and the Department has few agency-wide performance measures for program analysis. The agency is revising its Strategic Plan to use DOI-wide measures and is pursuing activity-based costing to better track full costs.	

Department of the Interior

(In millions of dollars)

	2001 Actual	Estimate 2002	Estimate 2003
Spending:			
Discretionary Budget Authority:			
National Park Service	2,346	2,388	2,422
Bureau of Indian Affairs	2,168	2,245	2,269
Bureau of Land Management	2,109	1,911	1,875
Fish and Wildlife Service	1,342	1,308	1,316
U.S. Geological Survey	918	950	904
Bureau of Reclamation/Central Utah Project	835	891	867
Office of Surface Mining	320	311	284
Minerals Management Service	149	167	181
Office of Special Trustee for American Indians	120	112	161
All other programs	206	220	231
Subtotal, Discretionary budget authority adjusted [1]	10,513	10,503	10,510
Remove contingent adjustments	–248	–267	–274
Total, Discretionary budget authority	10,265	10,236	10,236
Emergency Response Fund, Budgetary Resources:			
National Park Service	3	57	—
Bureau of Reclamation	—	30	—
All other programs	—	2	—
Total, Emergency Response Fund, Budgetary resources	3	89	—
Mandatory Outlays:			
Oil and Gas Receipts from Outer Continential Shelf lands	–7,195	–3,806	–2,832
All other programs	–772	94	306
Legislative proposal (OST Trust deficiency payments)	—	—	7
Subtotal, Mandatory outlays adjusted [1]	–7,967	–3,712	–2,519
Remove contingent adjustments	–8	–9	–9
Total, Mandatory outlays	–7,975	–3,721	–2,528
Credit activity:			
Direct Loan Disbursements:			
American Samoa direct loan	13	6	—
Bureau of Reclamation direct loans	25	48	9
Subtotal, Direct loan disbursements	38	54	9
Guaranteed Loans:			
Indian loan guaranteed program	52	65	55
Total, Guaranteed loans	52	65	55

[1] Adjusted to include the full share of accruing employee pensions and annuitants health benefits.

For more information, see Chapter 14, "Preview Report," in *Analytical Perspectives.*

DEPARTMENT OF JUSTICE

The President's Proposal:

- Makes fighting terrorism and ensuring homeland security the Department's top priority;
- Launches a new, bold Border Security Initiative that infuses enforcement personnel with state-of-the-art technology to prevent illegal entry into the country;
- Consolidates federal assistance to state and local "first responders" by transferring the Office for Domestic Preparedness to the Federal Emergency Management Agency;
- Streamlines support of local law enforcement by consolidating duplicative programs and eliminating congressional earmarks;
- Promotes accountability in the nation's detention services by centralizing policy and financial oversight; and
- Supports investments to modernize antiquated state elections systems.

Department of Justice

John Ashcroft, Attorney General

www.usdoj.gov 202–514–2000

Number of Employees: 129,679

2002 Spending: $23.1 billion

Six major bureaus: Federal Bureau of Investigation, Immigration and Naturalization Service, Drug Enforcement Administration, Bureau of Prisons, U.S. Attorneys, and U.S. Marshals Service.

The Department of Justice (DOJ) enforces the nation's laws, combats terrorism, protects public safety, helps prevent and control crime, provides just punishment for criminals, and ensures the fair and impartial administration of justice. The Department has six major bureaus: the Federal Bureau of Investigation (FBI), the Immigration and Naturalization Service (INS), the Drug Enforcement Administration (DEA), the Bureau of Prisons (BOP), United States Attorneys, and the United States Marshals Service (USMS).

Defending the Nation Against Public Enemy Number One



Terrorists strike on American soil.

Defending the nation and its citizens against terrorist attacks and ensuring the protection and security of our homeland under the law is now the Department of Justice's first priority. The Department has promised the American people that it will:

- disrupt and dismantle terrorist activity and terrorist networks;
- bolster homeland security by preventing terrorist attacks before they occur; and
- help bring to justice those who would perpetrate terrorist acts against Americans.

The September 11th attacks on the World Trade Center, the Pentagon, and in the air over Pennsylvania brought home the heightened threats to the nation and illustrated tragically the gaps in our counterterrorism efforts. While many corrective actions have been taken, such as the shutting down of financial networks exploited by many terrorists, much remains to be done. The President's Budget proposes a number of initiatives to address these challenges and increases funding by $2.0 billion to support these efforts. As shown in the accompanying table, most of this funding goes to the FBI and INS.

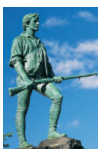
2003 Counterterrorism Enhancements
(Budget authority in millions of dollars)

Immigration and Naturalization Service	994
Federal Bureau of Investigation	646
United States Attorneys	99
General Legal Activities	35
Counterterrorism Fund	35
United States Marshals Service	47
All other	118
Total	1,974

The Mission: Seek, Find, Destroy

Some of the major areas proposed for improvement are highlighted below.

- Timely and useful intelligence is a key to preventing terrorist attacks**.** The budget provides $155 million for the FBI and INS to improve their intelligence gathering and dissemination capabilities. This funding would support additional intelligence analysts, surveillance staff, and electronic surveillance equipment. It would also expand the use of Joint Terrorism Task Forces, which combine the resources and talents of federal, state, and local law enforcement agencies at locations throughout the country. This funding also includes $35 million for the Attorney General to enhance other intelligence gathering capabilities, including those of the Drug Enforcement Administration.
- Cybercrime attacks against our critical infrastructure could result in major disruptions and economic loss. The budget strengthens the FBI's efforts to detect and prevent such attacks.



- The northern border has become an attractive gateway for potential terrorists. The budget builds on 2002 initiatives for the northern border by adding enough resources to more than double the number of Border Patrol agents and inspectors and design and construct new Border Patrol and inspection facilities.

Putting Technology on the Beat

The 2003 Budget also expands ongoing efforts to correct the FBI's seriously deficient information technology infrastructure by providing $186 million for additional upgrades. While the FBI will continue to face information technology challenges beyond 2003, the funding that has been provided in 2002 and requested for 2003 will enable the FBI to enhance internal communications, upgrade personal computers, and institute new security measures.

Out with the Old... In with the New



The FBI's basic information technology capabilities have fallen behind other government agencies and the private sector. Speedy personal computers are not available to many FBI employees. Inefficient sharing and searching of information contained in the FBI's many databases hinder investigations. Databases housing sensitive information need to be better protected from external attacks and internal misuse, as evidenced by the loss of classified information to convicted spy Robert Hanssen. The FBI is aggressively correcting this situation, using a large infusion of funds provided in 2002.

To be effective, law enforcement programs must be supported by a wide array of physical and technical capabilities and infrastructure. The budget includes a number of initiatives to improve current capabilities. For example, the INS will modernize and expand its systems to control aliens entering and exiting the United States through visitors', temporary workers', and other visas. Also, FBI and DEA will improve safeguards that protect critical information systems from unauthorized access or misuse. Also, the FBI will replace older fleet aircraft with newer, more sophisticated aircraft with advanced surveillance and investigative capability. The INS will increase its air surveillance fleet to enable more thorough coverage of border areas. The FBI and DEA will also improve protection for their personnel, facilities, and information from attack and the U. S. Marshals Service will upgrade security at federal courthouses nationwide.

Border Security

To address the gap in securing the nation's borders, the budget proposes a bold, new initiative. The Border Security Initiative brings additional law enforcement personnel together with advanced, state-of-the art technology and systems to better prevent illegal entry into the country, target persons who are a threat to homeland security, and assist with non-U.S. citizens entering and exiting the country. Components of this initiative include:

- Implementing a comprehensive entry/exit system to track the arrival and departure of non-U.S. citizens while speeding entry of routine, legitimate traffic and dramatically improving our ability to deny access to those that should not enter. The new system will leverage advanced technology and construction investments to ensure a timely and secure flow of traffic;
- Deploying force-multiplying equipment, including remote operated infrared cameras, to monitor isolated areas where illegal entry may have once occurred; and
- Integrating now-separate information systems to ensure timely, accurate, and complete enforcement data is available to the field.

The Honor System Gone Haywire

When Immigration inspectors close up shop, those who wish to cross the border are on their honor to either report to the unmanned video camera or wait until morning.

Prior to the September 11th attacks, many northern border crossings were left unmanned overnight. So persons wishing to enter the U.S. legally were required to turn back and wait until the next morning or proceed, often many miles, to the nearest open port-of-entry.



No effective border enforcement was in place at these locations. Today, as a result of emergency funding to cover overtime pay, all official border crossings are manned 24 hours a day, seven days a week.

Status Report on Select Programs

The Administration is reviewing programs throughout the federal government to identify strong and weak performers. The budget seeks to redirect funds from lesser performing grant programs or those that have outlived their usefulness, to those programs that support the fight against terrorism and ensure that our homeland is secure.

Program	Assessment	Explanation
Immigration enforcement	**Moderately Effective**	Immigration enforcement activities have made progress in gaining control along specific sections of the Southwest border, resulting in a decrease in apprehensions. Yet, total illegal immigration, including people overstaying their visas, remains high.
Immigration services	**Ineffective**	Unacceptably large application backlogs and lengthy processing times frustrate those who wish to legally enter the United States, unfairly disadvantaging them relative to undocumented immigrants. The Department is, however, making progress toward eliminating the backlog by the end of 2003, but needs to ensure a thorough screening of all applicants for deficiencies.
Community Oriented Policing Services (COPS)	**Unknown**	COPS grants have contributed to the spread of innovative police practices. However, the net effect on police hiring and national and local crime rates is uncertain.
Other State and Local Grant Programs	**Unknown**	The overall effect on crime is unknown because of widely varying program objectives, the lack of performance measures, and the relatively small share of local criminal justice spending. Congressional earmarks also limit the Department's ability to target funding where it is needed most.
Incarceration	**Effective**	Although the current supply of prison bed space is inadequate, alternative solutions are being utilized to address the problem. Additional prison capacity, either from new prison construction or the purchase of private or other prison facilities, will reduce crowding levels and continue to provide secure and humane confinement for inmates.

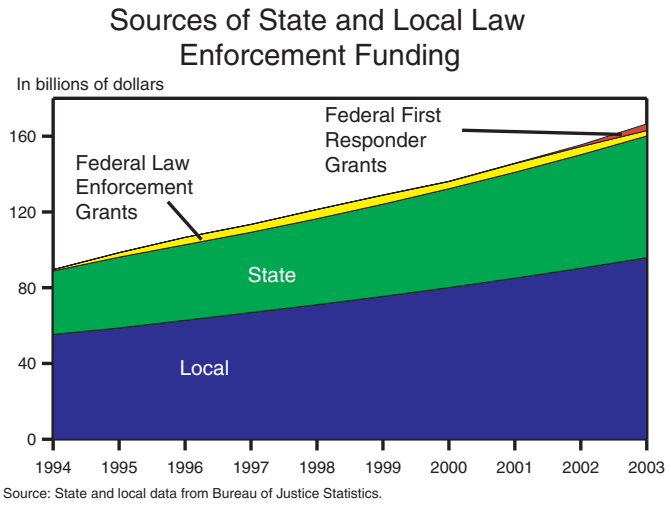
Redirecting Funds from Outmoded, Underperforming Programs to New Initiatives

To help offset the cost of increased funding for homeland security and counterterrorism in DOJ, the budget proposes reductions in grant and other departmental programs that have accomplished their mission, failed to demonstrate a clear impact on crime, or have been extensively earmarked by the Congress.

State and Local Assistance Programs

As discussed in the Federal Emergency Management Agency (FEMA) chapter, the budget requests $3.5 billion for FEMA to improve the terrorism preparedness of state and local first responders, including police, fire and emergency personnel. This represents a shift in priorities and funding from Department of Justice grants, which are reduced by $1.2 billion. However, total federal aid to state and local law enforcement will increase.

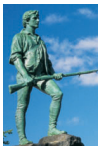
In recent years, departmental state and local assistance programs have included the State Criminal Alien Assistance Program (SCAAP), Byrne formula grants, Local Law Enforcement Block Grants, Juvenile Accountability Block Grants, and COPS hiring grants. Despite spending billions of dollars since 1994, virtually no evidence exists proving that these programs have had an impact on the nation's falling crime rate, and all lack verifiable measures of performance. SCAAP is not even intended to reduce crime, but merely to reimburse state and local government expenditures. Nevertheless, the President's Budget continues to support flexible grant funding for state and local law enforcement by merging several of these block grants into a new Justice Assistance Grant Program with stronger emphasis on performance accountability. This program will be funded at $800 million.



Alternatives to Prison Construction

Between 1993 and 2001, the federal government has spent over $4 billion constructing new prisons. During that time, the federal prison population has grown by over 76 percent, from 88,565 in 1993 to 156,572 in 2001. In response to rapid inmate growth, federal prison facilities grew from 72 in 1993 to 100 in 2001, with 18 additional institutions now underway.

Purchase of excess private sector and other correctional facilities may offer an affordable alternative to federal construction of additional prison space. The Department will evaluate the feasibility of purchasing private facilities for use by BOP.



Other Changes to Improve Program Performance

Congressional Earmarks

Crime rates remain at their lowest level in over 25 years, and the Department continues to spend over $4 billion a year to help state and local governments prevent, investigate, prosecute, and punish criminal behavior. While some programs that focus resources on high-crime areas have been effective, most of the several dozen Justice grant programs has not demonstrated a clear impact on crime. Their effectiveness and accountability have been further compromised by the congressional practice of earmarking funds for unrequested, non-competitive projects.

In 2002, earmarked projects made up 15 percent of total grant funding and 32 percent of non-formula funding. Some programs were hit especially hard: 100 percent of the COPS Law Enforcement Technology Program; 42 percent of the Methamphetamine Enforcement and Clean-Up Initiative; 75 percent of Crime Identification Technology Act Grants; and 99 percent of the Safe Schools Initiative. The Edward Byrne discretionary grant program had 98 percent of its appropriation earmarked, including $2 million for a Rural Agricultural Crime Program in California; $1 million for a distance degree program at Excelsior College, N.Y.; and $3 million for the Lewis and Clark Bicentennial Bi-State Public Safety Project in Idaho.

The budget consolidates these programs, eliminates earmarks, and, as part of the President's Homeland Security initiative, funds efforts where all levels of law enforcement entities can combat the threat of terrorism.

Office of the Federal Detention Trustee

The need for federal detention bed space has more than doubled in the last five years, from 32,000 detainees in 1996 to 67,000 detainees in 2001. This dramatic rise has resulted in an increased reliance on state and local governments and private contractors to provide bed space for federal detainees. This year alone, the Department will spend $1.8 billion on federal detainees. Currently, the INS, USMS, and BOP detain prisoners, with little department-wide coordination. Previously, the Office of the Federal Detention Trustee was established to manage the rising detainee population and exercise financial control and efficiency in federal detention operations. For 2003, the Administration proposes consolidating detention funding from INS and the Federal Prisoner Detention program under the Detention Trustee to improve financial accountability and ensure coordination throughout the department. This is the first crucial step toward achieving the Administration's goal of centralizing federal detention policy-making and funding and redresses the disconnect between the Department's bureaus.

Office of Domestic Preparedness

The budget transfers the functions of the Office for Domestic Preparedness (ODP) to FEMA, together with $235 million in funding. ODP has provided anti-terrorism equipment grants and training for state and local first responders.

Timely Citizenship



Bring Us Your Tired, Your Poor, Your Hungry … A Promise of Better Service

Thousands of people endure long waits at INS offices or at home for action on their immigration application. Those waiting in line hope that today they can talk with an INS official and file an immigration application. Others wait at home for months and even years to hear from the INS. This is an unacceptable situation – the immigrants to our country deserve better. By the end of 2003, the INS expects to achieve a six-month average processing goal for all applications.

In addition to securing the border, the INS is also responsible for processing immigration applications and petitions, such as "green card" or citizenship applications. Currently it takes on average 13 months for the INS to decide on an application for a green card. For someone to sponsor their relative to immigrate to the United States, it can take the INS anywhere from 19 to 43 months to process the request. Persons seeking citizenship wait 10 months on average.

The Administration is committed to building and maintaining an immigration service system that ensures integrity, provides timely and accurate services, and emphasizes a culture of respect. Last year, the Administration launched a five-year initiative to provide quality service to all legal immigrants, citizens, businesses and other INS customers. To support this commitment, the INS has developed a five-year plan to eliminate the immigration benefit backlog, a component of which is to ensure the thorough screening of all immigration applicants for deficiencies prior to their being admitted into the United States. The plan also provides for a six-month processing standard for all applications. In 2002, INS will implement several information technology initiatives to improve customer service, including providing on-line filing of multiple immigration applications.



U.S. citizenship ceremony.

In addition, to improve the efficiency and effectiveness of the INS in achieving its mission, in November 2001 the Attorney General unveiled a restructuring plan for INS that will reform the agency's structure by separating its service and enforcement functions. The restructuring of INS fulfills President Bush's pledge to reform the agency by creating a clear division between INS' two vital missions—service and enforcement.

Election Reform Grants

The budget includes $400 million in 2003 for a new DOJ matching grant program to enable state and local jurisdictions to take advantage of improved voting technologies and administration, including voting machines, registration systems, voter education, and poll worker training. This new program is consistent with the recommendations of a report on election reform issued by a national commission headed by former Presidents Ford and Carter.

Strengthening Management

In 2001, the Attorney General established the Strategic Management Council (SMC) to provide direction and leadership on strategic planning, resource management, and performance accountability. This "corporate board" now oversees the Department's resources and provides direction and leadership for long-range planning. The SMC evaluates and prioritizes funding requests submitted by departmental bureaus and was instrumental in aligning the budget request with the Department's strategic goals and objectives. The Department is making progress in addressing various President's Management Agenda initiatives.

Initiative	2001 Status
Human Capital—The Department submitted a workforce-restructuring plan that was developed prior to the attacks of September 11th. The plan did not address the following core criteria: human capital planning; standards for internal accountability systems; or a comprehensive citizen-centered, de-layered organizational structure. On November 8, 2001, the Attorney General announced a comprehensive reorganization to meet the counterterrorism mission. The Department's human capital strategy will be revised to address this new restructuring. The revised plan will ensure that the Department sustains a high-performing workforce that is continually improving in productivity and strategically uses existing personnel, tools, and technology. Specifically, the revised plan will: 1) identify skill gaps and deficiencies; 2) describe strategies to reward high performers and address low performance; and 3) develop an outsourcing strategy to accommodate the needs of displaced employees.	
Competitive Sourcing—The Department has not completed public-private or direct conversion competition for 15 percent of the government positions performing commercial functions. The Department has a competitive sourcing plan for achieving the five percent goal in 2002 and 15 percent by 2003, equating to 190 positions, based upon a 2000 commercial activities inventory of 1,264. Justice has increased the size of its commercial activities inventory from one percent in 2000, to over nine percent of its total workforce. The Department needs to continue to identify additional positions that could be added to its commercial activities inventory.	

Initiative	2001 Status
Financial Management—The Department is not in compliance with the requirements of the Federal Financial Management Improvement Act. The Department also does not meet federal accounting standards related to property accounting. Since the Department has material system non-conformances, it cannot provide a clean assurance statement about its controls. Justice received a clean opinion on two of its financial statements (i.e., the balance sheet and statement of custodial activity) and a qualified opinion on the remaining statements for 2000, due to lingering accounting problems at the INS. The Department has made progress in addressing issues identified by its auditor during the course of its annual financial audit. Justice expects to receive an unqualified opinion for 2001. In addition, DOJ will move forward to migrate its components from old financial systems to new systems that meet applicable standards.	
E-Government—The Department has a number of significant and pervasive information technology security weaknesses. In spite of recent progress, significant work remains to carry out a capital planning process fully. Justice's timetable calls for all bureaus to have completed plans by the end of 2002. To ensure system compatibility and improve information sharing and security, Justice's enterprise architecture efforts must be a high priority throughout the Department.	
Budget/Performance Integration—The Department does not have a performance plan that is tied to specific outputs, outcomes, or activities. There is no clear linkage between resource levels and outcomes. On November 8, 2001, the Attorney General announced a series of goals and management initiatives that reflect the changed priorities of the Department. These goals include revising the Department of Justice Performance plan to include clear, consistent performance measures that support the Department's Strategic Plan. The Department will focus on revising its plan and on improving the linkages between resources and outputs/outcomes in budget formulation and execution. In addition, the Department will demonstrate how performance influences budget decisions.	

Department of Justice

(In millions of dollars)

	2001 Actual	Estimate	
		2002	2003
Spending:			
Discretionary Budget Authority:			
Federal Bureau of Investigation	3,363	3,641	4,324
Drug Enforcement Administration	1,417	1,517	1,582
Immigration and Naturalization Service [1]	3,350	3,596	4,132
Federal Prison System	4,415	4,744	4,605
U.S. Marshals Service	626	670	737
U.S. Attorneys	1,303	1,397	1,551
State and Local Assistance	4,640	4,263	3,071
All other programs	2,518	2,098	3,069
Subtotal, gross discretionary budget authority adjusted [2]	21,632	21,926	23,071
Less Crime Victims Fund delay [3]	—	—	–1,261
Remove contingent adjustments	–440	–465	–492
Total, Discretionary budget authority	21,192	21,461	21,318
Emergency Response Fund, Budgetary Resources:			
Federal Bureau of Investigation	37	785	—
Immigration and Naturalization Service	—	584	—
Office of Justice Programs	—	19	—
All other programs	4	103	—
Total, Emergency Response Fund, Budgetary resources	41	2,191	—
Mandatory Outlays:			
Immigration and Naturalization Service	1,497	1,687	2,091
September 11th Victims Compensation	—	1,080	2,700
All other programs	1,117	1,667	2,536
Subtotal, Mandatory outlays adjusted [2]	2,614	4,434	7,327
Less mandatory receipts	–1,998	–2,576	–2,605
Remove contingent adjustments	–45	–51	–54
Total, Mandatory outlays	571	1,807	4,668

[1] In 2003, $615 million is transferred from INS to the Detention Trustee, and is included in the "All Other Programs" total.

[2] Adjusted to include the full share of accruing employee pensions and annuitants health benefits. For more information, see Chapter 14, "Preview Report," in *Analytical Perspectives.*

[3] Savings from the Crime Victims Fund were $525 million in 2001 and $1,033 million in 2002.

DEPARTMENT OF LABOR

The President's Proposal:

- Provides for reform of Unemployment Insurance and Employment Service administration to strengthen state control and improve customer service;
- Includes over $9 billion in budgetary resources for federal job training and other dislocated worker services, and redirects funds from poorly performing programs to effective ones;
- Strengthens the integrity of worker compensation and benefit programs by cutting excessive and frivolous payments;
- Advances non-bureaucratic methods to improve safety in the workplace; and
- Eliminates backlogs in the permanent alien labor certification program.

Department of Labor

Elaine L. Chao, Secretary

www.dol.gov 1–866-4–USA–DOL

Number of Employees: 17,432

2002 Spending: $58.6 billion

Field Offices: 568 field offices with locations in 50 States, plus Puerto Rico, Guam, and the Virgin Islands.

The Department of Labor (DOL) runs unemployment insurance, job training and employment, and workers' compensation programs. It collects, analyzes, and publishes labor and economic statistics. DOL also is responsible for the administration and enforcement of laws that: protect workers' wages, health and safety, and employment, pension, and other benefit rights; promote equal employment opportunity; and ensure free collective bargaining.

Status Report on Select Programs

The Administration is reviewing programs throughout the federal government to identify strong and weak performers. The budget generally seeks to redirect funds from poorly performing programs to more effective ones. The table that follows shows the status of some DOL programs.

Program	Assessment	Explanation
Job Corps	**Effective**	Residential program for disadvantaged youth is a cost-effective investment, despite its high cost per participant-slot ($31,700 per year). It increases their lifetime earnings.
Bureau of Labor Statistics	**Effective**	Produces accurate, timely, and pertinent data and has considerably improved the accuracy of its price indexes.
Pension Benefit Guaranty Corporation	**Effective**	In insuring certain pensions against company bankruptcy, between 2000 and 2002, it shortened the time it takes to calculate affected workers' final benefits by almost two years.
One-Stop Career Centers	**Unknown**	Grant program helps fund local one-stop employment centers nationwide but has not been evaluated.
Employment Service	**Unknown**	Currently rates its performance only in terms of services provided to job seekers, but is developing measures based on whether job seekers find work.
Veterans' Employment and Training Service	**Ineffective**	Unnecessary overhead. Duplicative bureaucracy monitors another employment program, rather than helping veterans find and retain jobs.
H-1B Technical Skills Training Grants	**Ineffective**	Does not raise skills of U.S. workers in specialty and high-tech jobs so that employers' demand for temporary alien workers with H-1B visas will decline.
Alien Labor Certification	**Ineffective**	Processing employer applications for permanent certification is labor intensive and takes up to six years. Federal and state reviews are redundant.
Prevailing Wage Determination Systems (Davis-Bacon and Service Contract Acts)	**Ineffective**	Paper-intensive, user-unfriendly processes require modernization.

Comprehensive Reform of Unemployment Insurance and Employment Service

The Unemployment Insurance (UI) and Employment Service (ES) system needs reform. The Administration proposes short- and long-term reforms that promote flexibility and strengthen the critical unemployment insurance and employment services that states provide to America's workers and employers.

Near-term reforms are designed to meet the immediate needs of unemployed workers during the current economic slowdown. The Administration supports an economic security package in 2002 that includes:

- Extended Unemployment Benefits. A temporary extension of up to 13 weeks of unemployment benefits would be available in all states.
- Immediate distribution of billions in Reed Act funds. States would receive $9 billion in excess funds in the U.S. Treasury's Unemployment Trust Fund, some of which are scheduled to be distributed on October 1, 2002. These funds could be used to expand benefits and services, shore up low reserves in state trust funds, or allow a cut in employer payroll taxes.

Consistent with these immediate reforms, the Administration's long-term vision will make unemployment insurance benefits and employment services more responsive to the needs of workers and employers, give states needed flexibility, and promote economic growth. This long-term reform connects the principles articulated in the President's economic security package with the long-term reforms needed for workers, employers, and states, which have clamored for change for the past decade. For example:

- Workers argue that it is currently too difficult for states to "trigger" extra weeks of UI benefits during a recession.
- Employers complain that their federal unemployment taxes are too high, and that too few of those funds go back to states to run the UI and ES programs.
- States are frustrated that current funding arrangements have hampered their ability to provide timely, accurate benefits and effective reemployment services.

The Administration's long-term reforms will address these concerns by:

- Enabling more workers to receive Extended UI Benefits, by making the program more responsive to unemployment swings.
- Reducing employers' federal payroll taxes, spurring economic expansion.
- Allowing states to control their own administrative funding, which will help improve the timeliness and accuracy of benefit payments, and target more resources on preventing and detecting overpayments.

The Administration's reform proposal includes five components. They are:

1. Reforming Extended Benefits (EB). In many states, it is currently very difficult to "trigger on" EB during a recession. The Administration's proposal would make EB more responsive to unemployment swings, while continuing to pay half the cost of EB.
2. Cutting FUTA taxes. The Administration proposes to cut the Federal Unemployment Tax Act (FUTA) payroll tax by 25 percent in 2003, with gradual reductions over the next four years. Beginning in 2007, FUTA will be maintained at 0.2 percent of the first $7,000 in wages, compared with 0.8 percent currently.

3. Allowing states to finance UI and ES operations. Currently, state taxes pay for unemployment benefits. The federal government pays the cost of administering the UI and ES programs. Under the Administration's proposal, states would use their existing UI taxes to finance UI and ES administration, and tailor unemployment and employment services to meet the unique needs of their workers and employers.
4. Ensuring a smooth transition. During the five-year transition, the Administration would help states implement the funding changes by providing billions from the U.S. Treasury's Unemployment Trust Fund. In addition, phased implementation would allow states ample time to enact any necessary legislation.
5. Continuing loans to states. To ensure that no worker would be denied UI benefits because of funding shortfalls, the federal government would continue to provide loans to any state that runs short of funds to pay unemployment benefits.

With the Administration's short- and long-term reforms, states will be well positioned to respond immediately to changing economic conditions and better serve workers through a strengthened unemployment insurance and employment service system.

Reform of Federal Job Training Programs

The President's commitment to providing employment and training services to dislocated workers is reflected in the Administration's bipartisan support of a economic security plan, through which $4 billion would be available in 2002–2003 through the National Emergency Grants (NEG) program. Besides providing job training and reemployment services, states could also use these funds to provide targeted assistance for dislocated workers with distinctive needs, including additional assistance with health care costs. The flexible, targeted NEG program will provide customized assistance to help dislocated workers make the transition through a difficult period and return to work as quickly as possible.

Although the Administration is committed to providing the services for dislocated workers as soon as they are needed, estimates indicate that about $3 billion of the NEG funds from the bipartisan economic security plan will be carried forward into 2003. In addition, $1.3 billion in unspent resources will be carried forward from state formula grant training and employment programs, and the 2003 Budget includes $5 billion for the programs authorized by the Workforce Investment Act (WIA). As a result, more than $9.3 billion will be available for investments in job training and other dislocated worker services in 2003. This is 36 percent more than is expected to be spent through these programs in 2002. (See table on unexpended resources and the bipartisan economic security plan.) As a result, total available resources could support approximately 500,000 to 800,000 more participants than the 2.2 million participants expected in the WIA programs in 2002.

Unexpended Resources and the Bipartisan Economic Security Plan Allow Large Increase in Investments in Job Training and Other Dislocated Worker Services

	Budgetary Resources (In millions of dollars)
2001	
Amount Spent	4,525
2002	
New Budget Authority	5,631
Unspent from prior years	1,532
National Emergency Grants (NEGs)—Bipartisan Economic Security Plan	4,000
Total	11,163
Amount expected to be spent[1]	**6,827**
Amount expected not to be spent	4,336
2003	
New Budget Authority	4,976
Unspent from prior years	4,336
(183% more than carried into 2002)	
Total that Can be Spent	**9,312**
(36% more than expected to be spent in 2002)	

[1] Assumes that $1 billion of the $4 billion in NEGs will be spent in 2002.

While the Administration is supporting a large near-term increase in funds for dislocated worker assistance, the 2003 Budget is launching a long-term reform of the federal government's overlapping training and employment programs. The federal government has at least 48 training and employment programs scattered around 10 agencies. Although the programs vary considerably, their common goal is to improve participants' employment and earnings. However, no consistent measure exists to compare results across these programs. Definitions vary, data quality is uneven and collected using different statistical techniques. Many federal training programs tend to adopt easy performance measures (such as participants served) rather than outcomes like landing and keeping a job or earnings increases.

The Federal Government's Multiple Job Training Programs

Agency (and selected programs)	Number of Programs		Target Group	2003 (In millions of dollars)	Cost Per Participant
	2002	2003			
Department of Labor	17	9		***6,892***	
Dislocated Workers			Laid-off workers	1,383	$1,800
Adult Employment and Training			All adults	900	$2,500
Youth Activities			Low-income youth	1,001	$2,530
Job Corps			Low-income youth	1,532	$31,700
Department of Education	10	6		***4,503***	
Adult Education			Adults and U.S. immigrants	575	$493
Vocational Education			High-school, college students	1,180	Unavailable
Vocational Rehabilitation Grants to States			People with disabilities	2,616	$2,042
Department of Health and Human Services	5	5		***1,618***	
Temporary Assistance to Needy Families			Low-income families	1,515	Unavailable
Refugee Assistance			Newly-arrived refugees	57	Unavailable
Department of Veterans Affairs	1	2		***779***	
Vocational Rehabilitation and Employment Services and Benefits			Unemployed veterans with service-connected disabilities	602	$10,050
Grants for Veterans Employment			Veterans	177	Not Applicable (transfer)
Other					
Department of Agriculture	1	1	Food Stamp recipients	259	$175
Department of the Interior	10	1	American Indians and Alaska Natives	9	Various programs; no single estimate
Department of Housing and Urban Development	1	1	High-school dropouts	65	$20,000
Department of Defense	1	1	High-school dropouts	63	$15,609
Appalachian Regional Commission	1	1	Low-income Appalachians	8	Unavailable
Denali Commission	1	1	Low-income Alaska Natives	3	$2,770
Total	**48**	**28**		**14,199**	

The 2003 Budget will launch a multi-year effort to reform job training programs, target resources to programs with documented effectiveness, and eliminate funding for ineffective, duplicative, and overlapping programs. The proposed reforms would reduce the number of job training programs from 48 to 28 (see table on federal job training programs). Reforms include:

- *Expanding an effective program.* The 2003 Budget proposes $1.5 billion for Job Corps, a residential vocational training program for disadvantaged youth. Although Job Corps is DOL's costliest program, with a unit cost of roughly $31,700 per service year, research has demonstrated that it is a cost-effective federal investment. The 2003 Budget provides a five percent increase above 2002, increases funding for teacher pay and new centers, and supports 122 residential training centers—an increase of four centers over 2001–2002.



The Job Corps provides students with skills that help them secure jobs such as electrical technician.

- *Reauthorizing WIA.* In 2003, the WIA's authorization expires, providing the Administration an opportunity to evaluate critically the current program structure, financing, and performance. The Administration will undertake that work in the coming year, and the 2004 Budget will outline a proposal to further consolidate training programs.

- *Transferring veterans' employment programs to the Department of Veterans Affairs (VA).* The 2003 Budget will transfer $197 million to VA that DOL currently uses to finance three veterans employment programs. This proposal would implement a recommendation of the 1999 Congressional Commission on Servicemembers and Veterans Transition Assistance, which concluded that DOL's programs do not serve veterans well. With VA demonstrating its commitment by demanding employment results, the programs will better serve veterans' employment needs.

National Skill Standards Board

The National Skill Standards Board (NSSB) is intended to help industries develop voluntary skill standards for occupations in 15 industry clusters. Since its inception in 1995, NSSB has spent $45 million to help create standards in occupations that include bellboys, bus boys, and waiters. The 28-page standard for bus boys includes detailed instructions for clearing tables. The manufacturing industry standard includes as a skill "be depended on not to steal equipment and materials." The 2003 Budget terminates funding for the NSSB.

- *Closing ineffective programs.* The 2003 Budget will end funding for several training programs that have a history of poor performance, or where the federal role is inappropriate. For example, no funding is requested for the Migrant and Seasonal Farmworker program, which has demonstrated little success in helping these low-income workers secure good jobs outside of agriculture. Roughly three-fourths of this program's participants never enroll in training. The population

previously served by this program is eligible for the WIA Adult Activities program, the Migrant High School Equivalency Program (HEP) and College Assistance Migrant Program (CAMP), which help migrant students complete high school and succeed in college. The budget also ceases funding for the National Skill Standards Board, whose funding for industry skill standards has not been a cost-effective use of taxpayer dollars.

Reform of Worker Benefit Programs

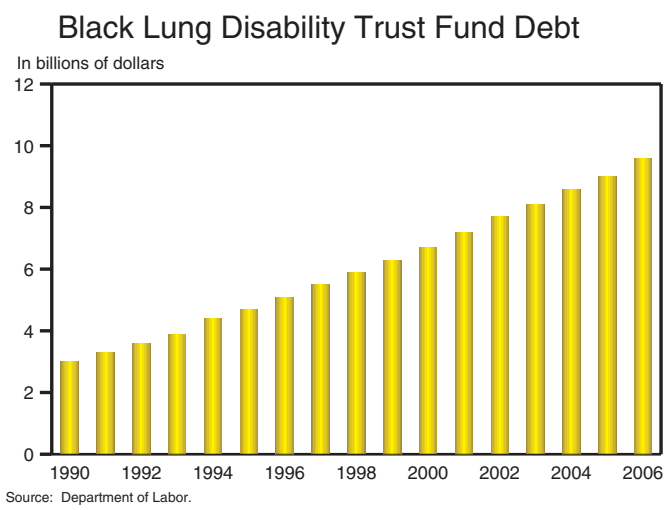
Through the Office of Workers' Compensation Programs (OWCP), DOL provides benefits to individuals who are unable to work due to occupational injury or illness. The Federal Employees' Compensation Act (FECA) and Black Lung Benefits Act (Black Lung) programs provide cash and medical benefits along with rehabilitation services to disabled federal employees and coal miners, respectively.

DOL's Inspector General and others have proposed reforms for the FECA program to identify and prevent fraud, reduce the number of frivolous claims, and improve customer service. The Black Lung Disability Trust Fund, from which Black Lung benefits are paid, faces a mounting $8 billion debt. In 2002, the Trust Fund's interest payments on its debt alone will not only surpass the program's benefit and administrative costs, but also its total excise tax revenues.

FECA improvements. In 2003, the budget proposes four reforms to improve FECA's management. They include changes to:

- *Strengthen program integrity.* In 2003, OWCP will continue efforts to review claimants periodically to: determine if claimants still are unable to work; prevent overpayments to individuals and medical providers; and review the appropriateness of medical services. Periodic claims reviews have saved an estimated $500 million since 1992.
- *Implement "full cost" budgeting for FECA.* The budget amends FECA to allow DOL to add an administrative surcharge to the amount billed to federal agencies for their FECA compensation costs. This change requires that federal agencies bear the full costs (administrative as well as benefit) of their employees' FECA claims, bolstering their incentive to improve workplace safety.
- *Discourage frivolous claims.* The budget proposes to amend FECA to move the waiting period for benefits to immediately following an injury, and apply it to all claims in line with every state workers' compensation system. This change would deter illegitimate claims.
- *Promote benefit equity.* Because FECA benefits are tax-free, they are, on average, about 25 percent more generous than an individual could receive under the federal retirement system, possibly providing an incentive for individuals to remain on the FECA rolls past when they would otherwise have retired. The budget does not propose to reduce the benefits of any current FECA beneficiaries. However, for future FECA beneficiaries, the budget proposes to change the program so that individuals over age 65 receive the same benefits as are available under federal retirement programs.

Black Lung reforms. The 2003 Budget will attack two longstanding problems in the Black Lung program. The Administration will:



- *Restructure the debt.* In the program's early years, Black Lung's excise tax revenue was not enough to fund the program, so DOL borrowed from the Treasury to cover the shortfall. Although excise tax revenue has generally been sufficient to cover medical and income support costs since 1990, the revenue has not been sufficient to cover the interest payments due on Treasury borrowing dating from 1978. To date, DOL has repaid none of the principal and has been forced to borrow additional funds just to meet its interest payments on what has grown to be an $8 billion debt (see accompanying chart). The Administration will propose legislation to restructure the Trust Fund's debt, prevent further growth, and eventually retire it.
- *Consolidate administration.* The budget proposes to consolidate administration of all Black Lung benefit cases in DOL, relieving the Social Security Administration of the duty to administer claims filed prior to 1974 and improving administrative efficiency.

Promoting Voluntary Compliance with Labor Laws

Easing DOL's Regulatory Burden

A key part of helping employers comply with regulatory requirements is ensuring that the regulations are reasonable and comprehensible. OSHA's "means of egress" rule sets requirements for emergency exits but is filled with jargon only an attorney could love. The rule warns employers that no "furnishings, decorations, or other objects shall be so placed as to obstruct exits, access thereto, egress therefrom, or visibility thereof," rather than saying simply that emergency exits must not be blocked. OSHA is simplifying its rules to cut out jargon and make them understandable to small businesses. Also, DOL is reviewing all regulations it planned to impose on small and large businesses, states and localities, community organizations, and the public to remove rules that are outdated or overly burdensome. As a result, DOL has reduced by 25 percent the number of regulatory actions it has planned for the next year.

DOL enforces more than 180 worker protection laws. However, its "cop on the beat" activities have their limits. The Occupational Safety and Health Administration (OSHA), for example, can conduct about 36,000 inspections per year. Although the number looks impressive, it also means that the agency can reach each workplace only once every 167 years. Through its electronic compliance assistance tools, however, OSHA can help millions of employers assess and improve the safety of their workplaces. Helping employers to comply with workplace laws and regulations is DOL's most cost-effective way to protect workers from on-the-job injuries and illnesses.

Compliance assistance tools, such as self-audits, are designed to encourage employers to voluntarily correct violations before employees are hurt. If given clear, timely, and accurate information on legal and regulatory requirements, the vast majority of employers will comply voluntarily. On-line tools, as well as training and technical assistance, help employers and workers understand labor laws and requirements. For example, "eTools" are Web-based, menu-driven modules designed to help employers put occupational safety and health regulations into effect. The 2003 Budget request includes an estimated $188 million for compliance assistance efforts of OSHA, the Mine Safety and Health Administration (MSHA), and the Pension and Welfare Benefits Administration (PWBA).

Improving Performance

Wide-ranging reforms proposed in the 2003 Budget are designed to improve performance of many of DOL's existing programs and attack longstanding problems.

DOL's program to certify foreign workers as eligible for permanent employment in the United States can take employer applicants up to six years to navigate as they complete the paperwork that allows prospective workers to petition for work-based visas. While this complex, labor-intensive process drags on, applications pile up and many foreign workers awaiting certification are employed in violation of U.S. laws. The Administration is taking action to overhaul this broken program and proposing legislation in the 2003 Budget to redirect certain existing employer application fees to eliminate the large backlogs. The new application process is expected to take three weeks for most applications and a maximum of six months' processing time for certification applications that are audited.

The Administration proposes a two-pronged solution that would:

- *Introduce regulatory reform.* During 2002, DOL will propose regulations to reform the permanent alien labor certification program and prevent future backlogs by automating application processing and reducing the state workload after 2003. DOL staff would assume processing responsibilities, and most determinations would be made within 21 days of the date an application is filed.
- *Redirect H–1B fees.* Legislation would redirect the portion of DOL's revenues from the existing H-1B fee that currently supports an ineffective training grant program. The $138 million grants program—which has proven

H–1B Training Grants

The H–1B Training Grant Program is supposed to train U.S. workers for jobs in which labor shortages have caused employers to hire foreign workers through the H–1B visa program. These highly educated workers typically work in the high-tech and health care industries. Unfortunately, DOL's $138 million H–1B Training program, which is financed through a $1,000 fee paid by employers, never has filled and has no prospect of filling these labor shortages. At times, funds wind up training workers for decidedly low-tech jobs. One grant financed training for cable installers; another trained licensed practical nurses; while a third was open only to union members in the entertainment industry. The budget will take the program's H–1B fees funding and redirect it to eliminate large backlogs in the permanent alien labor program, thereby better serving workers and employers alike.

ineffective—would be redirected to clear the backlog for the permanent certification program at the state and federal levels.

Strengthening Management

In 2003, DOL will continue to address its management challenges to further its contributions to a strong U.S. workforce. Secretary Chao is aggressively implementing the President's Management Agenda. In August 2001, the Secretary created the Management Review Board (MRB) to combat agency decentralization and ensure a coordinated, Department-wide approach to promoting management reforms. MRB's accomplishments include an overhaul of DOL's performance appraisal system for managers and executives to evaluate personnel against progress on management agenda items. In addition, MRB is consolidating DOL's disparate e-mail systems to improve efficiency and customer service.

Erroneous Unemployment Insurance Benefit Payments

In 2001, the Unemployment Insurance system paid $27 billion in benefits to unemployed workers. DOL estimates that benefit overpayments were about $2.3 billion—or approximately $200 per beneficiary. An IG investigation found that a Las Vegas man created 13 fictitious companies and submitted UI claims for 36 fictitious claimants. He was sentenced to prison and ordered to pay $230,500 in restitution.

Stewardship of taxpayer funds requires systematic policies and procedures to ensure sound financial management of federal programs. In the UI program, DOL and the states operate programs to detect and pursue recovery of overpayments, but more work must be done. The 2003 Budget includes two proposals to cut UI waste and fraud. First, $2 million is requested for the Inspector General to uncover fraudulent benefits schemes and train states to detect and reduce overpayments. Second, $10 million is requested to finance state efforts to use existing databases to eliminate fraudulent payments to employed workers, illegal aliens, and fictitious employers.

DOL is actively implementing the President's faith-based and community initiative. It aims to improve delivery of social services by drawing on the strengths of faith-based and community groups and ensuring that these organizations compete for federal grant funds on a level playing field. To encourage greater competition and participation in DOL's grant programs by these organizations, DOL scrutinized its program applications to strip away barriers. For instance, DOL discovered that under the Women in Apprenticeships and Nontraditional Occupations (WANTO) program, applicants were required to demonstrate a "history of commitment to economic and social justice." DOL dropped this ambiguous and restrictive language, and received 37 applications, more than twice the average received in recent years. Of the 11 grant recipients, four were new applicants who never had received a WANTO grant. One of the new grantees is the Access Agency of Willimantic, Connecticut, which is connecting Spanish-speaking women to language programs and employers for career-ladder job opportunities.

Initiative	2001 Status
Human Capital—DOL has completed a Workforce Restructuring Plan that demonstrates its full awareness of certain skills and performance gaps, and is taking action to address its needs. DOL has overhauled the performance appraisal system for its 2,100 managers and senior executives. Also, DOL effectively uses succession planning, and retention and recruitment bonuses to retain and hire effective employees. In 2003, DOL will implement significant restructuring to better align its workforce with its mission. It will eliminate 373 positions that are unnecessary, resulting in savings of $31 million. It also will consolidate five duplicative public affairs offices in DOL's agencies into the Secretary's Office, eliminating nine positions at savings of $1 million.	
Competitive Sourcing—DOL has not effectively examined its workforce to determine all the tasks that its employees perform that are available commercially, including certain administrative and financial activities. Further, DOL has not identified activities necessary to meet the Administration's 2002 or 2003 competitive-sourcing targets. Possible areas to consider include training specialists, administrative personnel, and claims processing clerks. To get on track and take advantage of competitive sourcing, DOL will reevaluate all of its positions and reclassify some so that only those positions that are truly "inherently governmental" are removed from consideration for competitive sourcing. DOL also will finalize its plan to compete or directly convert at least 140 positions in 2002 and 280 in 2003 to meet the Administration's two-year 15 percent goal, in an effort to eventually competitively source 50 percent of its commercial activities.	
Financial Management—Although DOL has received "unqualified" opinions from independent auditors on its financial statements since 1997, it has identified two small systems in its Wage & Hour Division that do not comply with accepted federal standards for financial management and internal controls. Recognizing the importance of financially sound systems, DOL will correct these problems in 2002. DOL will improve its oversight of the performance of its grantees and contractors and increase its auditing and technical assistance to states to identify fraud and reduce erroneous payments in Unemployment Insurance.	
E-Government—DOL's information technology (IT) is built on a strong enterprise architecture and planning process. DOL is the only federal agency with Department-wide IT financing to ensure that its investments are cost-effective and serve the entire organization mission. DOL has used IT to serve citizens better. For example, OSHA accepts health and safety complaints over the Internet; individuals can use the Internet to discover lost pensions; and a pilot project allows people to calculate approximate retirement benefits on line. In 2003, DOL will continue to lead a government-wide project for Eligibility Assistance On line, which provides citizens easier access to information on benefits and services for which they are eligible. DOL also will increase opportunities for citizens, businesses, and unions to electronically file claims, reports, and other documents for programs and benefits administered throughout much of DOL.	

Initiative	2001 Status
Budget/Performance Integration—The data that DOL collects are often of poor quality and reliability. Also, often data are not available soon enough to tie funding to performance. Much of the data come from states and localities, and the challenges that DOL faces are due in part to problems there. Starting in 2002, DOL will integrate planning and budgeting in its annual performance plan. It will demonstrate significant progress toward aligning programs' funding with their performance. In that spirit, DOL will work with other agencies, including the Department of Education, to develop a crosscutting performance measure for all federal job training programs. Current job training measures vary widely among programs, and some programs are better than others in managing based on performance data.	

Department of Labor

(In millions of dollars)

	2001 Actual	Estimate 2002	Estimate 2003
Spending:			
Discretionary Budget Authority:			
Training and Employment Services [1]	5,635	5,457	4,981
Bipartisan Economic Security Plan National Emergency Grants (non-add)	—	*4,000*	—
Unemployment Administration [2]	2,434	2,788	2,728
Employment Service/One-Stop Career Centers	1,016	987	958
Community Service Employment for Older Americans	440	445	440
Occupational Safety and Health Administration	438	457	449
Mine Safety and Health Administration	259	268	264
Employment Standards Administration	384	393	313
Pension and Welfare Benefits Administration	111	114	121
Bureau of Labor Statistics	464	489	511
Veterans' Employment and Training			
Existing Law	213	214	212
Legislative proposal [3]	—	—	–197
Bureau of International Labor Affairs	148	148	55
Information Technology	37	50	74
Office of Disability Employment Policy	23	38	47
All other programs (non-add)	*418*	*432*	*455*
Office of the Inspector General	58	60	65
ETA Program Administration	167	169	179
Departmental Management	181	190	197
Pension Benefit Guaranty Corporation	12	12	13
Subtotal, Discretionary budget authority adjusted [4]	12,020	12,280	11,411
Remove contingent adjustments	–92	–95	–82
Total, Discretionary budget authority	11,928	12,185	11,329

Department of Labor—Continued

(In millions of dollars)

	2001 Actual	Estimate	
		2002	2003
Emergency Response Fund, Budgetary Resources:			
National Emergency Grants (Dislocated Workers)	25	—	—
New York State Workers' Compensation	—	175	—
Other	5	45	—
Total, Emergency Response Fund, Budgetary resources	30	220	—
Mandatory Outlays:			
Unemployment Insurance/Employment Service [5]	27,989	44,594	40,795
Black Lung Disability Benefits Act:			
Existing Law	1,016	1,039	1,038
Legislative proposal (debt refinancing)	—	—	1,606
Legislative proposal (transfer from SSA)	—	—	420
Federal Employees' Compensation Act (FECA):			
Existing Law	124	145	209
Legislative proposal	—	—	–3
H-1B Training and Administration:			
Existing Law	24	165	156
Legislative proposal	—	—	80
Pension Benefit Guaranty Corporation [6]	–1,080	–1,330	–1,383
All other programs	781	1,464	1,093
Subtotal, Mandatory outlays adjusted [4]	28,854	46,077	44,011
Remove contingent adjustments	–3	–6	–6
Total, Mandatory outlays	28,851	46,071	44,005

[1] Training resources shown in 2003 exclude additional, significant, carryover funds from prior years' appropriations, including an expected $3 billion of Bipartisan Economic Security Plan National Emergency Grants funding that will be carried into 2003. New budget authority, plus these unexpended balances—estimated at over $9 billion—will support a substantially higher level of job training services in 2003 compared to 2002.

[2] 2001 and 2002 include estimated use of workload contingency funds triggered on during economic slowdown.

[3] Transfer all but one grant program to the Department of Veterans Affairs; $14 million covers the retention of 51 FTE to oversee USERRA and veterans' preference requirements and the Veterans Workforce Investment Act program.

[4] Adjusted to include the full share of accruing employee pensions and annuitants' health benefits. For more information, see Chapter 14, "Preview Report," in *Analytical Perspectives.*

[5] Unemployment insurance reform proposal has only outyear effects on outlays.

[6] Net outlays are negative because offsetting collections (e.g., insurance premiums) exceed gross outlays.

DEPARTMENT OF STATE AND INTERNATIONAL ASSISTANCE PROGRAMS

The President's Proposal:

- Targets military and economic assistance to sustain key countries supporting the United States in the war on terrorism;
- Trains foreign law enforcement and armed services to improve their counter-terrorist capabilities;
- Attacks narcotics trafficking in source countries through training, equipment and law enforcement cooperation;
- Provides employees at U.S. diplomatic missions with safe, secure, and functional facilities;
- Promotes democracy and protection of human rights throughout the world;
- Maintains strong U.S. leadership in funding the international HIV/AIDS prevention and care campaign;
- Affirms America's tradition of international humanitarian relief for refugees, displaced people and victims of disasters;
- Increases the U.S. commitment to preserving the world's tropical forests and promotes environmental sustainability;
- For the first time, links U.S. support for international financial institutions to performance;
- Ensures continued U.S. leadership in responding to threats to international peace and stability through peacekeeping activities; and
- Strengthens global broadcasting and public diplomacy to communicate American ideals and beliefs to vital audiences in countries in conflict and transition, especially in the Middle East.

The foreign affairs functions of the U.S. Government are carried out through a complex structure of agencies—with foreign policy and diplomatic relations led by the Department of State; development assistance led by the U.S. Agency for International Development (USAID); international finance led by the Department of the Treasury; international trade and investment finance by the Export-Import Bank, the Overseas Private Investment Corporation, and the Trade and Development Agency; international broadcasting by the Broadcasting Board of Governors; and other functions carried out by a number of other agencies, including the Peace Corps. The Secretary of State is responsible to the President.

For 2003, the President's Budget includes $24.3 billion for these functions, a $1 billion increase over the $23.3 billion appropriated for 2002. Increased funding has been allocated based on three broad goals: 1) to support our highest priority foreign policy objectives, especially the war on terrorism; 2) to enhance security for American personnel and facilities; and 3) to advance the effort to connect resources to performance. In pursuing the first objective, the budget includes $5.2 billion for programs that are essential in pursuing the war on terrorism.

The President's Budget also addresses the management challenges of our complex foreign affairs structure to eliminate redundancies, improve the delivery of foreign assistance, and strengthen the administration of foreign affairs. As examples, the budget launches an initiative to assure that the money taxpayers contribute to pay the high cost of stationing employees of more than 30 government agencies overseas is well managed. The budget seeks to deploy the right agencies with the most efficient number of people serving overseas advancing U.S. interests. The budget also consolidates most food aid programs under USAID, in order to ensure that U.S. food aid is delivered as efficiently and effectively as possible to feed hungry people. And, as with other agencies in the federal government, it sets forth a comprehensive agenda for strengthening management in the Department of State and USAID.

DEPARTMENT OF STATE

Department of State

Colin Powell, Secretary

www.state.gov 202–647–4000

Number of Employees: 28,967

Number of Embassies and Posts Abroad: 260

2002 Spending: $15.9 billion

The State Department represents the United States in 180 foreign countries and 43 international organizations, operating a total of 260 embassies, consulates, and other posts. The past year has been a period of significant foreign policy achievement for the Bush Administration. The Administration has a broad, comprehensive foreign policy agenda for the future. In addition to the President's specific proposals, the State Department will emphasize efforts to:

- Maintain and strengthen the international coalition to fight global terrorism in all its forms;
- Maintain our core alliance relations with the North Atlantic Treaty Organization (NATO), Japan, Australia, and the Republic of Korea;
- Integrate Russia and China into cooperative frameworks to improve our relations and thereby help prevent the revival of destructive great power rivalries;
- Prevent conflict and promote reconciliation in Africa, the Balkans, the Middle East, Northeast Asia, and South Asia;
- Combat the proliferation of weapons of mass destruction;
- Enlist new support from Pakistan and other countries in the region for our efforts in Afghanistan, and assist the Pakistani government through diplomatic support and economic assistance;
- Help open markets, encourage investment, promote environmentally sound development, and expand economic opportunities around the world; and

- Promote human rights and democracy and further basic American values, including freedom of religion.

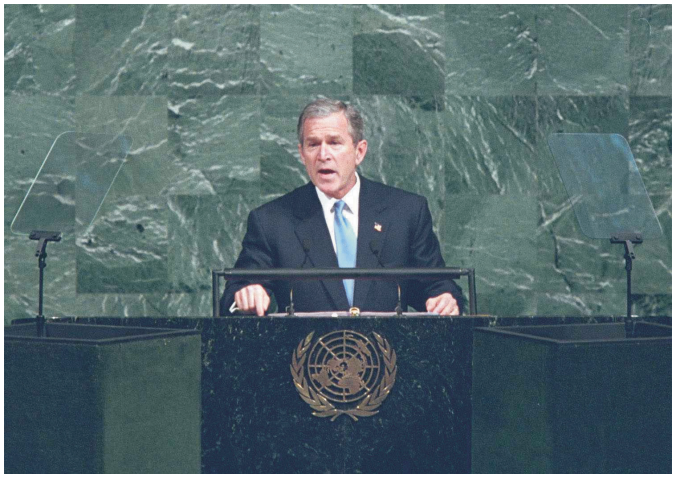
Overview

The State Department is the lead agency in formulating and implementing U.S. foreign policy. Since September 11, 2001, the Department's top priority has been the war on terrorism. The Department has led the effort to build and manage the broad-based international coalition that helped defeat the Taliban in Afghanistan and is now destroying the al Qaeda terrorist network around the world. The Department also diplomatically supported the creation of a post-war government for Afghanistan in 2001 and continues to lead the international community in developing programs to provide humanitarian relief, security, and economic reconstruction assistance to help the Afghan people create a more peaceful, prosperous, and free future.

While the war on terrorism is our top foreign policy priority, the President has stressed that it cannot be our only one. We live in an age of tremendous opportunities to advance America's interests. The Department will continue to promote the Administration's broad foreign policy agenda. In addition, the Department administers some foreign aid programs, such as the counternarcotics program in Colombia. To help preserve America's essential openness, the State Department also plays a critical role in facilitating safe travel to and from the United States. Every year the State Department issues seven million passports to U.S. citizens so they can travel abroad, and it processes over 10 million visa applications submitted by those wishing to visit our country.

Some of the Department's core programs, such as issuing visas or passports, are tangible and measurable. In government-wide customer satisfaction surveys, the Department's services to passport applicants score high in all of the areas measured, with an overall score of 76 on a scale of 1–100, which is five points higher than the national American Customer Satisfaction Index score for private sector services. Other programs, however, are intrinsically more difficult to evaluate, such as those that promote democracy and human rights. For these programs, successes—such as support for the transition from authoritarian to democratic rule in Serbia and Peru—are the best, but admittedly infrequent, measures of effectiveness.

War on Terrorism



President Bush addressing the United Nations, November 10, 2001.

Funding in 2003 for the Department of State, USAID, the Department of the Treasury, and other agencies with foreign relations responsibilities concentrates on sustaining current partnerships and building new relationships as the war against terror expands around the globe. As the front shifts, the United States must be prepared to help countries strengthen their internal counter-terrorism capabilities. We must tailor programs to meet specific local needs so that terrorists can find no safe haven, no open financial or geographic border. This task is both large and long term. It will require support for a wide range of programs from blocking terrorist assets and combating money laundering to improving management of border controls, including increased cooperation among border agencies to share data and guarantee the integrity and reliability of visas used to enter the United States. The United States will seek to improve the capabilities of those who agree to share our burden in the war against terrorism. This budget provides roughly $3.5 billion for economic and security assistance, equipment, and training for states on the frontline of this war.

> *We will defeat the terrorists by destroying their network, wherever it is found. We will also defeat the terrorists by building an enduring prosperity that promises more opportunity and better lives for all the world's people.*
>
> President George W. Bush
> October 20, 2001

Strengthening counter-terrorism capabilities alone will not be enough. As we learned in Afghanistan, terrorists seek refuge and build support where the rule of law and democracy have been destroyed or failed. If we are to succeed, our commitment to end terrorism must integrate counter-terrorism initiatives with programs that tackle the desperate conditions which fuel violent, transnational extremism in many countries.

In addition to offering our friends and allies help, the United States must accelerate efforts to protect Americans serving and traveling abroad. Al Qaeda bombings of American embassies in Kenya and Tanzania in 1998—which killed over 200 people and injured thousands—marked a new level of destructiveness in its terror campaign. In the World Trade Center and other attacks, Americans lost their lives alongside people from dozens of nations and ethnic and religious backgrounds.

While the State Department continues to conduct its normal diplomatic work, its personnel and those of other U.S. agencies now carry the added burden of serving in the frontline of the war on terrorism. Accordingly, the State Department is expanding its investment in security with nearly $1.4 billion provided in this budget. Of this amount, $837 million is for the State Department and USAID to continue to expand the worldwide security upgrade program launched in the wake of the 1998 embassy bombings. The requested funding will construct nine new embassies plus purchase armored vehicles, communications gear and other equipment. Some additional key elements from the President's anti-terrorism agenda are:



New U.S. Embassy in Nairobi, Kenya under construction after al Qaeda bombing.

Jordan

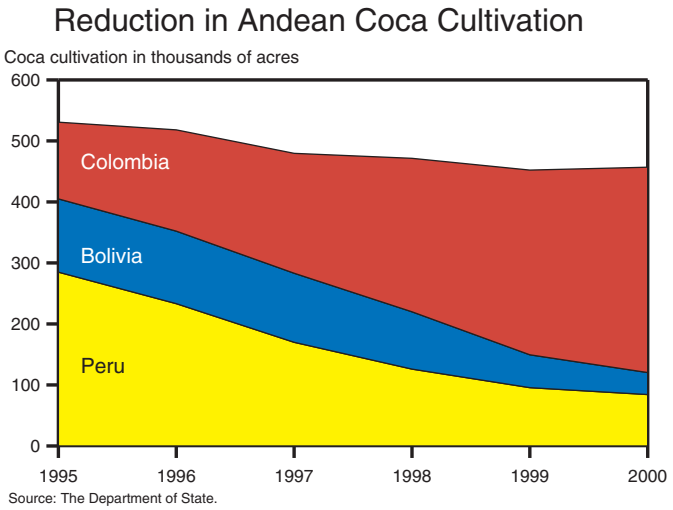
Strategically located along the borders of both Iraq and Syria, Jordan will be provided substantial new resources in 2003 to strengthen its security capacity and enhance its economic potential. The President is requesting $198 million in Foreign Military Financing (FMF) and $250 million in Economic Support Funds (ESF), increases of $123 million and $100 million respectively over 2002. The money will be used to improve border controls targeting the flow of weapons, including weapons of mass destruction; and to support financial training, trade and investment and to strengthen educational opportunities.

- *Afghanistan assistance:* The United States worked with our allies and the anti-Taliban Afghan groups to establish a broad-based interim government in Afghanistan. The United States remains committed to helping the people of Afghanistan rebuild and enjoy long-term stability. We will continue to provide food and development assistance. At the January pledging conference in Tokyo, the U.S. committed $296 million to support these efforts. As Secretary of State Colin Powell stated, the United States has "an enormous obligation to not leave the Afghan people in the lurch, to not walk away as has been done in the past."
- *Anti-terrorism assistance:* $121 million is being provided for counterterrorism engagement programs, training, and equipment to help other countries fight global terror. As part of this commitment, the President seeks $52 million to establish a Center for Anti-terrorism and Security Training (CAST). Once it is fully operational, the CAST will train 7,500 American and coalition partner law enforcement personnel annually in advanced anti-terrorism and security measures, thereby enhancing security of U.S. interests abroad.

Andean Counterdrug Initiative

All of the cocaine sold on America's streets comes from South America. The Andean Counterdrug Initiative (ACI) provides assistance to Colombia, Peru, Bolivia, Ecuador, Brazil, Panama, and Venezuela for drug eradication, interdiction, economic development, and development of government institutions. The President's 2003 request for ACI is $731 million. This assistance boosts the impact of U.S. domestic law enforcement and supports the Andean governments' efforts to destroy local coca crops and processing labs. Since 2000, U.S. assistance has provided 76 helicopters for the Colombian national police and army, giving the Colombians airlift and reach into areas previously inaccessible. In 2001, the Colombian army and police destroyed over 700 cocaine base labs, where the first stage of cocaine processing occurs, and 20 cocaine HCl labs, where the final active ingredient in cocaine is extracted. Data is not yet available to determine the program's effect on overall coca cultivation and flow of cocaine into the United States.

In addition to the State Department's law enforcement programs, USAID has launched alternative crop development and voluntary coca eradication programs with the goal of eliminating about 37,000 hectares (91,000 acres) of illegal crops. USAID also has funded its 18th *casa de justicia*. This program funds community level legal services to Colombia's poorest people. In a country with significant human rights abuses and gaps in the rule of law, legal solutions are urgent everyday requirements.



In 2003, the budget will extend the reach of counter-narcotics brigades in southern Colombia while beginning training of new units to protect the country's economic lifeline, an oil pipeline. In 2001, Colombia was the source of about two percent of U.S. oil imports, creating a mutual interest in protecting this economic asset.

The United States has devoted considerable resources to reducing coca cultivation in the Andes and had achieved modest results by the end of 2000, the last year for which data is available (see accompanying chart). The State Department is expected to define clear benchmarks for evaluating the impact of U.S. assistance and the current strategy. The effectiveness of this strategy will become clearer when the State Department releases its assessment of 2001 coca cultivation in the International Narcotics Control Strategy Report in March 2002.

Congressional Earmarks

A large proportion of foreign assistance funding for programs implemented by the Department of State or USAID are subject to Congressional earmarks, which are either specific requirements in the appropriations bill itself or language in the report that normally accompanies an appropriations bill. The majority of these earmarks set in law or report language the amounts and priorities that the Administration requests. Only a small proportion require the Administration to fund projects that it would otherwise not have implemented. While the number of these decreased somewhat in the 2002 Foreign Operations Appropriations Act, additional reductions in 2003 will be useful.

Status Report on Select Programs

The Administration is reviewing programs throughout the federal government to identify strong and weak performers. The budget seeks to redirect funds from lesser performing programs on an objective to higher priority or more effective programs focused on that objective. The table below rates the performance of some important State Department programs that are either effective or targeted for rapid improvement.

Program	Assessment	Explanation
International Law Enforcement Programs	**Unknown**	Data does not exist to measure program impact. Program evaluation methodology to be developed.
Humanitarian Demining Program (HDP)	**Effective**	To help evaluate how well the program is working, the HDP identified outcome-based indicators, such as mines removed, area of land declared mine-free and the percentage reduction in reported civilian landmine casualties. This program also uses performance-based contracting.
Passport Modernization	**Effective**	State's Bureau of Consular Affairs completely revamped passport technology and systems in a short period of time. Regarding customer service for passport services, the Bureau has scored well in American Customer Satisfaction Index surveys in both 1999 and 2000.
Educational and Cultural Exchange Programs	**Moderately Effective**	Surveys of changes in attitude and professional decisions made by alumni demonstrate the program's impact. For example, nine independent external surveys of alumni indicate that the Exchange Bureau programs succeed in conveying knowledge (88 percent), building relationships with the United States (76–82 percent), altering the behavior of participants (73 percent), and benefiting the larger community or organization (76 percent). The Bureau's competition of grants, recruiting, tracking, and networking of participants and solicitation of feedback on program effectiveness are worthy of emulation. Despite its overall success, the Bureau needs more detailed performance benchmarks for measurement and stronger monitoring of expenditures by grant recipients.

Program	Assessment	Explanation
Economic Assistance to Russia	**Some Moderately Effective, Some Ineffective**	Since 1992, the United States has spent over $2.9 billion on non-security assistance to Russia. The results have been mixed. Progress in building the foundations of an efficient market economy has been slower than anticipated. For much of the 1990's government-to-government technical assistance programs had disappointing results. But when assistance was properly structured, as in the cases of tax and judicial reform as well as local government budgeting, it had important impacts. Also during the 1990's, enterprise funds and some training programs did not perform according to expectations. High school and college student exchange programs have had a positive impact, while shorter-term visitor programs have had less effect. The amount of assistance we have provided could only make a small contribution in dealing with Russia's profound economic problems. Without measurable performance indicators for many programs, judging their effectiveness has been difficult. For example, the impact of small and micro enterprise promotion programs has not yet been demonstrated. A recent interagency review recommended that U.S. assistance focus on areas such as promoting civil society and improving the capacity of small business, while eliminating funding for less effective programs. A comprehensive set of benchmarks for use in management and funding decisions is being developed for the Russia program.

Improving Performance

U.S. international affairs agencies must respond quickly to changes in the global landscape. In the past, the State Department's necessary emphasis on rapid and flexible response to world events reduced the attention the Department has given to critical management problems. Some of these problems are laid out in the President's Management Agenda, in the following sections.

To address these problems, the State Department created a high-level internal President's Management Agenda (PMA) council responsible for implementing all PMA initiatives within State. Also, OMB and the State Department are jointly leading the Administration's efforts to rightsize the U.S. government's presence abroad. It is too early to assess the impact of initiatives on improving the Department's management effectiveness, particularly with respect to information technology and staffing.

When Funding Arrives Before the Mission is Clear: Kosovo Women's Initiative

In 1999, the State Department provided $10 million to the United Nations High Commissioner for Refugees (UNHCR) for the Kosovo Women's Initiative to ensure that women's needs were met as refugees returned home. UNHCR failed to effectively target and manage the funds so that resources promptly served the urgent needs of hundreds of thousands of needy families. For example, the Initiative funded sewing and aerobic classes, while family health clinics and shelters lacked resources.

Diplomatic Readiness

The State Department has launched a Diplomatic Readiness Initiative to foster a high performing, well trained corps of professionals. This initiative will enable the Department to have the personnel to carry out its mission and to improve professional training and career development opportunities for every Department employee. The Department's Diplomatic Readiness Task Force will continue to implement far-reaching measures to recruit well-rounded professionals possessing the skills required in their career track, thereby reducing the amount of time needed to train new hires in areas such as language, economics, and management. The Task Force will also devise additional performance measurements to evaluate the Department's progress in recruitment, placement, training, career development, and retention.

Rightsizing Overseas Presence

In the spring of 2001, OMB and the State Department attempted to identify the number of U.S. government employees serving abroad, which agencies they represented, their cost, and their purpose. OMB determined there is no comprehensive resource available that can explain how many people serve in embassies and posts overseas, let alone describe what they are doing. This lack of information results in both cost and security problems. There is no basis on which to make rational decisions. With estimates as high as 60,000 employees representing over 30 agencies, with cost estimates per American overseas ranging from $250,000 to $550,000 per year, there are major financial implications to maintaining a large U.S. overseas presence. In the wake of the 1998 embassy bombings in Africa and the heightened level of threat after September 11, 2001, there is an urgency to understanding appropriate staffing patterns.

As a result, the Administration has launched a rightsizing initiative with the goal of assuring that the right agencies and right number of people are serving U.S. interests overseas. As a first step, in the fall of 2001, the Administration began to collect data from all government agencies with staff overseas between the years 1995 and 2001. The initial evaluation found that most agencies report information to State with neither a thorough justification of need for each staff position, nor an evaluation of costs per position, per agency, nor where the position fits with current United States foreign policy, agency mission or skill requirements at a given post. Rarely do agencies examine whether vacant positions can be done away with. The State Department must maintain the considerable cost of the infrastructure to support this presence.

Who Knows Who's Where and Why?

Recently, the Administration tried to get a better idea of how many federal employees have been posted abroad since the mid-'90s. It is no surprise that the State Department, the Pentagon, the Peace Corps, and other agencies have staff overseas. But who knew the Interior Department had an average of 17 people posted overseas from 1995 to 2001? Or, furthermore, that NASA had staff in Paris?

In 2002, the Administration will take another step forward to address these shortcomings through an evaluation of the Bureau of European and Eurasian Affairs, which in 2001 included more than 5,000 employees, 49 embassies, 23 consulates and 5 smaller offices. This evaluation will examine the staffing and costs at each post and will help the Department to revise its Mission Performance Planning (MPP) process to apply to all posts and agencies with overseas staffing. The revised MPP will refine performance measures that can be used at all posts and applied across all regions and agencies working overseas. It will also incorporate uniform performance measures for each position and agency at each post. In addition, OMB and the Department of State are developing a surcharge proposal whereby all U.S. government agencies with staff overseas will examine staffing requirements in advance of new construction of an embassy and will pay part of the construction costs of new buildings based on space they will use in embassy buildings.

Strengthening Management

To implement the President's Management Agenda the State Department's Director of the Office of Management Policy is coordinating an internal council to establish performance requirements and provide regular reports to the Under Secretary for Management.

Initiative	2001 Status
Human Capital—State has begun to implement a Diplomatic Readiness initiative to address certain long-standing management problems in the foreign service, such as training. It has placed renewed emphasis on recruitment and human resource management, and has made strides, but significant progress is still necessary. It also must develop a comprehensive workforce plan to match organizational needs with the knowledge, skills, and abilities of its Foreign Service, Civil Service, and Foreign Service National employees. More progress is expected from State on reducing management layers and making administrative processes more efficient.	
Competitive Sourcing—While State has identified 39 percent of its global workforce as performing activities that are commercial in nature, it has not completed public-private or direct conversion competition for 15 percent of those identified commercial activities. State is developing plans to increase the percentage of commercial positions that will be competed or directly converted to reach the President's goals.	
Financial Management—State received an unqualified opinion on its 2000 financial statements and submitted them on time. Nonetheless, State's financial systems are not compliant with federal requirements and have received only a qualified assurance statement. State plans to fix these issues through office consolidation and installing a new system that will meet the Federal Financial Management Improvement Act requirements. The new system will be completed by the end of 2003.	
E-Government—The Department has not completed an enterprise architecture to guide information technology (IT) investments. Moreover, State's central capital planning and investment control process does not routinely scrutinize all IT investments. State intends to complete its enterprise architecture and improve the scope and comprehensiveness of its capital planning process.	
Budget/Performance Integration—Except for the Embassy Security, Construction, and Maintenance account, State's budget and performance planning functions are not linked. The Bureau of Resource Management should unite these functions under the leadership of the new Chief Financial Officer. Although State has been simplifying bureau performance plans, the 2003 State Performance Plan contains inadequate performance measures and sixteen overly broad goals. State is working with OMB to improve the performance planning process and has made progress since October 2001.	

INTERNATIONAL ASSISTANCE PROGRAMS

We want our wealthy nation to be a decent, generous and compassionate nation. These are the goals that unite our country. These are the goals that inspire my administration. And these are the goals, when achieved, that will continue America's greatness.

President George W. Bush
May 31, 2001

U.S. Agency for International Development

Andrew Natsios, Administrator

www.usaid.gov 202–712–0000

Number of Employees: 7,756

Number of Posts Abroad: 75

2002 Spending: $6.5 billion

The U.S. Agency for International Development (USAID) advances U.S. foreign policy through the implementation of development and humanitarian assistance programs to developing and transition countries throughout the world. This includes supporting the Middle East peace process and the transition of the successor states of the former Soviet Union to market economies. USAID gives special attention to post-cold war issues such as globalization and conflict prevention.

The agency uses a variety of means to implement its programs, including "technical assistance" (the transfer of knowledge and expertise), and the delivery of equipment, commodities and urgent humanitarian assistance including food aid. The majority of USAID's programs are initiated by its overseas missions and implemented by U.S. or overseas private sector firms or non-profit non-governmental organizations (NGOs), such as the Red Cross.

This year, USAID has reoriented its program structure into four "pillars." The first is a new business model, the Global Development Alliance, to better incorporate the knowledge and resources of the public sector, corporate America, and NGOs into USAID's development assistance programs. In addition, three programmatic pillars incorporate the spectrum of development activities in which USAID is engaged:

- Economic growth, agriculture and trade;
- Global health, including HIV/AIDS and other infectious diseases; and
- Democracy, conflict prevention, and humanitarian assistance.

The 2003 Budget requests funding for all general USAID development assistance activities, including those aimed at health and population, in one Development Assistance program, rather than funding the health and population assistance in a separate Child Survival program. The 2003 request for this consolidated account is $2.7 billion. Combining the programs will allow USAID greater flexibility to respond quickly and effectively to changing development and foreign policy priorities.

Overview

The 2003 Budget enhances USAID's ability to target its assistance in ways that best meet foreign policy, development and humanitarian requirements. In 2003, USAID will:

- Increase its already significant efforts to combat the scourge of HIV/AIDS and other infectious diseases in the developing world;
- Support the economic and humanitarian assistance elements of the war on terrorism;
- Strengthen its focus on helping countries develop their agriculture sectors, including providing increased grants to non-governmental organizations to strengthen the "food security" of developing countries;
- Strengthen its focus on helping countries develop productive sectors that will increase trade and investment in order that they might benefit more fully from the global economy;
- Increase resources available to protect vulnerable tropical forests; and
- Continue to provide swift and targeted humanitarian and other assistance that saves lives in overseas disasters, or where possible prevents such disasters from occurring in the first place.

In 2002, USAID demonstrated its ability to address complex disaster situations with its quick and effective provision of food aid and other humanitarian assistance to the Afghan people, helping to avert what might otherwise have been a major humanitarian crisis. The 2003 Budget includes funding for continued recovery and initial reconstruction assistance to Afghanistan.

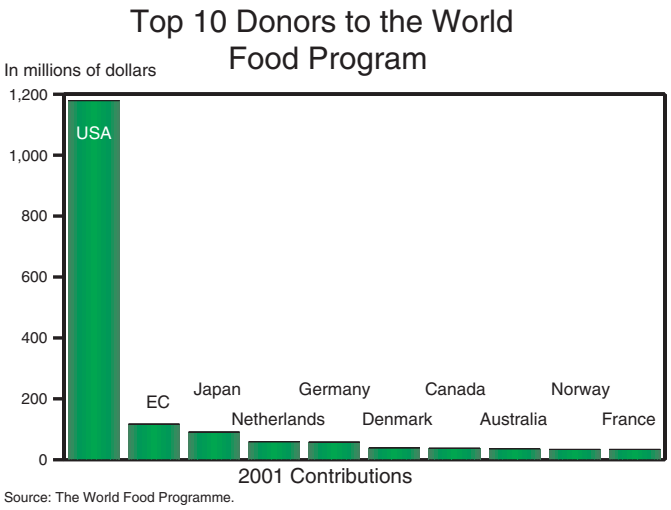
Feeding Hungry People

The United Nations' (UN) World Food Programme estimates more than 800 million people in the world, or about 15 percent, suffer from hunger and malnutrition. About 24,000 people die every day of hunger or related causes. The United States consistently provides about 50 percent of food aid worldwide, far more than any other donor. The Administration remains committed to maintaining U.S. leadership in supplying food aid to vulnerable people. Support for food aid is even more vital in this new era of terrorist threats as hunger leads to desperation, and potentially, violence.

Currently, two federal agencies run six programs to provide international food aid, leading to inevitable inefficiencies and overlap of functions. The Administration intends to consolidate programs to improve performance. The Department of Agriculture will continue to furnish government-to-government programs while USAID will take responsibility for all programs run through private voluntary organizations and the World Food Programme. As a result, food aid will be better integrated with the U.S. government's overall assistance programs.

Making Food Aid User Friendly

Private voluntary organizations (PVOs) are eligible for grants of commodities for food security programs in the former Soviet Union under four of the six U.S. food aid programs, run by two agencies. Each program requires a separate application and is governed by different sets of rules and regulations. The Administration's proposed reform of food aid will streamline the bureaucracy so that virtually all food aid grants to PVOs are administered under one agency with a single set of rules and regulations.



Source: The World Food Programme.

Another reform will be to eliminate the dependence of America's food aid programs on the availability of surplus U.S. commodities. Dependence on surplus commodities means little year to year predictability of supply for hungry populations overseas and the non-profit organizations that serve them. A surplus donation program was virtually non-existent in 1997; however, it rose to a level of $1.2 billion in total program costs in 2001. In part to reduce reliance on the availability of commodity surpluses, the 2003 Budget will request a 39-percent increase, or $335 million, in USAID-run food assistance resources that do not depend on surpluses.

The Administration intends to increase resources for direct food distribution programs to the hungry and reduce programs that sell food, to generate revenue for more general development assistance activities. This approach will assure food aid serves our intended target—the truly hungry and needy. Over time, USAID will reduce the proportion of commodities sold in non-emergency programs to a target level of 30 percent as ongoing programs are completed. The Administration also intends to make more Development Assistance program resources available to support food security related development programs of non-governmental organizations. By concentrating food aid on feeding programs, the U.S. government will continue to feed people at similar levels as in recent years.

Fighting HIV/AIDS

As of December 2001, 40 million adults and children worldwide were estimated to be living with Human Immuno-deficiency Virus/Acquired Immune Deficiency Syndrome (HIV/AIDS), with five million new infections and three million deaths occurring during 2001. Sub-Saharan Africa, which has only 11 percent of the world's population and one percent of the world's income, has 70 percent of HIV/AIDS cases and 77 percent of AIDS deaths: these numbers are fueled by the rate of other infectious diseases, such as tuberculosis (TB), the major cause of death in those that are HIV positive. This pandemic has effected every continent and is poised to explode, especially in key countries in Asia.

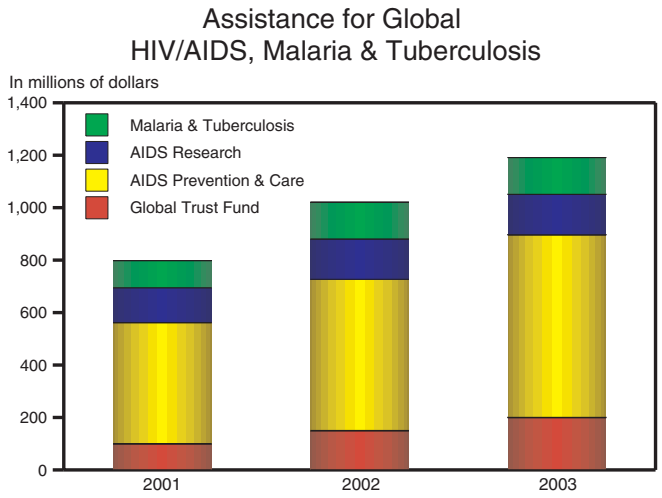
As we enter the third decade of the AIDS pandemic, our hearts go out to those who have been afflicted with or affected by this deadly disease. We resolve to stand together as a nation and with the world to fight AIDS on all fronts. We resolve to provide the resources necessary to combat HIV/AIDS. And we resolve to ensure that those suffering with HIV/AIDS receive effective care and treatment, compassionate understanding, and encouraging hope.

President George W. Bush
World AIDS Day, 2001 Proclamation

AIDS is not merely a health tragedy, but it also is destroying the economic and social fabric of many countries, especially in sub-saharan Africa. AIDS related deaths decimate educators, administrators, health workers, and the general population. The President has made fighting this pandemic and

other key infectious diseases a major foreign policy objective of both U.S. bilateral and multilateral assistance programs.

The 2003 Budget proposes total bilateral and multilateral assistance for HIV/AIDS, TB, and malaria programs in developing countries of nearly $1.2 billion, up from $1 billion in 2002. The U.S. commitments in these two years will account for more than a third of estimated international donor funds. USAID is the single largest bilateral donor. The budget provides $200 million, including $100 million from the Department of Health and Human Services, to the Global Fund for HIV/AIDS, Malaria and Tuberculosis. The Administration is prepared to increase funding to the Global Fund over the 2002-2005 period if appropriate burden sharing arrangements with other donors are agreed to, and if the fund becomes an effective operation.



Recent HIV/AIDS trends in Uganda, Thailand, and a number of other countries have shown that focused resources to implement comprehensive AIDS programs can be successful in reversing the epidemic. USAID has an approved strategic and focused plan, with emphasis on 23 country/regional programs to fight against the HIV/AIDS pandemic. Four countries (Cambodia, Kenya, Uganda, and Zambia) have been identified for rapid scale-up of their HIV/AIDS program coverage. USAID, with a new Office of HIV/AIDS in recognition of this program's importance, and the Centers for Disease Control and Prevention (CDC) are expanding these country programs in an effort to shorten the period needed to reach prevention and care goals. By the end of 2003, USAID and CDC plan to meet the following goals in the four rapid scale-up countries identified above:

- Reduce HIV prevalence in young adults by 30 percent;
- Increase care to 321,000 infected people;
- Increase orphans receiving community services to 168,000; and
- Increase HIV-infected pregnant women getting antiretrovirals to 21,000, in order to prevent mother-to-child-transmission.

Status Report on Select Programs

The Administration is reviewing programs throughout the Federal government to identify strong and weak performers. The budget seeks to redirect funds from lesser performing programs to higher priority or more effective programs. The table below rates the performance of a few important USAID programs.

Program	Assessment	Explanation
Development Credit Authority (DCA)	**Ineffective**	DCA is a credit tool for USAID to finance development assistance in addition to or in lieu of grant funding where appropriate. Since the inception of DCA in 1999, USAID has begun 16 credit projects providing over $35 million. However, the program has obligated only 16 percent of their 2001 credit subsidy funding, due in part to the length of time it has taken to develop effective credit budgeting and credit subsidy calculation mechanisms. Because of the need for continued improvements in these areas, as well as the $25 million funding pipeline, additional credit subsidy funding is not requested for this program in 2003 but authority to carry forward unused 2002 funding is requested.
Expanded Response to HIV/AIDS	**Effective**	USAID programs emphasize HIV/AIDS prevention through reproductive health programs to reduce risk behaviors and efforts to prevent mother to child transmission. In the hardest hit countries, USAID programs provide care and support for those infected and to survivors, particularly orphans and other children affected by AIDS. A revised USAID strategy now directs increased funding to selected countries based on magnitude and severity of the disease, and likelihood of success. Impact indicators have been finalized and monitoring systems are being put into place in these priority countries. The 2003 Budget requests a $115 million increase for USAID's HIV/AIDS programs.
Emergency Central American and Caribbean Hurricane Reconstruction	**Ineffective**	Hurricane Georges hit the Caribbean in September of 1998 and Hurricane Mitch ravaged Central America in late October and November of 1998. In May of 1999, Congress approved an emergency supplemental package that included $621 million for disaster recovery for the countries affected by Hurricanes Georges and Mitch. The emergency package was intended to provide timely assistance to the hurricane victims, yet USAID had only expended 41 percent of the funds by December 31, 2000, one and a half years after funds were provided. By the end of 2001, USAID had completed approximately 93 percent of its programs. As testified to Congress by GAO, two factors contributing to the delayed response were USAID's lack of experience in rapidly designing and implementing a large-scale infrastructure program with short-term goals, and the need to coordinate with the 13 other federal agencies that helped to implement the program.

Improving Performance

Despite USAID's best efforts, some programs fail. For example, USAID commissioned an evaluation of school feeding programs in Haiti that showed: "There is no causal connection between school feeding and improved educational performance". In addition, the report found that school feeding programs are among the least cost-effective interventions in education. As a result, in Haiti, USAID's Food for Peace Office will phase out these programs in favor of more effective programs in health, nutrition, and agriculture.

USAID has made progress in developing a systematic approach to performance measurement, although challenges remain. The agency's Annual Performance Plan has been updated to improve the ability to summarize performance. The structure includes agency level indicators of general performance, such as increased economic growth and reduced hunger and poverty; reduced rates of HIV/AIDS and other infectious diseases; increased literacy; free and fair elections; and lower mortality rates in disasters. It is often difficult to demonstrate a direct causal link between USAID programs and these outcomes, since in most cases, USAID programs are only a small factor promoting development. Assistance from other countries, from the World Bank and other international organizations, as well as the efforts of the developing countries themselves, play important roles in achieving these outcomes. Therefore, in addition to monitoring performance related to these higher level outcomes, USAID missions also track "intermediate results" that are more directly linked to its programs. Examples vary, but can include the number of small businesses receiving USAID-supported loans and how they fared with the loans, the number of new students attending school because of USAID programs, the number of children receiving vaccinations because of USAID funding, or the number of people receiving emergency food relief. However, numerical outputs do not address or assess the quality of the program or how well it functions. USAID needs to improve its ability to use this information for decision-making. Although USAID has used anecdotal program results as a factor in allocating resources, the agency has yet to develop a systematic budget process that fully and transparently bases decisions on performance considerations. USAID will continue working to develop measures of performance to determine the extent to which programs succeed in advancing U.S. foreign policy.

Strengthening Management

USAID's ability to perform optimally has been seriously compromised for years by ineffective and outdated management systems and structural shortcomings. Last year, it began a major effort to strengthen its most critical systems both in Washington and overseas and to restructure its operations. While progress has been made, particularly in financial management and workforce planning, much remains to be done.

Initiative	2001 Status
Human Capital—USAID is undertaking a comprehensive review of its workforce and has submitted a workforce plan. USAID has committed to reducing the ratio of supervisors to employees from 1:4 to 1:5 by the beginning of 2003 and limiting the number of management levels for each bureau. Over the longer term, the agency must confront recruitment issues since significant attrition due to retirement is expected. USAID already has a detailed recruitment plan for the Foreign Service and is working to complete a similar plan for the Civil Service.	
Competitive Sourcing—No progress has been made on this initiative. USAID has not completed public-private or direct conversion competition on 15 percent of its functions identified as commercial, and it has not submitted an approved competition plan. USAID intends to submit to OMB a competition plan detailing how it will meet the administration's two-year, 15 percent goal.	
Financial Management—Although a core accounting system is in place in Washington, it has not yet been deployed overseas. Therefore, almost 50 percent of USAID-managed funds are not within the new system. Until its field systems are modernized, USAID will be unable to gain the benefits of modern business practices in accounting, finance, procurement, and e-government. Further, while the first full audit of USAID's financial statement is being conducted for 2001, it is not clear that the Inspector General will be able to render an opinion. USAID will submit and implement a targeted remediation plan for its financial systems. The agency study of business practices will include strategies to accelerate deployment of the core accounting system.	
E-Government—The business cases for USAID accounting and procurement modernization, as well as its operations and infrastructure upgrades, do not look forward and define how the agency can deploy its new systems worldwide. USAID is undertaking a study to address how it can make more effective use of capital planning, enterprise architecture, and modern business concepts. The 2003 Budget includes a capital investment account to segregate and better manage information technology funding.	
Budget/Performance Integration—Although USAID's reorganization has placed budget responsibility with the planning bureau, it is not yet clear how the agency will further integrate performance with budget decision-making. While the Agency can point to anecdotal examples of reallocating resources to higher-performing activities within countries or countries within regions, a more comprehensive and consistent process to tie agency-level planning and budgeting to performance needs to be developed. USAID will submit its initial performance plan to OMB; coordinate with the State Department in integrating performance factors into budget formulation; and continue to refine performance indicators to improve usefulness to decision-makers.	

DEPARTMENT OF THE TREASURY

Department of the Treasury

Paul O'Neill, Secretary

www.ustreas.gov 202–622–1260

Multilateral Development Banks: The World Bank Group, Inter-American Development Bank Group, Asian Development Bank Group, African Development Bank Group, European Bank for Reconstruction and Development, North American Development Bank, Global Environment Facility, and International Fund for Agricultural Development.

Other International Financial Institutions/Mechanism: International Monetary Fund and Exchange Stabilization Fund

Bilateral Programs: International Debt Restructuring and Treasury Technical Assistance

2002 Spending: $1.7 billion

The Treasury Department is responsible for a number of international programs, including U.S. relations with the International Monetary Fund (IMF) and administration of the Exchange Stabilization Fund. Treasury also is responsible for U.S. relations with the World Bank and other Multilateral Development Banks (MDBs), and administers U.S. contributions to these institutions. Treasury negotiates and manages U.S. participation in multilateral debt reduction initiatives, such as the Heavily Indebted Poor Country (HIPC) initiative, and handles funds for the U.S. portion of such initiatives. Finally, Treasury operates a small technical assistance program to help our partners in the war against terrorism fight money laundering and other financial crimes, as well as help finance ministries in developing countries implement fiscal and financial policy reforms.

Improving Multilateral Assistance to the Poorest Countries

Since its establishment in 1944, the World Bank's goal of post-war reconstruction in Europe has broadened significantly. The World Bank and the regional development banks now seek to encourage economic growth and poverty reduction in developing and transition countries, while the specialized financial institutions like the Global Environment Facility (GEF) maintain narrower, specific mandates.

Clearing U.S. Arrears

Outstanding U.S. arrears to all MDBs now equal $533 million, $34 million greater than last year's total of $499 million. The President's Budget requests $178 million to help meet U.S. international commitments under a plan to clear all arrears, on a pro-rata basis by institution, over the next three years.

Over the past 25 years, the United States has consistently been the largest donor to the multilateral development banks. While our contributions leverage other donor commitments, it is important to insist that these institutions significantly improve conditions for their principal constituency, the world's poor. As recent World Bank data shows, more people today live in poverty on less than $2 a day than did so a decade ago.

The President's concerns about these institutions' performance have caused a significant change in the Administration's policies. As proposed by the President, the United States is working to negotiate a significant increase in the level of assistance provided to the poorest and least creditworthy countries as grants rather than loans. The United States and other donors are currently discussing replenishments for the International Development Association (IDA), African Development Fund, and GEF. We are pursuing measures to increase the focus of these replenishments on countries with sound policy environments and demonstrated performance, and on operations that raise productivity. At the same time, the United States is emphasizing the need for institutions to develop reliable performance and output indicators.

Recognizing the importance of demonstrating results, the United States is proposing a performance-based financing framework for its contribution to the IDA replenishment. It provides a base-level annual contribution of $850 million for each of the three years of the replenishment. Additional contributions of $100 million in the second year and $200 million in the third year will be made available if IDA meets specific measurable results, for example in the areas of education, health, environment and trade capacity building. The Secretary of the Treasury will use measures of performance to determine the extent to which U.S. participation in multilateral financial institutions is effective.

Conserving the World's Remaining Tropical Forests

Between 1980 and 1995, more than 540 million acres of tropical forests were cut down, a loss with major implications for the world. Tropical forests provide a wide range of benefits, including harboring a major share of the Earth's biological resources, protecting soil and water, replenishing the Earth's atmosphere with fresh air, and providing timber, medicines, food, and jobs.

More than half of the world's plant and animal species lives in tropical forests, making them home to the world's greatest amount of biological diversity.

For these reasons, the Administration is committed to preserving the world's remaining tropical forests. Under the proposal contained in this budget, the United States will be able to better use its resources to achieve this important environmental goal. The Administration's new forestry conservation proposal will improve forestry conservation by providing $50 million to USAID. Up to $40 million of this amount may be available for the budget cost of debt reduction that is used for forest conservation under the Tropical Forest Conservation Act (TFCA). The remainder will be used for grants to non-governmental organizations engaged in forestry conservation in order to accelerate support and improve effective implementation of TFCA agreements. The Administration will develop specific criteria to determine which mechanism is most appropriate for each case.

Under TFCA, to date, debt reduction agreements have been concluded with four countries: Bangladesh, Belize, El Salvador, and Thailand. In all, these countries will save over $60 million in hard currency payments as a result of these agreements to swap external debt for forest conservation.

INTERNATIONAL AFFAIRS AGENCIES

Export Import Bank

Export Import Bank

John E. Robson, Chairman

www.exim.gov 800–565–EXIM

Number of Employees: 420

2002 Spending:

Program: –$263 million

Administrative: $62 million

Lending Activity: $10.4 billion

The 2003 Budget will support an increase in lending levels from an estimated $10.4 billion in 2002 to $11.5 billion in 2003 using an appropriation of $541.4 million in program resources.

The increase in lending levels is achieved with the 2003 Budget request levels because of the use of an entirely new credit risk methodology for all international lending programs that integrate market data with long term market-wide default experience.

The Export-Import Bank is also continuing work on ways to focus its lending on cases where the private sector does not provide financing. Such efforts are particularly important to ensure the Bank does not compete against the private sector, which is becoming increasingly aggressive in providing private export financing. For example, Export-Import Bank will consider higher fees where it does not affect the Bank's competitiveness with other official lenders, as well as applying more stringent tests for whether Bank support is necessary to finance specific transactions.

New Method for International Credit Risk

Until this budget, the U.S. Government (USG) used the premium charged by private sector lenders to other governments as a proxy for the default costs of USG loans to these countries. While this was the best available method, it captured not just default risk, but also profits, opportunity costs, tax effects and other factors not relevant to the budget cost of USG credits. The new method isolates just the default risk portion of the private market premiums. In short, the risk of new USG international credits has not decreased, but budget costs are now based only on this default risk, not on other extraneous factors.

Overseas Private Investment Corporation

Overseas Private Investment Corporation

Peter S. Watson, President

www.opic.gov 202–336–8400

Number of Employees: 202

2002 Spending:

Program: –$262 million

Administrative: $39 million

Lending Activity: $739 million

Insurance Activity: $2.2 billion

The Overseas Private Investment Corporation (OPIC) offers direct loans, investment guaranties, and political risk insurance to private U.S. companies investing in the developing world. In recent years, OPIC lost sight of its development mission and concentrated too heavily on serving its corporate borrowers. To refocus on its development mandate, OPIC has established a new Office of Investment Policy to evaluate the developmental impact of its activities on the host country. OPIC will continue to measure job creation in host countries and will establish additional indicators of a project's development impact. In addition, OPIC will focus less on large corporations with alternative means of financing and increase the number of projects sponsored by American small business from the current level of 51 percent to 60 percent in 2003. OPIC also will implement new procedures to direct its activities toward filling important gaps in the private market and not undercut private finance or insurance.

U.S. Trade and Development Agency

U.S. Trade and Development Agency

Thelma J. Askey, Director

www.tda.gov 703–875–4357

Number of Employees: 48

2002 Spending: $55 million

The U.S. Trade and Development Agency (TDA) facilitates American job creation by connecting U.S. companies with overseas business opportunities. Through the funding of feasibility studies, orientation visits, specialized training grants, business workshops, and technical assistance, TDA enables American businesses to compete for infrastructure and industrial development projects in middle-income and developing countries. The President's Budget provides $45 million for TDA to maintain its current regional portfolio while at the same time taking advantage of new opportunities in areas such as Africa, China, and Russia.

Peace Corps

Peace Corps

Lloyd O. Pierson, Acting Director

www.peacecorps.gov 800–424–8580

Number of Employees: 1,170

Number of Posts Abroad: 69

2002 Spending: $286 million

In response to a greater interest in volunteerism and to increase America's contribution to the people of the world, the President's Budget requests an increase in 2003 for the Peace Corps. The added funds will open new programs and be targeted to assist host countries and local communities through business development and other economic growth activities.

International Broadcasting

Broadcasting Board of Governors

Marc Nathanson, Chairman

www.ibb.gov/bbg 202–619–2538

Number of Employees: 2,505

Comprised of four broadcasting entities: Voice of America, Radio Free Europe/Radio Liberty, Radio Free Asia, and Radio/TV Marti.

2002 Spending: $560 million

The Broadcasting Board of Governors (BBG) directs all U.S.-funded, non-military international broadcasting (Voice of America, Radio Free Europe/Radio Liberty, Radio Free Asia, Radio/TV Marti). These broadcasting services provide objective news and information, and explain and provide context for America's policies to foreign publics around the world in their own languages. Through its annual comprehensive review of the effectiveness of its broadcast services, the BBG will continue to reexamine resource allocations, placing special emphasis on prioritizing its language services to reflect the U.S. Government's public diplomacy goals. The Administration has chosen the BBG's Middle East Broadcasting Initiative, launched in 2002, as a pilot project for performance budgeting. Specifically, the BBG will measure how the 2003 funding provided for this initiative affects listenership rates in the Middle East. The outcome goal for this pilot project is a rise in listenership rates from an anticipated rate of 3.9 million persons in 2002 to 6.7 million in 2003.

Department of State and International Assistance Programs

(In millions of dollars)

	2001 Actual	Estimate	
		2002	2003
Spending:			
Discretionary Budget Authority:			
Department of State:			
Andean Counterdrug Initiative	—	625	731
Diplomatic and Consular Programs	3,220	3,713	4,019
Embassy Security, Construction, and Maintenance	1,081	1,277	1,308
Other	3,505	3,265	3,176
Subtotal, Department of State	7,806	8,880	9,234
International Assistance Programs:			
Foreign Military Financing	3,568	3,650	4,107
Non-proliferation, Anti-terrorism, Demining, and Related	311	344	372
Economic Support Fund	2,300	2,214	2,290
USDA International Food Aid (non-add)	*(835)*	*(850)*	*(1,185)*
Development Assistance [1]	2,124	2,474	2,740
Multilateral Development Banks	1,145	1,174	1,437
Peace Corps	267	278	320
Other	2,885	3,005	2,620
Subtotal, International Assistance Programs	12,600	13,139	13,886
Other International Affairs Activities:			
Export-Import Bank	907	767	600
All Other	526	557	590
Subtotal, Other International Affairs Activities	1,433	1,324	1,190
Subtotal, International Affairs Activities adjusted [2]	21,839	23,345	24,310
Remove contingent adjustments	–110	–118	–125
Total, Discretionary budget authority	21,729	23,227	24,185
Emergency Response Fund, Budgetary Resources:			
Department of State	49	380	—
International Assistance Programs	5	985	—
Other International Affairs Activities	—	47	—
Total, Emergency Response Fund, Budgetary resources	54	1,412	—
Mandatory Outlays:			
Department of State	392	468	461
International Assistance Programs	–1,688	–1,007	–989
Other International Affairs Activities	–2,461	–782	–332
Total, Mandatory outlays	–3,757	–1,321	–860
Credit activity:			
Direct Loan Disbursements:			
Department of State	1	1	1
International Assistance Programs	665	389	101
Export-Import Bank	1,788	1,997	570
Total, Direct loan disbursements	2,454	2,387	672

Department of State and International Assistance Programs—Continued

(In millions of dollars)

	2001 Actual	Estimate	
		2002	2003
Guaranteed Loans:			
International Assistance Programs	508	707	706
Export-Import Bank	7,504	6,965	8,384
Total, Guaranteed loan disbursements	8,012	7,672	9,090

[1] Includes Child Survival and Disease Programs in 2001 and 2002.

[2] Adjusted to include the full share of accruing employee pensions and annuitants health benefits. For more information, see Chapter 14, "Preview Report," in *Analytical Perspectives*.

DEPARTMENT OF TRANSPORTATION

The President's Proposal:

- Sets up the new Transportation Security Administration to improve aviation security by accelerating deployment of explosive detection systems and other airport security equipment, facilitating airport passenger and baggage inspection, and hiring and deploying more Federal Air Marshals;
- Improves the Federal Aviation Administration's air traffic control and airline safety performance through the reduction of runway incidents, and ties budget resources to airspace modernization program performance goals;
- Expands investment in the Coast Guard's effort to replace aging ships, aircraft, and related systems to increase its effectiveness in securing the homeland, saving lives, and enforcing fisheries, immigration and drug laws at sea;
- Continues to fund highway, bridge, transit and safety programs at the levels guaranteed by the Transportation Equity Act for the 21st Century;
- Supports the President's commitment to expand transportation opportunities for individuals with disabilities through the New Freedom Initiative; and
- Discontinues federal subsidies in an effort to encourage a stronger private ship construction financing market.

Department of Transportation

Norman Y. Mineta, Secretary

www.dot.gov 202–366–4000

Number of Federal Employees: 118,447 (including military)

2002 Funding: $60.8 billion

Offices: 12 operating administrations, including the Transportation Security Administration, Federal Aviation Administration, Federal Highway Administration, and U.S. Coast Guard.

The Department of Transportation (DOT) is responsible for the nation's freedom of movement—ensuring there are sufficient and safe roads, rails, airways and seaways to keep the country in motion and its economy growing. Established in 1967, DOT sets federal transportation policy and works with state, local, and private sector partners to promote a safe, secure, efficient, and interconnected national transportation system. DOT's operating administrations have wide-ranging duties related to operating or overseeing various transportation sectors, but they share a common commitment to fulfill these national objectives.

Overview

The Transportation Security Administration (TSA), the newest DOT organization, was established to enhance security for the traveling public. Other DOT agencies are organized by mode of transportation, including two large and well-known agencies, the Federal Aviation Administration (FAA) and the Coast Guard.

FAA's responsibilities range from controlling the nation's air traffic system to regulating the safety and maintenance standards of U.S.-operated airlines. The Coast Guard acts as the fifth branch of the armed services and its missions extend from enforcing the fisheries laws, to cleaning up oil spills, to guarding the nation's maritime borders from illegal migrants and drugs.

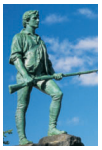
Several DOT agencies manage grant programs that will provide over $34 billion in 2003 to state and local transportation agencies for airports, roads, highways and transit systems. These infrastructure programs help reduce congestion and expand travel options. DOT also regulates highway, rail, and pipeline safety to reduce accidents and fatalities.

The laws authorizing surface and aviation transportation programs will expire after 2003. The Administration will work with various stakeholders and the Congress to develop legislative proposals to continue the nation's investment in air, highway and transit systems.

Ensuring Transportation Security

The events of September 11, 2001, underscore the importance of transportation security as part of America's homeland security. Protecting airports, seaports, bridges, highways, and mass transportation against the threat of terrorism is an imperative. In 2003, added emphasis on this mission will be reflected in resources for personnel, technology and equipment to meet transportation security challenges. The President signed the Aviation and Transportation Security Act, establishing the Transportation Security Administration, into law on November 19, 2001. TSA's main mission is to increase airline and airport security. TSA will play a critical role, coordinating with the White House Office of Homeland Security, federal, state, local, and private partners, to enhance the safety of the nation's transportation infrastructure.

> *…[T]he President has asked our Department to help protect the integrity of our nation's entire transportation infrastructure. And that is what we are doing…We will have to take precautions in transportation that we have never taken before, and we will have to do the same in virtually every aspect of American life. … As we move forward from September 11th, we must increase our vigilance, and we must take new steps to move people and goods safely and efficiently, recognizing that the nature of the threat has changed.*
>
> Secretary Mineta
> October 2001



Transportation Security	Funding (in billions of dollars)
Aviation Security	4.8
Maritime Security	2.9

The Aviation and Transportation Security Act imposed tight deadlines and stringent aviation security requirements for DOT to implement. TSA was created to be responsible for airport passenger screening at every U.S. airport with commercial air service. Its staff includes law enforcement officers, Federal Air Marshals, and passenger and baggage screeners. The TSA will continue to improve baggage screening processes to enhance the safety of passengers, while facilitating travel. In addition to aviation, TSA will be the focal point for the security of the entire national transportation system; a system administered in large part by states and localities. This budget meets these challenges, and the Administration has embarked on an aggressive effort to gauge progress constantly.



Explosive detection systems are just one technology to ensure that passenger bags are properly screened.

In 2003, the TSA will continue implementing a comprehensive aviation security program. Funding is being provided to accelerate deployment of an array of explosive detection technology so that all baggage loaded into aircraft is safe. The TSA will continue efforts to improve security at airport screening locations and speed the flow of passengers at these checkpoints. During the year, the TSA will complete the hiring of over 30,000 Federal airport security personnel, including screeners, armed guards, and supervisors for every screening checkpoint. To upgrade aviation security, the TSA will hire, train, and deploy an enhanced team of Federal Air Marshals. The budget provides $4.8 billion in funding for the TSA, with an estimated $2.2 billion of the 2003 costs to be raised through passenger and air carrier fees.

The TSA and the Coast Guard will jointly develop and execute the maritime component of homeland security. This work is crucial because 95 percent of the nation's international trade moves by water. The Coast Guard will maintain the viability and integrity of marine transportation security by providing additional personnel to increase port security and assess the needs of critical seaports throughout the nation. The budget provides $5.7 billion in discretionary funding for the Coast Guard, including $406 million for increased port security. The budget also proposes a commercial navigational user fee to help pay for increased port security needs.



The Coast Guard conducting a patrol to ensure port security in San Francisco harbor.

Improving Transportation Safety

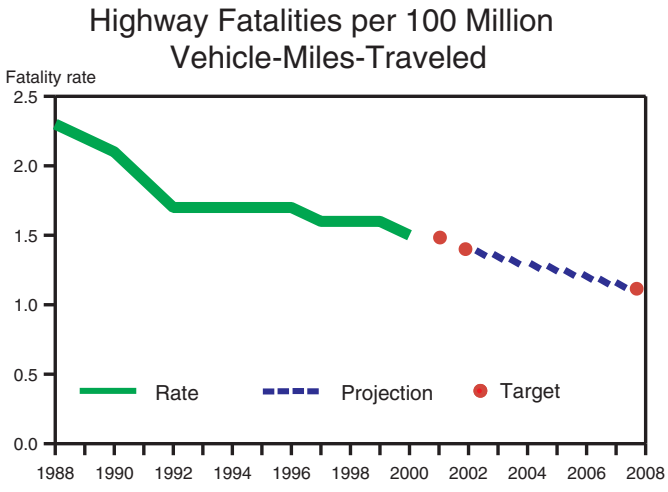
> DOT's mission is to promote the public health and safety of the nation by working toward the elimination of transportation related deaths and injuries.
>
> DOT Performance Plan

Most Americans rely on some combination of car, transit, and airplane travel to carry out daily personal and business activities. Much of the effort of promoting and increasing transportation safety centers on raising safety awareness. The economic cost of motor vehicle crashes alone is more than $150 billion annually. The human toll on victims and their families is catastrophic.

Just as important as transportation security is DOT's goal to increase safety for the traveling public. To achieve this, the Department works with communities to educate the public about safety requirements and establishes safety standards for transportation industries. The 2003 Budget proposes nearly $8 billion for transportation safety programs to meet the Department's safety goals.

Aviation Safety

FAA aims to prevent aviation fatalities by preventing accidents. For example, accidents are prevented by reducing air traffic controller and pilot errors and by minimizing aircraft incidents (such as engine failures). Of particular concern is pilot or controller error resulting in "runway incursions" on or near active airport runways. Runway incursions happen when aircraft on or near runways do not maintain required distance from each other or from a vehicle or other object on the ground. A resulting collision could mean a catastrophic loss of life, and there have been a disturbing number of close calls in recent years. In 2001, there were 52 serious runway incursions, an improvement from the 67 incidents in 2000. But continued vigilance is needed. The budget provides $107 million for the development and use of new technologies and systems to help prevent incursion-related accidents. An additional $122 million is provided to improve pilot and controller training and increase visibility through improved runway surface markings.



Source: National Center for Statistics and Analysis, DOT.

Surface Transportation Safety

Traffic crashes claimed a total of 41,800 lives in 2000, accounting for over 90 percent of transportation-related deaths. Fatalities declined from 47,100 in 1988, but have remained relatively flat since 1992 despite significant increases in the number of vehicles on the country's roads. The Federal Motor Carrier Safety Administration (FMCSA) and the National Highway Traffic Safety Administration (NHTSA) are charged with regulating highway safety under DOT's umbrella.

FMCSA, created in 1999, oversees the safety of the commercial truck industry. It seeks to reduce the number of highway deaths resulting from truck and bus crashes. The agency is committed to helping reduce fatalities by 50 percent, from 5,380 in 1999 to less than 2,700 in 2009. To achieve this goal, FMCSA will concentrate on improving its federal oversight program by increasing federal and state inspections on the roadside and at motor carriers' facilities, and improving the Commercial Driver Licensing program. In 2003, $190 million will go to states to help them implement highway safety programs.

In 2003, the Administration will pay special attention to FMCSA's southern border safety enforcement program. The United States will fulfill its commitment to Mexico under the North American Free Trade Agreement and allow travel by Mexican trucks to begin in 2002. Some $68 million will be devoted to conduct on-site safety inspections in Mexico of motor carrier facilities by U.S. inspectors. A renewable 90-day decal with monitoring systems to ensure compliance with truck safety rules will be instituted. Another $47 million is provided in 2003 for border safety infrastructure under a program to fund highway projects along the U.S. borders.

NHTSA aims to reduce highway fatalities and injuries by decreasing alcohol-related highway fatalities from 17,219 in 1997 to 11,000 in 2005, and by increasing seat belt usage from 69 percent in 1997 to 90 percent in 2005. To achieve these goals, the budget provides $200 million for NHTSA's safety research and information programs, and $225 million for grants to states for their highway safety programs.

Maritime Safety

The Coast Guard aims to minimize boating accidents while striving to rescue as many people as possible when accidents occur. Overall, recreational boating fatalities have declined since the 1970s. In 2000, the Coast Guard recorded 742 fatalities—the lowest number of deaths to date. This marks a 50 percent reduction from the 1970s, even as the number of recreational boats more than doubled. In 2001, the Coast Guard answered more than 39,000 calls for help, saving 4,184 lives of mariners in imminent danger. To improve on this in 2003, the Coast Guard will increase staff and modernize equipment. The budget funds a $90 million initiative to modernize a "maritime 911" system. It will improve existing Coast Guard capabilities through broader coverage, ensuring that emergency calls get through and adding high quality location finding technology to speed Coast Guard response.

Intercity Passenger Rail Service

The Congress created the National Rail Passenger Corporation (Amtrak) in 1971 as a for-profit corporation to provide a national rail passenger system. Although it initially received federal subsidies, the intent was for Amtrak to graduate from requiring federal financial support. Amtrak has utterly failed to meet this expectation. The federal government has provided about $24.2 billion to Amtrak since its creation (see accompanying table). Since 1979, Amtrak has failed to increase significantly the number of passengers it carries. Currently, Amtrak's share of the nation's intercity

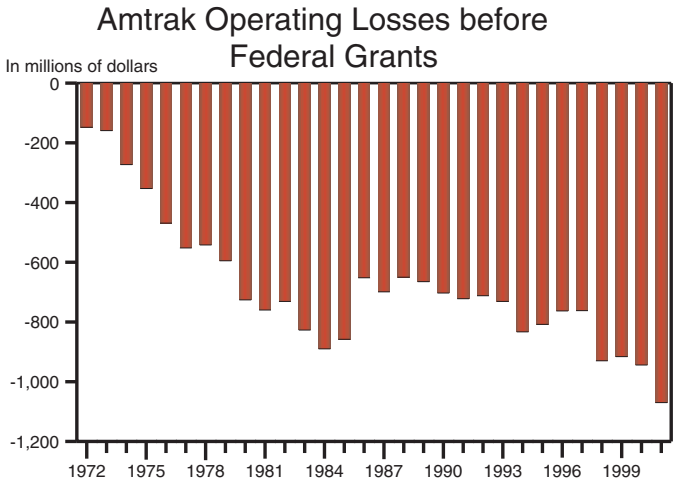
> Of the 41 train routes Amtrak ran in 2001, 14 lost more than $110 per passenger and six lost more than $210 per passenger. Operating losses on the Sunset Limited, which runs between Orlando and Los Angeles, were $347 per passenger. Only two routes turned an operating profit in 2001.

passenger market amounts to only one-half of one percent of all passenger miles, compared to more popular means of transportation such as auto (50 percent), air (48 percent), and intercity buses (1.5 percent).

Federal Subsidies for Amtrak, 1971–2002

Type of Funding	Years Provided	Total Funding	Annual Average
Federal Operating Grants	1971-2002	$14.3 billion	$455 million
Federal Capital Grants	1976-2002	$3.7 billion	$127million
Northeast Corridor Improvement Program	1976-1998	$4.0 billion	$171 million
Taxpayer Relief Act Funds	1998-1999	$2.2 billion	$1.1 billion
Total	1971-2002	$24.2 billion	$760 million

On November 9, 2001, the Amtrak Reform Council (ARC), an oversight board set up by the Congress, concluded that Amtrak would fail to achieve its statutorily mandated goal to run its business profitably and without federal operating assistance by December 2, 2002. As a result, the ARC will announce an Amtrak restructuring plan on February 7, 2002, in accordance with the Amtrak Reform and Accountability Act of 1997.



Source: Department of Transportation.

In its 31-year history, Amtrak has never posted a profit. It has accumulated about $20.4 billion in operating losses over that same period, for an average annual operating loss of approximately $660 million, excluding federal grants. It recently mortgaged Pennsylvania Station in New York over a 16-year period to cover approximately three months of operating expenses, a financial absurdity equivalent to a family taking out a second mortgage on its home to pay its grocery bills. Other recent efforts to infuse new cash into this futile system include:

- A $2 billion tax credit for Amtrak in 1997, although it has never paid income taxes; and,
- Legislative proposals to subsidize $12 billion in new borrowing through tax credits, provide up to $28 billion in new borrowing through federal loan guarantees, and up to $36 billion in state tax-exempt bonds.

Amtrak is clearly in desperate financial condition. In May 2001, Amtrak president George Warrington stated that Amtrak could not continue indefinitely under current circumstances, a

conclusion shared by the Amtrak Reform Council in its November finding. The Administration agrees.

The Administration believes that passenger train service should be founded on a partnership between the federal government, the states, and the private sector. Such a partnership would encourage the operation of passenger trains offering high-quality, cost-effective service on viable routes or where the states have declared a public need they are willing to fund. The Administration is eager to work with the Congress to develop solutions that result in a cost-effective, financially stable system that can help meet the public's travel needs. Pending development of a new paradigm for passenger rail service, the budget requests the same level of funding as provided in 2002.



An Amtrak California train. The state of California owns the trains and assists in their operation.

Improving Transportation Mobility

Another major DOT strategic priority is to enhance the free flow of passengers and goods. Over the last 20 years, travel for all modes of transportation, especially highway and air, has increased significantly.

Surface Travel

Between 1980 and 1999, highway passenger miles traveled increased almost 60 percent. Federal spending on highway projects also increased significantly, from $15.5 billion in 1992 to $28.5 billion in 2003. Under the Transportation Equity Act for the 21st Century (TEA–21), highway spending is adjusted each year according to a formula in law that reflects the most recent data on highway-related receipts. In 2000, 2001, and 2002 highway spending was increased significantly by these annual adjustments. However, for 2003 this formula will produce a reduction in the amount of new commitments of highway spending, due in large part to a previous overestimate of actual receipts in 2001. Even so, in 2003 actual spending on highway construction, including the continuation of prior-year projects, will fall less than three percent from its all-time high in 2002. 2003 highway spending will be 40 percent higher than in 1998, the first year of TEA–21.

The downside of growth in travel is increased road congestion. For example, in 1987 a trip during peak travel periods took 16 percent longer than it would have taken in uncongested conditions (about 10 minutes more for a one-hour trip). In 1999, a trip taken during peak travel period took 15 minutes more for a one-hour trip. Traffic delays also lead to increased fuel consumption and higher levels of vehicle emissions. In 1999, the nationwide cost of wasted time and extra fuel consumption alone was estimated to be $78 billion.

Without efforts to reduce congestion, it is projected that congestion will increase by 0.5 percent each year. DOT's goal is to slow the projected growth of congested travel by 0.2 percent each year. The Federal Highway Administration (FHWA) has implemented a range of strategies to address traffic jams. These include development and deployment of Intelligent Transportation Systems (ITS), which provide more information to drivers faster, enabling them to take the most efficient route of travel. The 2003 Budget proposes $23.5 billion in federal funding for highways to identify and construct a mix of locally preferred road projects to reduce congestion and add new capacity to the highway system.

Transit also contributes to reducing road congestion. Transit passenger miles traveled increased 23 percent from 1980 to 1999. In 2000, transit ridership increased to 9.4 billion trips, the highest ever. In 2003, the budget provides $7.2 billion for the Federal Transit Administration (FTA) to help congested regions buy more buses and build new rail systems. Within this amount, the Administration will seek authorization of $145 million for the President's New Freedom Initiative to make transportation more accessible for the disabled.

Air Travel

DOT has faced significant growth in demand for air travel, with air passenger miles increasing 123 percent from 1980 to 1999. As the aviation system adjusts to new security protocols, flight delays could return to pre-September 11th levels. DOT must continue expanding aviation capacity by more rapidly modernizing our airspace infrastructure and cutting red tape to speed construction of planned airport runway projects. The budget provides over $1.3 billion in FAA system modernization to improve mobility, and $3.4 billion for airport improvement activities. In 2003, FAA seeks to improve airport efficiency rates (an indicator that gauges how many aircraft move through these airports against capacity levels) for our busiest airports to 95 percent.

To create a business-like aviation environment, by 2003 the DOT and FAA intend to implement a performance-based organization (PBO) that would focus on improved management and coordination of air traffic services and capital investments. This organization will be headed by a Chief Operating Officer and combine resources and staff from FAA's air traffic control, research, and acquisition lines of business, all of which contribute to FAA's ability to provide efficient air traffic control services.

Current measures of performance—such as delays and runway incursions—point to management challenges in improving the operation of the current air traffic system. The new organization is intended to address some of these weaknesses by establishing performance goals for individual staff, and the organization as a whole, so that progress and advancements can be measured. The Administration plans to evaluate the effectiveness of the PBO after a year of operation. If significant improvements in air traffic services are not achieved, the Department will look to other options, including partial privatization and franchise operation of components of the air traffic system.

Status Report on Select Programs

The 2003 Budget provides a total $53.6 billion in discretionary resources, including a variety of management initiatives, to improve the performance of DOT programs. The budget increases funding for core programs, cuts unnecessary subsidies and proposes reforms to strengthen program management. It seeks to identify weaknesses, showcase effective programs, and present and meet performance goals.

Program	Assessment	Explanation
Efficiency of Air Traffic Control	**Ineffective**	FAA management needs improvement as evidenced by serious delays in air traffic during periods of high demand.
Highway Grants Project Management	**Moderately Effective**	In the past, federal highway project oversight had been problematic (e.g., Boston's "Big Dig" which overran its cost estimates by 465 percent, or $12 billion, compared to the original 1985 proposal). However, FHWA has taken several steps to improve management oversight for large highway projects.
Public Transit Grants Management	**Effective**	GAO has reported that FTA's project management oversight program improves quality controls, resulting in benefits for grantees and the government. FTA has implemented a streamlined, web-based grants program that permits 800 grantees to submit electronic requests and FTA to electronically disburse payments.
Coast Guard Deepwater Project	**Unknown**	This multiyear project begins to replace aging ships, aircraft, and related systems. The Coast Guard is using an innovative approach to replace its capital assets, aiming to enhance performance while limiting total cost.
Hazardous Material and Pipeline Safety	**Moderately Effective**	The Research and Special Programs Administration continues to increase oversight, inspection, and research to reduce the likelihood of pipeline and hazardous material accidents.

Congressional Earmarks and Corporate Subsidies

Across the spectrum of transportation programs, congressional earmarks undercut the Department's ability to fund projects that have successfully proved their merits. In many cases, these earmarks divert funds to lower priority projects. This can result in the disruption of construction schedules for higher priority projects and increase the financing costs for the sponsors of these projects. In 2002, the Congress earmarked over 1,400 projects in the Department of Transportation, totaling $3.2 billion.

Congressional Earmarks

2000.....	over 700 earmarks totaling $2.1 billion
2001.....	over 1,100 earmarks totaling $3.4 billion
2002.....	over 1,400 earmarks totaling $3.2 billion

Transit Projects

The FTA is authorized by law to provide over $3 billion a year in competitive grants for local transit projects, including new bus purchase, new rail line construction, and assistance to maintain existing rail infrastructure in older systems. However, for 2002, the Congress earmarked every dollar of FTA's bus and new rail starts programs. As a result, worthy projects cannot compete on their merits and funding does not go to areas with the greatest needs. For example, in 2001, DOT requested $50 million to assist the Los Angeles County Metropolitan Transportation Authority (LACMTA) purchase 523 buses to relieve overcrowding and meet the requirements of a consent decree. Instead, LACMTA got only $4.5 million, delaying the purchase of the buses.

For 2002, Congress earmarked $218 million for 44 transit rail new start projects that the President did not recommend. Within this total, $40 million was earmarked for 18 projects that are in the very early planning stage. Several do not appear to meet eligibility requirements. For example, $2.5 million is allocated to the Northern Indiana South Shore commuter rail rehabilitation project, which may be ineligible because it is not for new construction. Consequently, Congress did not provide sufficient funds to complete prior federal commitments to three existing projects in St. Louis, Los Angeles, and Salt Lake City.

Intelligent Earmarking?

Since 1998, the Congress has earmarked 100 percent of the funding for Intelligent Transportation Systems (ITS) technology deployment. These systems provide technological solutions to congestion and safety problems and improve operations on the nation's highways and transit systems. FHWA would like to award this funding based on merit. Earmarks include:

- $1 million for ITS in Moscow, Idaho, a city with a population under 25,000; and
- $1.8 million over three years for a research program in New Mexico that is currently unable to comply with the law or obtain required matching funds.

Highway Projects

The FHWA administers over $300 million in authorized competitive grant programs. States submit applications for funding and FHWA awards funding based on merit. Since 2000, almost all of the funds have been earmarked for specific projects. This practice eliminates the competitive aspect of these programs and leaves aside many meritorious projects that went through the application process.

Elimination of Unnecessary Corporate Subsidies

The Department's Maritime Administration provides federally guaranteed loans to U.S. shipyards and shipbuilding companies. In many cases, these loan guarantees expose taxpayers to substantial risk. For example, a recent bankruptcy risks defaults on federally guaranteed loans of over $350 million in 2002.

The Administration believes that this program represents an unnecessary federal subsidy. The budget requests no funding for this program in 2003. Shipbuilders and shipyards could and should

seek to improve their competitiveness without relying on federal subsidies or exposing taxpayers to the costs of their failures.

Strengthening Management

In addition to the Administration's focus on improving the performance of specific government programs, the Department also seeks to make substantial progress on the five government-wide management priorities.

Initiative	2001 Status
Human Capital—DOT is working on comprehensive workforce planning and restructuring to reduce management layers, make DOT more citizen-centered, and better match staff to the Department's missions and goals. This work is particularly critical since 45 percent of current senior executives in DOT and over 50 percent of staff in many critical occupations are anticipated to retire by 2006.	
Competitive Sourcing—DOT has not completed public-private or direct conversion competition on the government positions working in commercial functions. DOT also has not demonstrated that support service agreements between agencies are competed with the private sector on a recurring basis. DOT will meet the 2002 goal and is moving forward with an overall competitive sourcing program.	
Financial Management—DOT's financial systems fail to meet financial management requirements and standards. Auditors could only issue a "qualified" opinion on DOT's 2000 financial statements. They cited material control weakness, primarily for FAA's property accounting. DOT also does not have integrated financial and performance management systems. However, senior management is addressing these shortfalls, has submitted a new plan to comply with financial management standards, and is implementing a new, integrated financial system.	
E-Government—DOT needs to strengthen its business cases for major information technology projects. In addition, some major projects, particularly those within FAA, are not operating within cost, schedule, and performance targets. However, DOT is implementing e-business process initiatives that will improve agency operations. The Department has an e-government leadership role for on-line rulemaking management.	
Budget/Performance Integration—DOT's annual performance plan is clear and sets forth annual goals. However, accounts, staff, and activities are not sufficiently aligned with program targets, and resources are not requested in the context of past results. Cost of program outputs is not integrated with performance and DOT lacks a systematic performance management process to improve effectiveness. DOT is working to improve its decision making process to base program management and resource decisions on costs and results.	

Department of Transportation

(In millions of dollars)

	2001 Actual	Estimate 2002	Estimate 2003
Spending:			
Discretionary Budgetary Resources:			
Office of the Secretary	90	108	145
Coast Guard	4,143	4,491	5,523
Federal Aviation Administration	12,908	13,691	14,012
Transportation Security Administration	—	1,250	4,676
Federal Highway Administration [1]	31,100	32,113	22,633
Federal Motor Carrier Safety Administration	273	339	371
National Highway Traffic Safety Administration	408	427	429
Federal Transit Administration	7,554	6,751	7,230
Federal Rail Administration	758	738	715
Research and Special Programs Administration	85	97	110
Maritime Administration	214	223	212
All other programs	82	86	98
User Fees	–37	–1,301	–2,510
Subtotal, Discretionary budgetary resources adjusted [2]	57,578	59,013	53,644
Remove contingent adjustments	–757	–797	–839
Total, Discretionary budgetary resources	56,821	58,216	52,805
Emergency Response Fund, Budgetary Resources:			
Coast Guard	18	209	—
Federal Aviation Administration	123	1,072	—
Transportation Security Administration	—	95	—
All other programs	—	418	—
Total, Emergency Response Fund, Budgetary resources	141	1,794	—
Mandatory Outlays:			
Coast Guard	807	868	921
Federal Highway Administration	1,218	1,275	1,154
Office of the Secretary	2,386	2,704	26
All other programs	–9	375	–292
Subtotal, Mandatory outlays	4,402	5,222	1,809
Contingent adjustments	—	—	310
Total, Mandatory outlays	4,402	5,222	2,119
Credit activity:			
Direct Loan Disbursements:			
Transportation Infrastructure Finance and Innovation Program (TIFIA)	—	430	830
Railroad Rehabilitation and Improvement Program	—	150	100
All other programs	11	10	10
Total, Direct loan disbursements	11	590	940
Guaranteed Loans:			
Transportation Infrastructure Finance and Innovation Program (TIFIA)	—	160	183
Maritime Guaranteed Loan (Title XI)	729	800	—
Minority Business Resource Center	7	18	18
Total, Guaranteed loans	736	978	201

[1] FHWA funding decreases by more than $9 billion between 2002 and 2003 due to a provision in the Transportation Equity Act for the 21st Century that requires that highway spending be tied to highway receipts.

[2] Adjusted to include the full share of accruing employee pensions and annuitants health benefits. For more information, see Chapter 14, "Preview Report," in *Analytical Perspectives.*

DEPARTMENT OF THE TREASURY

The President's Proposal:

- Increases efforts to combat terrorism by strengthening the Customs Service to protect our borders, enhancing Secret Service efforts to protect government officials and foreign dignitaries, and expanding anti-money laundering efforts to thwart terrorists and their fundraising activities;
- Invests in Customs technology to allow importers to convert to a highly efficient paperless, account-based processing system;
- Invests in IRS technology and staffing to improve customer service and ensure fair tax compliance; and
- Supports breakthroughs in electronic government, including new options for individual and business tax filing.

Department of the Treasury

Paul H. O'Neill, Secretary

www.ustreas.gov 202-622-2000

Number of Employees: 150,532

2002 Spending: $16.8 billion (debt financing and tax credits account for another $365.8 billion)

Field Offices: 16 bureaus with field offices nationwide.

The Department of the Treasury collects taxes, taking in 98 percent of the federal government's $2 trillion in revenue. Treasury also helps the President make economic policy by regulating financial institutions and managing the government's finances. Its law enforcement bureaus protect citizens from illegal drugs, financial crime, violence and terrorism, and provide protection for government officials and foreign dignitaries.

Homeland Security and Law Enforcement

Treasury is redoubling its efforts to fight terrorism while continuing to implement critical programs to guard against other threats, such as violent crime and illegal drug use.

The first strike in the war against terror targeted the terrorists' financial support.

President George W. Bush
September 24, 2001

Financial Crimes and Terrorist Fundraising

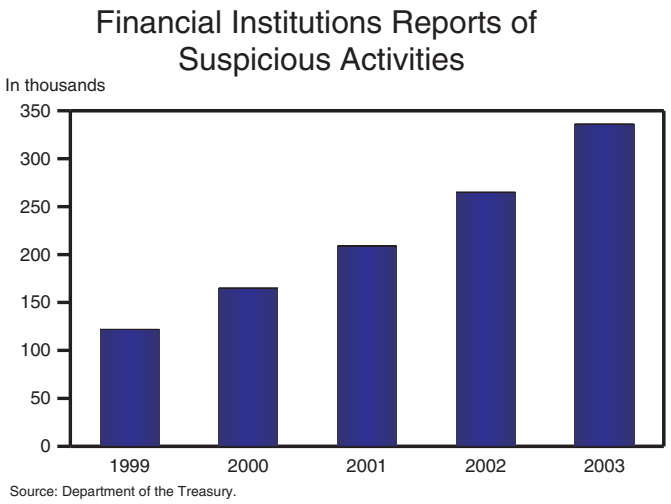
Stopping Terrorist Financing

On November 7, 2001, with the help of Treasury's new counter-terrorism financial task force—Operation Green Quest—Treasury blocked the U.S. assets of 62 individuals and organizations connected with two terror-supporting financial networks—the al Taqwa and the al Barakaat financial networks. These networks raise, manage, invest, and distribute funds for Osama bin Laden's al Qaeda terrorist organization. Senior al Qaeda leaders are also senior leaders in other terrorist organizations. Al Barakaat and al Taqwa have a presence in over 40 nations, including the United States, and the United States carefully coordinates its actions with allies around the world to defeat them.

Treasury leads the nation's war against the financing of global terrorism. Treasury's Financial Crimes Enforcement Network (FinCEN) and Office of Foreign Assets Control (OFAC) identify the numerous methods used by terrorist networks to finance their operations and move quickly to freeze those assets and provide information to law enforcement agencies.

Armed with suspicious activity reports and financial transaction records maintained by financial institutions and required by the Bank Secrecy Act, FinCEN assists law enforcement efforts to prevent and detect money laundering and other financial crimes. These data, along with other commercial and law enforcement information, allow FinCEN to link business associates, bank accounts, property records, and other information to form a more complete financial trail. FinCEN also works with foreign financial intelligence units to extend its reach beyond U.S. borders. The budget provides $52 million for FinCEN's operations.





The complex task of blocking transactions and freezing assets held by terrorist and other criminal organizations and individuals is carried out by OFAC. OFAC uses information from FinCEN and the law enforcement and intelligence communities to identify terrorist groups that threaten our national security and to assess their methods of transferring funds. This information is then used to deny these groups access to international financial systems, impair their fundraising capabilities, and expose their financial backers. OFAC also assists the nation's allies in similar actions. Since September 11, 2001, OFAC has frozen $34 million in terrorist assets (Taliban, Hamas, and al Qaeda) and assisted our nation's allies in freezing $33.9 million. Prior to September 11th, OFAC successfully froze $236 million in Taliban assets. The budget provides $22 million for OFAC's operations.

Border Control

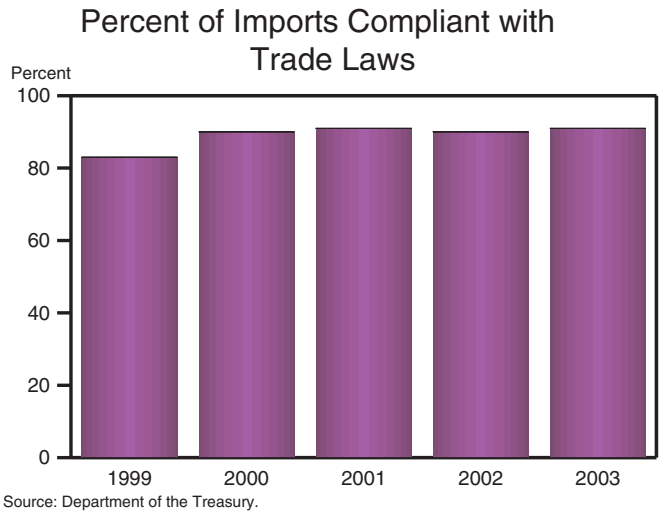
Homeland Security

Following the September 11, 2001, terrorist attacks, the Customs Service threat level was changed from Alert Level 4 (normal operations) to the highest level, Alert Level 1 (Code Red). The U.S.-Mexico and U.S.-Canada borders remained open to traffic and commerce while Customs maintained an Alert Level 1 status. Land borders and all ports of entry into the United States are subject to intensive anti-terrorism operations. The fight against terrorism has now become the number one priority of the Customs Service. Customs is present at 301 ports of entry into the country—international airports, seaports, and land border crossings across the country. Customs' budget has been substantially increased in 2002 and 2003 to provide more staffing and technology to further improve border security.

The U.S. Customs Service is one of the primary enforcement agencies protecting the nation's borders, deploying an extensive air, land, and marine interdiction force supported by an investigative division. It enforces trade and tariff laws (2001 tariff collections were $20 billion) and interdicts illegal drugs and contraband. On a typical day, the Customs Service processes 1.3 million passengers, 51,000 trucks/containers, 590 vessels, 2,600 aircraft, and 355,000 vehicles. The budget provides $3.2 billion for Customs operations.

Protecting our borders from illegal entry of narcotics is a core mission of the Customs Service. Drug trafficking often raises the funds terrorists need to operate. American demand for contraband unwittingly aids their efforts. However, it is difficult to assess the effect of Customs' drug interdiction actions on the war against drugs, since Customs uses the amount of illegal drugs seized as a performance measure.

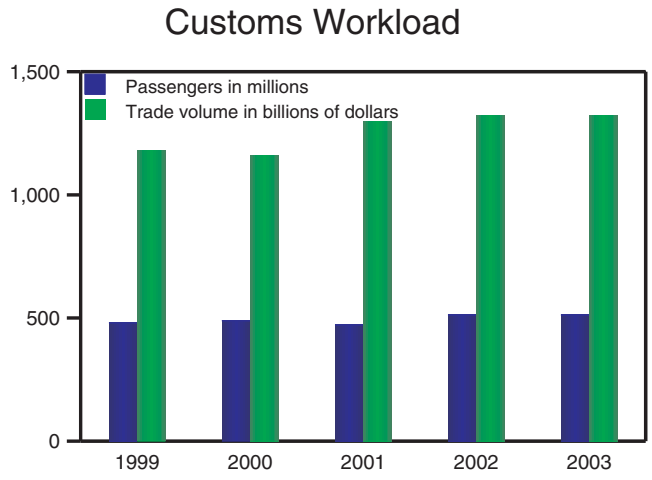
In 2001, 191,000 pounds of cocaine, 3,600 pounds of heroin, and 1.5 million pounds of marijuana were seized by Customs. However, seizures do not tell how much contraband gets through the nation's borders. Customs is working with the Office of National Drug Control Policy to craft better measures to evaluate effectiveness.



Source: Department of the Treasury.

Customs' mission includes both facilitating trade and ensuring compliance with import and export laws. Customs' efforts have been largely successful. In 2001, an estimated 91 percent of imports were compliant with trade and tariff requirements. To cope with trade activity that it expects to double by 2005, Customs is modernizing its automation systems and using risk management to target high-risk cargo.

Customs' current automation systems are outdated, often break down, and cannot dependably handle an increasing volume of trade. The replacement system, the Automated Commercial Environment (ACE), will enable Customs to convert to a paperless process for importers and an account-based system. Customs is working with partners in the trade industry and government to ensure that ACE is completed promptly and effectively. The budget supports this modernization effort with $313 million for the third year of ACE investments.



Source: Department of the Treasury.

The Customs Service is responsible for collecting several user fees for services provided by Customs and other agencies that aid the traveling and importing community. The Administration proposes increasing two of these Customs fees: the Air/Sea passenger fee and the Cruise Vessel Passenger fee. The costs incurred by Customs have increased due to inflation, and the fees should reflect this reality. The Air/Sea passenger fee has been in place since 1986, but has not been increased. The budget proposes to increase this fee from $5 to $11 per passenger. The Cruise Vessel passenger fee would increase from $1.75 to $2 per passenger. The increased receipts from these fees will enhance Customs' Homeland Security efforts through payment of inspector overtime and related expenses.

United States Secret Service

Our country and its leaders live in a world of increasing domestic and global threats. The Secret Service is incorporating new technology to accomplish more effectively its unique mission of protecting the President and other public officials. In response to increasing homeland security threats, the Secret Service now protects more people, and its protection workload has increased significantly. To support the Secret Service's expanding responsibilities during the war on terrorism, the budget proposes additional funding for the travel and overtime of current Secret Service agents and officers. Funding proposed in 2003 also supports over 400 new agents and officers being hired in 2002.



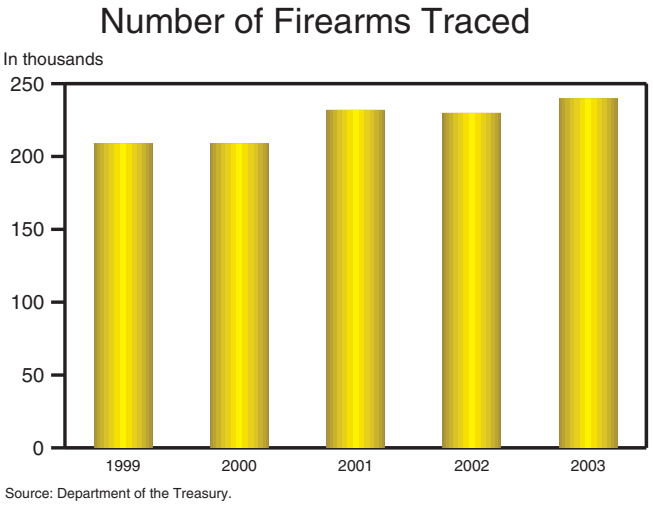
Secret Service agents must remain vigilant at all times to protect our leaders.

While much of what the public knows about the Secret Service relates to protecting the President, the Secret Service also plays a major role in protecting our nation's currency and financial integrity. Over the last several years, the percentage of Secret Service financial crimes cases adopted for federal prosecution has remained relatively stable at around 50 percent. The looming threat of cyber-terrorists and increasingly sophisticated counterfeiters makes it more critical that the Secret Service make more efficient use of its current resources to reduce the vulnerability of our nation's currency and financial networks.

The budget provides $1 billion for the Secret Service.

Alcohol, Tobacco, and Firearms

The Bureau of Alcohol, Tobacco, and Firearms (ATF) enforces the federal laws and collects revenue relating to alcohol, tobacco products, firearms and explosives (2001 revenues were $14 billion).



Source: Department of the Treasury.

ATF stands in the front ranks of the nation's battle against terrorism. Explosives are a preferred terrorist tool, and ATF is in the unique position of not only regulating commerce in explosives, but also of having the requisite expertise and authority to investigate explosives-related crimes. Through these programs, ATF investigators are positioned to thwart terrorist activity at every level of the execution process—from the theft or illegal purchase of explosives to the interdiction and neutralization of those explosives for terrorist purposes at public events. The budget provides $913 million to support ATF.

The budget reflects the Administration's strong commitment to use coordinated community efforts to prevent youth and gang violence. This is epitomized by ATF's Youth Crime Gun Interdiction Initiative (YCGII), which provides ATF agents and technical support to work with local law enforcement to develop firearms trafficking cases against those supplying guns to youths and to initiate comprehensive tracing of firearms. In 2001, for example, the number of YCGII defendants increased to 1,342 from a total of 535 in 2000. The initiative currently includes 50 participating sites located in 32 states and the District of Columbia. The budget proposes to expand YCGII and includes $96 million, an increase of $11 million above 2002 for ATF, to add 10 additional YCGII sites.

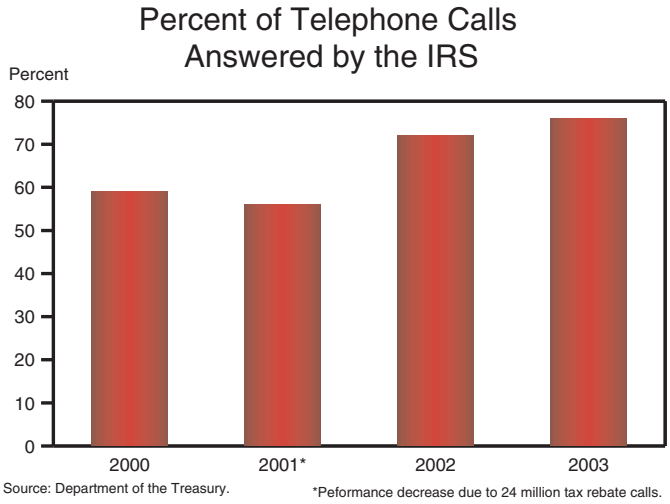
Tax Administration

The Internal Revenue Service (IRS) serves as the principal revenue collector for the government, collecting $1.9 trillion in 2001. The budget provides $10.4 billion for IRS operations.

IRS runs the tax filing process despite being saddled with outdated and often ineffective technology and an increasingly complex tax code. In 2001, it processed 220 million tax returns and over 1 billion information returns (e.g., W-2 wage reports from employers), and it delivered 97 million refunds. IRS has successfully responded to recent challenges by updating its systems to avoid the Year 2000 problem and collaborating with the Treasury's Financial Management Service to deliver 86 million tax rebate checks in 2001.



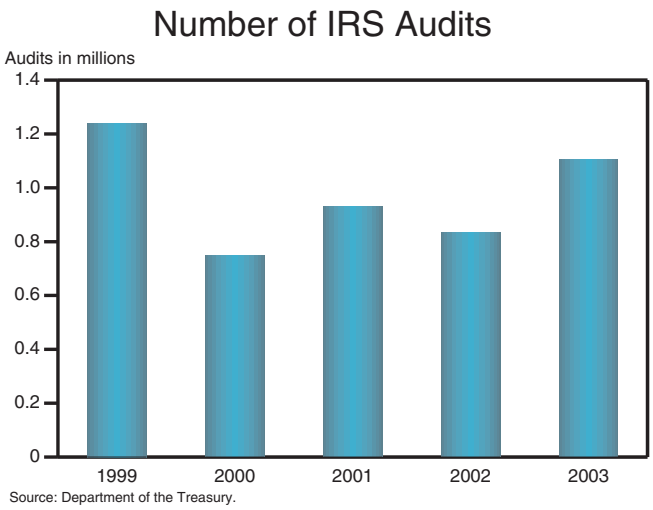
IRS workers process millions of tax returns by hand each year.



Source: Department of the Treasury.

*Peformance decrease due to 24 million tax rebate calls.

IRS has trouble providing minimally acceptable customer service and ensuring that all taxpayers pay what they owe under the law. Due to outmoded technology and management practices, IRS's $775 million telephone service program is unable to answer millions of phone calls each year. IRS has worked hard in recent years to improve this situation. The percentage of calls answered was only 49 percent in 1997. Its goal is to improve to 76 percent in 2003 (see accompanying chart). However, more progress is needed—what business would survive for long if it failed to pick up the phone one time in four? In addition, even when IRS answers, it often provides incomplete or incorrect answers. In 2001, only 75 percent of tax law answers fully met IRS's strict quality standards.



These technology and process shortcomings also have reduced the effectiveness of IRS's compliance programs. Audit numbers have fallen significantly in recent years, but there have been no improvements in IRS's ability to target limited audit resources on the least compliant taxpayers.

These problems burden honest taxpayers in two important ways. First, taxpayers often do not receive the help they need to accurately file their returns. Second, honest taxpayers bear a heavier financial burden because noncomplying taxpayers are not paying what they owe. The Administration is committed to solving the problems at IRS and ensuring that taxes are collected fairly, efficiently, and with minimum hassle for honest taxpayers.

IRS is in the midst of a major reform effort required by the 1998 Restructuring and Reform Act. IRS has reorganized around operating divisions serving specific customer groups, and is in the process of modernizing its technology and management practices. The budget supports these efforts by providing $450 million for technology investments and $102 million for new customer service and compliance staffing. Modernization will yield substantial improvements in IRS's efficiency and effectiveness because IRS staff will have up-to-date, accurate information about taxpayer accounts. Too often, IRS data is incomplete and out-of-date. In addition, IRS is now able to target services and employee training to specific types of taxpayers. For example, some groups of IRS employees now specialize in earned income tax credit issues while others specialize in helping small businesses. Until the reorganization, employees had to try to understand all areas of the highly complex tax system.

Modernized Technology Will Improve IRS Service

Millions of taxpayers call IRS each year to ask whether their returns have been received and when they will get their refunds. The time it takes to answer these calls diverts IRS away from helping other taxpayers resolve more complex problems. IRS modernization will help. For example, starting in 2002 taxpayers will be able to log onto a secure website and receive information on their return status. If there is an issue with the return, such as a math error or missing signature, the taxpayer will be informed of the nature of the problem and provided with information to help resolve it expeditiously. IRS estimates that this will result in a 50-percent reduction in calls from people asking for information on the status of their return.

Electronic Tax Return Filing

Today, individuals have to pay accountants, buy software, and pay fees just to file their tax return. It should not be so hard to pay taxes. For example, electronic filers must purchase an electronic filing service from a private vendor at an average cost of $12.50 – compared to 34 cents for a first-class stamp on a paper return.

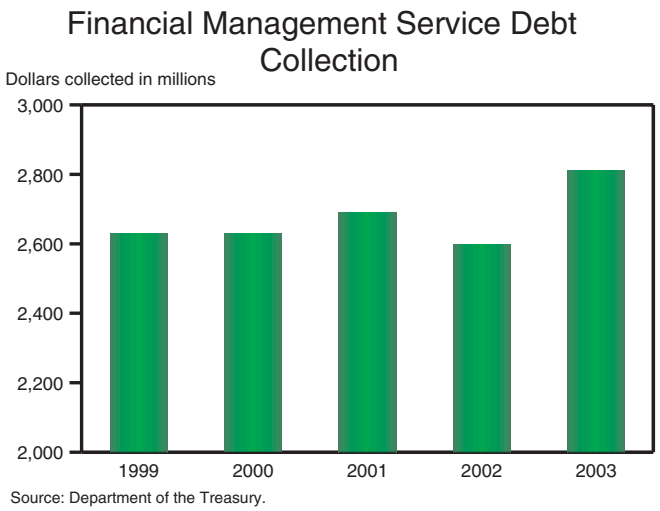
The EZ Tax Filing E-Government initiative will reduce the cost and burden of filing taxes. Electronic filing is quick, easy, and far less prone to error than traditional paper returns. The Administration proposes an easy, no-cost option for taxpayers to file their tax return online. Further, legislation will be proposed to extend the April filing date for electronic returns by at least 10 days.

IRS is also renewing its efforts to measure taxpayer compliance. This will allow it to focus more effectively its enforcement resources on noncompliant taxpayers, and reduce the burden of unnecessary audits on honest taxpayers. Finally, IRS will employ private sector contractors where appropriate and where they can more efficiently provide services currently provided by federal employees.

Fiscal Services

The Financial Management Service (FMS) serves as the central financial management office of the government, disbursing nearly one billion payments each year ($1.2 trillion) and collecting $2 trillion in receipts (mostly IRS tax collections).

In 1996, FMS became the government's central debt collector. Agencies are required to transfer non-tax debt over 180 days delinquent to Treasury for centralized collection. Treasury employs two tools to collect this debt: payment offset and cross servicing. Offset involves matching federal payments (e.g., tax refunds, vendor payments) against debt owed to the government. Cross servicing involves issuing demand letters, referring debt to private collection agencies, and a variety of other methods. Treasury is working to ensure that agencies refer their debt that is eligible for cross servicing. Currently, they refer only 74 percent.



Source: Department of the Treasury.

Treasury manages the $5.9 trillion federal debt, including $3.4 trillion held by the public and $2.5 trillion in Trust Fund balances (e.g., Social Security). Each year, the Bureau of Public Debt sells approximately 43 million savings bonds and pays $360 billion in interest. Treasury also produces 23 billion coins and 7 billion currency notes per year.

Community Development Financial Institutions

The Community Development Financial Institutions (CDFI) Fund seeks to expand the availability of credit, investment capital, and financial services in distressed urban and rural communities through assistance to CDFIs. Since the Fund's creation, it has made more than $539 million in awards to community development organizations and financial institutions. However, the impact of these investments is difficult to measure. The key outcomes that the Fund monitors, such as businesses or housing units financed, do not consider that CDFIs and traditional financial institutions may have made some or all of these investments in the absence of government support. In response to this concern, the Fund's management plans to build a data repository on the CDFI industry. The Fund can then use this information to measure the impact of its awards on low-income communities and better target future assistance.

Status Report on Select Programs

Treasury has a diverse set of programs, including manufacturing (producing coins and currency), financial management (managing public funds and borrowing), tax collection, and various law enforcement functions. The table that follows evaluates the current performance of several of these programs.

Program	Assessment	Explanation
Financial Management Service (FMS) Collection and Payment Processing	**Effective**	In 2001, FMS collected over $2 trillion in federal taxes and other receipts, and disbursed more than $1.2 trillion in federal payments. By volume, roughly 75 percent of collections and 72 percent of payments were processed electronically, with 99.9998 percent of payments made on time. Seventy-seven percent of payments to citizens and 60 percent to businesses were made electronically.
Customs Trade Compliance	**Effective**	The Customs Service maintains a sound trade management system that maximizes compliance with import and export laws and moves cargo efficiently. In 2001, Customs achieved its goal of ensuring that 91 percent of imports were compliant with trade and tariff requirements.
Customs Drug Interdiction	**Unknown**	The Customs Service seizes large amounts of drugs at the border. However, the government does not know how much contraband gets through our borders.

Program	Assessment	Explanation
IRS Customer Service	Ineffective	Due to outmoded technology and management practices, IRS provides poor service to taxpayers. However, technology investments and improving work processes are gradually improving performance.
IRS Tax Compliance Enforcement	Ineffective	Due to outmoded technology and management practices, IRS is unable to ensure that all citizens pay the taxes they owe under the law. IRS's current modernization program will give it the tools to improve performance in this area.

Strengthening Management

While Treasury faces challenges to improve management and implement the President's Management Agenda, the Department is committed to making improvements in these initiatives in 2002 and 2003.

Initiative	2001 Status
Human Capital—The Treasury Department is facing many human capital-related questions, such as how to deal with an aging workforce (10 percent of Treasury's workforce is eligible to retire now; in five years this will rise to 30 percent) and make fundamental restructuring changes to increase performance for citizens. While some bureaus have taken steps to face these challenges, Treasury has not developed a coordinated strategy that addresses skills imbalances in mission-critical occupations; succession planning; better use of existing personnel management tools and technology; and how the agency rewards high performers and addresses low performance. The Department will complete a comprehensive plan in 2002 to address these challenges.	
Competitive Sourcing—Treasury has not yet completed public-private or direct conversion competition on any of the positions that it has identified as commercial in nature. However, the Department has committed to achieving the 15 percent goal by the end of 2003.	

Initiative	2001 Status
Financial Management—Treasury received an unqualified opinion on its 2000 financial audit. However, substantial weaknesses in financial management systems and controls at Customs and IRS, the two largest bureaus in Treasury, hamper effective management and make it difficult for Treasury to sustain an unqualified opinion in the future. Improvements are also needed to reduce the number of improper payments. An estimated 25 percent of Earned Income Tax Credit payments were made incorrectly for tax year 1997. Treasury is working to improve its financial systems and has a $154 million compliance program to reduce errors in the Earned Income Tax Credit program. The Department is also moving aggressively to accelerate the preparation of monthly financial statements and expects to set the standard for the government in timely statements by the summer of 2002. In addition, the budget proposes legislative change to allow IRS to match the income reported on student aid applications with tax return data. This will help reduce errors in the Education Department's student aid programs and save an estimated $138 million in 2003.	
E-Government—Treasury has made progress in recent years in improving its technology investment planning and execution (i.e., using business cases and monitoring progress against performance targets). However, improvements are still needed to ensure that all investments are managed carefully to achieve maximum benefits. Treasury has also made progress in implementing electronic government options for citizens (e.g., electronic tax filing and benefits payments). The budget proposes to further expand electronic government, including new taxpayer services and expanding the Treasury's *Pay.gov* on line payment system.	
Budget/Performance Integration—Treasury needs to continue to improve its performance measures to include more outcome indicators and to make certain that all programs have balanced measures of outputs, quality, and customer satisfaction. The Department has committed to provide a full performance plan/review to the Congress in support of the budget, and will work through 2002 to improve its measures in time for the 2004 Budget process.	

Department of the Treasury

(In millions of dollars)

	2001 Actual	Estimate	
		2002	2003
Spending:			
Discretionary Budget Authority:			
Tax Administration	9,442	9,927	10,416
Customs Service:			
Existing law	2,642	2,785	3,185
Legislative proposal			
Other Law Enforcement	2,024	2,148	2,316
Fiscal Services	377	431	432
Management and Inspector General	492	455	479
Community Development Financial Institutions	118	80	68
Subtotal, Discretionary budget authority adjusted [1]	15,095	15,826	16,646
Remove contingent adjustments	–618	–659	–710
Total, Discretionary budget authority	14,477	15,167	15,936
Emergency Response Fund, Budgetary Resources:			
Customs Service	36	429	—
All other Treasury programs	12	251	—
Total, Emergency Response Fund, Budgetary resources	48	680	—
Mandatory Outlays:			
Payments Where Tax Credits Exceed Liability for Tax:			
Existing law	27,105	35,672	38,077
Legislative proposal	—	—	774
Miscellaneous receipts and other mandatory spending	–2,764	–841	–2,884
Subtotal, Mandatory outlays adjusted [1]	24,341	34,831	35,967
Remove contingent adjustments	–5	–5	–5
Total, Mandatory outlays	24,336	34,826	35,962
Interest:			
Financing the public debt and other interest	352,033	330,998	345,595
Credit activity:			
Direct Loan Disbursements:			
Community Development Financial Institutions	9	10	10
Guaranteed Loans:			
Air Transportation Stabilization Board	—	5,000	5,000

[1] Adjusted to include the full share of accruing employee pensions and annuitants health benefits. For more information, see Chapter 14, "Preview Report," in *Analytical Perspectives.*

DEPARTMENT OF VETERANS AFFAIRS

The President's Proposal:

- Fulfills commitments to the nation's veterans by
  - guaranteeing that veterans' disability claims are processed accurately and quickly; and
  - improving health care delivery by coordinating the medical care systems of the Departments of Veterans Affairs and Defense.
- Focuses medical care resources on treating disabled and low-income veterans; and
- Funds major expansion in cemeteries to prepare for increased demands.

Department of Veterans Affairs

Anthony J. Principi, Secretary

www.va.gov 202–273–4800

Number of Employees: 207,028

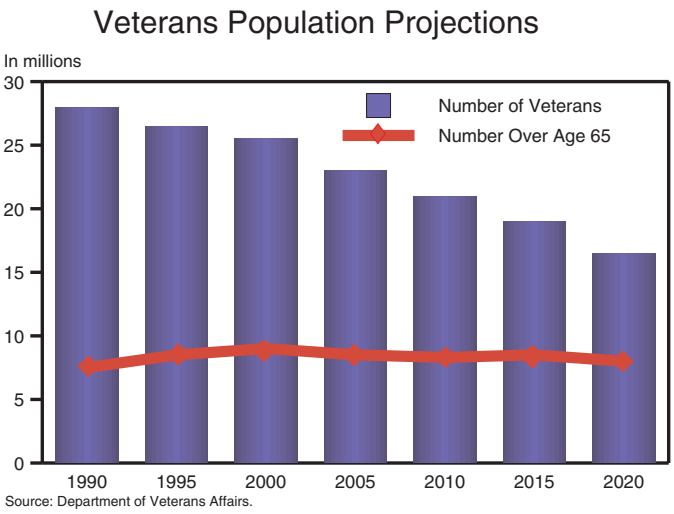
2002 Spending: $51.5 billion

Organization: Veterans Health Administration, Veterans Benefits Administration, and National Cemetery Administration.

The Department of Veterans Affairs (VA) operates the largest direct health care delivery system in the country; administers veterans' benefits, including monthly disability payments, education assistance, life insurance, home loans, and vocational rehabilitation; and runs a nationwide system of veterans' cemeteries while awarding other burial benefits.

Overview

Today, there are 25 million veterans, but in the next 20 years this number will decline by one-third, to 17 million (as shown in the accompanying chart). Although VA is charged with providing services to the entire veteran population, fewer than one in five veterans participate in VA programs. The decline in population ultimately will mean that fewer veterans will seek medical care, monthly disability benefits, and burials at VA cemeteries. However, on the immediate horizon, there will be increased usage of some VA benefits and services, as veterans age and more women draw on them. The imperative of recognizing veterans' contributions to the nation means that VA's strategy, business plan, and infrastructure will need to adapt to ensure top-quality services and be flexible enough to handle changing dynamics and waning population.



Status Report on Select Programs

The Administration is reviewing the management of programs throughout the government. Poor performing programs that are not mission critical will be eliminated, cut back, or reconfigured so that their funding can be redirected to be more effectively used. The accompanying table rates the performance of some of VA's most important programs. Those with ineffective ratings are targeted for rapid improvement.

Program	Assessment	Explanation
Disability and Pension Claims Processing	**Ineffective**	VA systems and processes should be flexible to address an ever-changing, demand-driven environment. VA is automating its existing processes slowly but needs to identify and remedy the underlying causes of sluggish processing. It must modernize its information technology capabilities.
Care for Disabled and Low-Income Veterans	**Ineffective**	VA's medical care system's ability to provide timely and high-quality care to its core disabled and low-income veterans is being jeopardized by the rapid increase of other veterans receiving VA care.
Cemetery Benefits	**Effective**	The National Cemetery Administration strives to provide high quality, courteous, and responsive service in all of its contacts with veterans and their families. Of survey respondents, 92 percent rate the services provided by the national cemeteries as excellent. However, improvements can be made in cemetery system planning.

Program	Assessment	Explanation
Health Care Quality	**Effective**	VA is a recognized leader in health care quality and has been at the forefront of innovations such as bar coding of prescription drugs, computerized patient records, and medical error reporting.
Medical Care Infrastructure Assessment (CARES)	**Unknown**	VA has fallen eight months behind schedule on the first of 22 regional studies, and it is yet unclear whether future studies will benefit from correcting weaknesses identified in the first study.

Guarantee that Veterans' Disability Claims are Processed Accurately and Quickly

> *I must say that I think the VA has the necessary resources right now to do the job…the Agency can't justify asking for more people right now.*
>
> Vice Admiral Cooper (retired)
> *Government Executive*,
> November 8, 2001

One of the President's top priorities is to make sure that when a veteran submits a claim for a disability, it is processed quickly and accurately. Disability benefits provide a monthly benefit to veterans who are disabled as a result of their military service. Currently, 2.3 million veterans receive these tax-free benefits. The amount awarded to a veteran depends on the severity of the disability. For 2002, the basic monthly benefit ranges from $103 for a 10 percent disability rating to $2,163 for a 100 percent disability rating. Roughly half of veterans receiving compensation are less than 30 percent disabled.

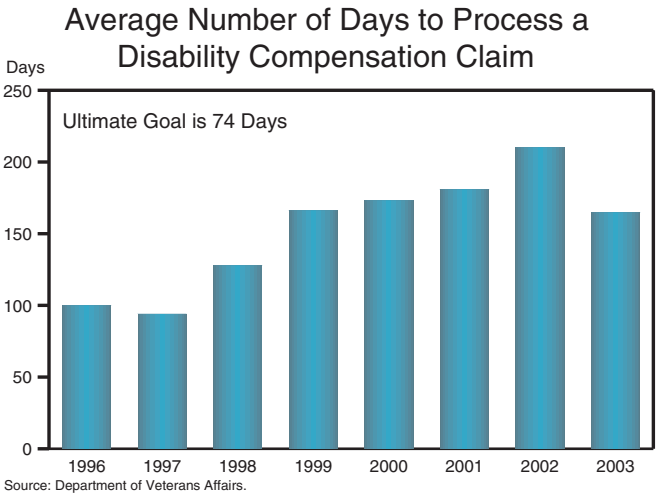
Improving the quality of life of the disabled is a national responsibility. And yet, the time and cost of processing disability claims have steadily increased. The average number of days to process a claim has risen from 100 days in 1996 to 181 days in 2001, and the number of claims awaiting a decision has jumped from 343,000 to over 644,000 during that same period. Meanwhile, the level of benefits paid increased by 27 percent in the past five years, while the cost of administering these benefits more than doubled.



VA benefits help veterans lead active lives.

There are three main reasons for continued poor performance. First, the complexity of the claims has increased because veterans are requesting benefits for more than one disability at a time. Second, laws and regulations are passed with immediate start dates—giving VA no lead time to handle the wave of new work required. Finally, VA has failed to effectively manage its nation-wide system of benefit offices.

To handle a growing backlog of claims, VA has repeatedly turned to hiring more and more employees. Since 1998, nearly 2,000 people have been hired to help process claims. Success, however, will ultimately depend not on hiring new employees, but on the application of modern information tools and, most of all, the establishment of true organizational accountability.



In October 2001, Vice Admiral Daniel L. Cooper (retired), who led the 14-member *Department of Veterans Affairs Claims Processing Task Force*, presented a final report to VA. The report concluded that, as a result of basic flaws in organization and communication, VA is unable to handle the effects of judicial decisions and legislative changes on workload. Productivity is poor, and so far management has proven incapable of introducing change and flexibility into the workplace.

VA should concentrate on radically changing the way it does business. These changes include identifying practices that work best at VA and enforcing their use across the country; allocating both work and funds to the best regional offices; creating specialized processing centers; and developing a computer system that allows people throughout the country to work on individual claims at the same time.

The success of these initiatives must and will be measurable. Speed should not come at the sacrifice of accuracy, or vice versa. VA will use the following two critical performance measures to ensure that its efforts are balanced:

- Process disability compensation and pension claims in an average of 165 days in 2003 (ultimate goal is 74 days—given the legal and medical complexities and VA's responsibility to help prepare claims); and
- Attain an 88 percent national accuracy rate for core rating work in 2003 (ultimate goal is 96 percent)

To deliver services quickly and effectively, it is just as important to establish a relationship between performance and resources, but VA has not done this. The Department cannot, for example, say that for every $500,000 increase in funding, timeliness and accuracy improve by measurable percentages. Until relationships like these are defined, it is impossible to figure out the optimal amount of funding for veterans' services.

Improve Health Care Delivery by Coordinating the Medical Care Systems of the Departments of Veterans Affairs and Defense

Although VA and the Department of Defense (DoD) both operate very large medical care systems with a combined cost of over $40 billion yearly, historically there has been little cooperation between the Departments. The Departments assert that the most common barriers have been different missions, patient populations, and cultures, as well as differing opinions on who would lead the effort. However, both Departments describe sharing efforts. Only $100 million—or one-quarter of one percent—of $40 billion in expenses passes from one to the other.

Unnecessary Paperwork

All veterans, by definition, were members of the Armed Services. While on active duty their (and their families') information was tracked by a system that covered everything from security clearances, to health care entitlements, to commissary privileges.

In an era of rapid high-tech changes, the minute veterans want to apply for VA benefits, they must provide pages of information on paper, that was already on computers at DoD. Likewise, when these same veterans later apply for other VA benefits, they start the process all over again.

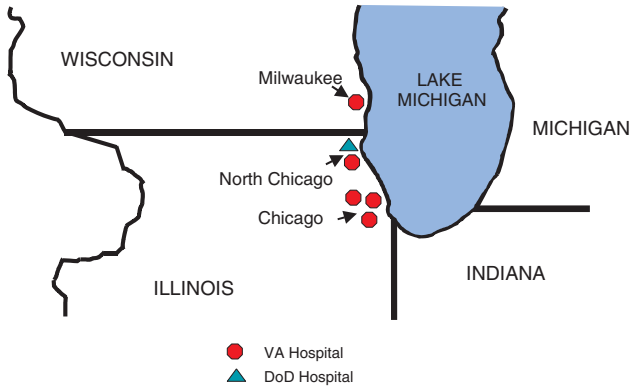
Sharing information and technology can make a world of difference to the military and veteran communities. It can speed up service, ensure veterans' safety, and inform veterans of entitlements that they are due. In addition, information sharing can transmit important knowledge through the departments' walls—replacing the myth that they have little in common.

In many communities, VA and DoD hospitals are close to each other and offer similar services (e.g., primary care, surgery, or eye care). However, traditionally neither has considered the other as an option in determining construction or health delivery needs. In light of the new emphasis on sharing, the DoD and VA are working together to solve mutual problems in the Greater Chicago area, where currently there are five VA hospitals and one DoD hospital as shown in the map. DoD needs more space and had plans to build a new hospital within walking distance of a near-empty VA hospital. Now VA and DoD are planning to jointly share this hospital and save a significant amount of money by reducing construction of new buildings.

Failure to Communicate

Military retirees can use both DoD and VA medical care systems. Today, many selectively use both. When a retiree goes to VA for services one week and DoD the next, serious errors can result if the doctors do not know what others have done. Despite information sharing efforts within VA, if drugs ordered in each system have adverse interactions, patients may become gravely ill or die.

Chicago Area VA/DoD Hospitals



Source: Department of Veterans Affairs.

The lack of sharing resources and information also results in a waste of the taxpayers' money. This has frustrated the Congress, which has mandated experimental programs for sharing buildings and people. In addition, the Congress has asked VA and DoD to work together to purchase drugs and other medical supplies at a lower price, resulting in savings to the government.

Patient Transportation

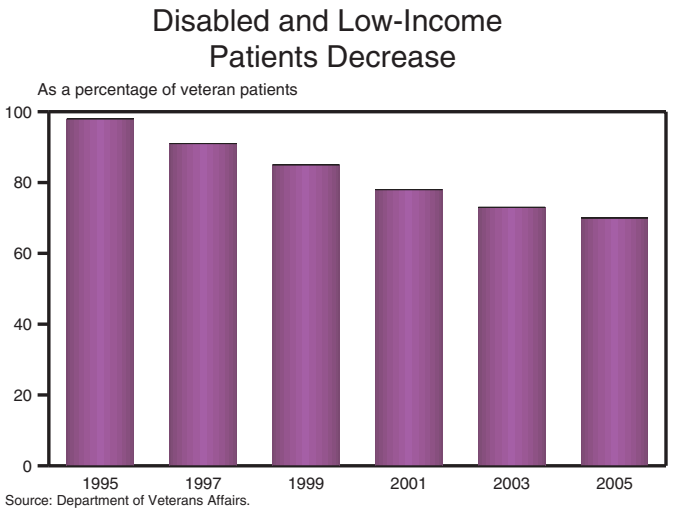
If a veteran needs to be moved long distances from one VA hospital to another, he is typically transported via commercial airline. This is very expensive. DoD routinely transports military patients in planes with unused space. VA and DoD are negotiating how to put VA patients on DoD planes, thereby lowering the cost to both departments.

President Bush made it one of his top priorities to coordinate the two systems. Four areas have been identified as high-priority for coordination: veteran enrollment; computerized patient records; cooperation on air transportation of patients; and facility sharing instead of new construction. The President established a task force that will make recommendations this year to improve the coordination between the two Departments' health care systems.

Moreover, the President's Management Agenda includes an initiative to increase coordination and delivery by VA and DoD of veterans' benefits and services. Over the past year, VA and DoD have undertaken an effort to improve cooperation and sharing in several areas by a reinvigorated VA/DoD Executive Council.

Focuses Medical Care Resources on Treating Disabled and Low-Income Veterans

A 1996 law, allowing VA to treat patients in the most practical settings, changed the way VA delivers care to veterans in very much the same way as the private sector changed. For example, the Department now provides most of its care in clinics and homes instead of in hospitals. This shift has allowed VA to spend its resources more effectively and has provided patients with more convenient service. At the same time, patients have also benefited from new innovative safety and quality systems. Today, VA is recognized as a world leader in quality medical care.



The same 1996 law also required VA to enroll veterans for medical care in one of seven distinct priority levels. Veterans with military disabilities or low-incomes are in the higher priority levels to preserve VA's core mission. All other veterans fall into the lowest level. The enrollment process requires VA's Secretary to announce, prior to the beginning of each fiscal year, what priority levels of veterans are eligible to receive care given the level of funding enacted into law. Each year since, VA has announced that all veterans are eligible to receive care. When eligible for care, a veteran is entitled to receive the full basic benefits package of services.

Prior to the 1996 law, veterans in the lowest priority level were only treated on a space-available basis, and were restricted as to what care they could receive and where they could receive it. However, since the law took effect, these veterans have grown from two percent to over 21 percent of VA patients as shown in the chart above. They have always been required to pay for a minor portion of their care by the use of co-payments. But given their rapidly escalating numbers, these veterans will consume a critical portion of VA resources at the expense of the disabled, poorer veteran population unless they are required to pay a greater portion of their care. The budget proposes a new $1,500 annual deductible amount for these veterans, whereby they would pay 45 percent of the charge until their out-of-pocket expenses total $1,500.

Although VA has changed the way it provides care to veterans, its buildings are relics of the past. VA's buildings are not located where most veterans live. Although many veterans have moved to the South and Southwest (where waiting times for appointments have grown), VA still maintains underused hospitals throughout the North and East regions of the country (where few seek such services). The General Accounting Office (GAO) reported that VA was wasting up to $1 million a day in keeping these hospitals operating. VA should be expanding the number of clinics where disabled and low-income veterans are living and converting many of its massive hospitals to more efficient clinics, where needed. To do this, VA began a review process in the first of its 22 regions in the fall of 2000. This process is known as Capital Asset Realignment for Enhanced Services (CARES).

The contractor's recommendations were completed June 2001, but VA has not yet decided how to proceed in the other 21 regions. In addition, VA has not modified its contract methods to correct some deficiencies identified in the first study. Savings identified will be used to provide care to veterans in the same or other geographical areas.

Funds Major Expansion in Cemeteries to Prepare for Increased Burial Demands

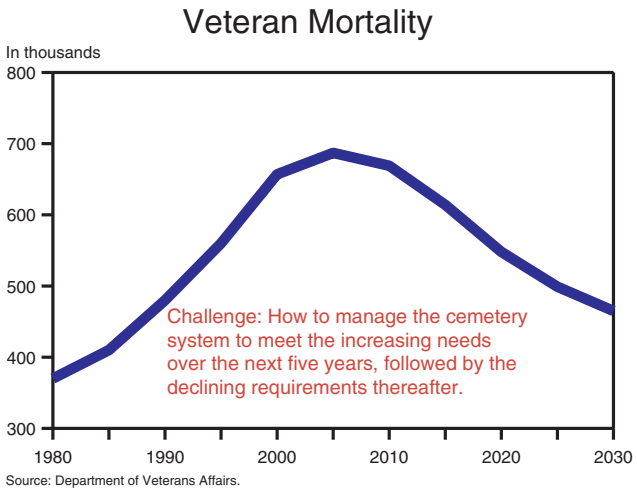


VA cemeteries are rated excellent by almost all.

Over 90 percent of family members and funeral directors who have recently received services from a national cemetery rate the quality of VA's burial services as excellent. By the end of 2002, VA will operate 120 national cemeteries and over 40 VA-funded state cemeteries providing burial services for almost 100,000 veterans and eligible family members per year. VA's goal is to ensure compassionate and good service, while searching for more efficient ways of doing business. For example, kiosk information centers are being placed in cemeteries to assist visitors in finding exact gravesite locations. In addition, VA orders almost all headstones by computer to shorten the waiting times for families.

Soon, VA will have a major challenge in determining the appropriate number, location, and mix of national and state cemeteries as the veteran population continues to decline and as deaths peak over the next decade (see accompanying chart).

One of VA's key goals is to ensure that most veterans have a national or state veterans' cemetery within 75 miles of their home. The recent opening of several new cemeteries, with more on the way, has helped improve veteran access to burial to 73 percent in 2001. Planned performance for 2003 is 76 percent. VA will never be able to accomplish 100 percent, nor should it. It is not cost-effective to construct new national cemeteries in regions with few veterans. Therefore, VA must reevaluate how best to economically maximize caring for the largest number of deceased veterans and their families. To date, though, VA has not defined the minimum number of veterans that national and state cemeteries should serve before construction is justified. Nor has the department suggested substitute benefits that might be appropriate for veterans in under-populated areas.



Strengthening Management

Although VA has made some progress in addressing its financial performance shortcomings, it has made little progress elsewhere. The Department is working to develop a satisfactory plan to achieve the President's goals for competitive sourcing, E-Government, and human resources. The scorecard below shows VA's 2001 status on the President's management initiatives.

Initiative	2001 Status
Human Capital—VA, like most other federal agencies, faces human capital challenges when its aging workforce retires and leaves gaps in critical skills such as disability claims adjudicators (where it takes several years to train new employees in complex medical and legal skills). The Department will revise its current plan to incorporate more detailed methods of tackling this challenge with clear deliverables and deadlines. In addition, VA will examine the different pay options it has available in order to ensure that geographic shortages of critical medical care providers can be addressed.	
Competitive Sourcing—Nearly half of all federal employees perform tasks that are readily available in the commercial marketplace. The Department is developing a plan to meet the Administration's goal of allowing the private sector to compete commercial functions currently done by the government.	
Financial Management—VA has persistent problems with internal controls, which include nine material weaknesses, all of which have been carried over from prior years. However, VA has developed a financial management plan to address its problems, and is now moving towards implementing an acceptable financial system.	
E-Government—Historically, VA has made major information technology (IT) decisions without thorough analysis. For example, the Department does not coordinate its planning and investment processes, and does not fully develop its justifications for major IT projects. It also lacks an enterprise architecture to make IT investment decisions. In early 2002, VA will produce a timetable for completion of its enterprise architecture. The department also is committed to providing qualified business cases by March 2002.	
Budget/Performance Integration—VA cannot monitor with sufficient precision the cost and effectiveness of many of its programs. For example, VA used the Hepatitis C crisis to argue for, and receive, $0.7 billion of additional funding specific to this cause for the three years beginning with 2000. However, VA has been unable to track the expenditure of this amount to Hepatitis C care, to determine how and if the funding changed performance, or report on how veterans have been served nationwide. While VA is working on a comprehensive patient Hepatitis C tracking system, no plans to link this performance with budget have been addressed. VA will present a timetable and plan to link key performance goals throughout the Department with funding levels by June 2002.	

Department of Veterans Affairs

(In millions of dollars)

	2001 Actual	Estimate 2002	Estimate 2003
Spending:			
Discretionary budget authority:			
Medical Programs:	*21,352*	*22,529*	*24,023*
Medical Care	20,920	22,071	23,537
Medical Collections (non-add)	*771*	*1,051*	*1,489*
Medical Administration	69	74	77
Medical and Prosthetic Research	363	384	409
Construction:	*361*	*523*	*536*
Major Construction	66	183	194
Minor Construction	170	211	211
Other Construction	125	129	132
Veterans Benefits Administration:	*1,049*	*1,166*	*1,408*
Benefits Administration:			
Existing Law	883	998	1,039
Legislative Proposal	—	—	20
Credit Administration	166	168	172
VETS State Grant Awards:			
Existing Law	—	—	—
Legislative Proposal	—	—	177
Other:	*401*	*439*	*479*
General Administration	235	253	278
General Administration (credit)	4	5	5
Inspector General	48	55	58
National Cemetery Administration	114	126	138
Subtotal, Discretionary budget authority adjusted [1]	23,164	24,657	26,447
Remove contingent adjustments	–789	–831	–891
Total, Discretionary budget authority	22,375	23,826	25,556
Emergency Response Fund, Budgetary resources	—	2	—
Mandatory Outlays:			
Veterans Benefits Administration:			
Compensation and Pensions	21,420	24,905	26,421
Montgomery GI Bill Benefits	1,623	2,235	2,569
Insurance	1,231	1,287	1,315
Credit	333	704	342
All other programs and receipt accounts	–1,923	–2,181	–368
Subtotal, Mandatory outlays	22,684	26,950	30,279
Credit activity:			
Direct Loan Disbursements:			
Veterans Benefits Administration:			
Native American Direct Loans and Transitional Housing for Homeless Veterans Loans	2	3	15

	2001	Estimate	
	Actual	2002	2003
Vendee and Acquired Loans	1,470	1,815	1,922
Education and Vocational Rehabilitation Loans	2	3	3
Subtotal, Direct loan disbursements	1,474	1,821	1,940
Guaranteed Loans:			
Veterans Benefits Administration:			
Veterans Home Loan Program	31,138	32,067	32,665
Subtotal, Guaranteed loans	31,138	32,067	32,665

[1] Adjusted to include the full share of accruing employee pensions and annuitants health benefits. For more information, see Chapter 14, "Preview Report," in *Analytical Perspectives*.

CORPS OF ENGINEERS—CIVIL WORKS

The President's Proposal:

- Reduces the backlog of ongoing construction projects and completes those projects in the budget sooner than possible under current spending trends, primarily by not starting new projects—the budget completes 30 projects in 2003, or 15 percent of the projects in the budget;
- Increases funding for priority navigation projects—such as modernizing Olmsted Lock and Dam, Illinois and Kentucky, and deepening the Port of New York/New Jersey—and important environmental restoration efforts in the Florida Everglades and Columbia River Basin;
- Reduces the average time to process an individual wetlands permit by about 25 percent, or 40 days, by 2004, while strengthening protection of wetlands;
- Provides a funding mechanism to reduce the unscheduled "downtime" of Corps hydropower generation facilities by up to 40 percent over the next few years; and
- Supports needed operation and maintenance of existing infrastructure.

Corps of Engineers—Civil Works

Mike Parker: Assistant Secretary of the Army for Civil Works

www.hq.usace.army.mil/cepa/cepa.htm
703-697-8986

Number of Employees (2002): 24,800

2002 Spending: $5.0 billion

Field Offices: Eight Divisions; 38 Districts; 15 laboratories and other offices.

The Army Corps of Engineers Civil Works program is responsible for assisting the development and management of the nation's water resources. Its main missions are to: 1) aid commercial navigation; 2) protect citizens and their property from flood and storm damages; and 3) protect, restore and manage environmental resources. The Corps carries out most of its work in partnership with state and local governments and other non-federal entities.

Overview

The Civil Works program has seven primary business lines: 1) navigation; 2) flood control and coastal storm damage reduction; 3) environment; 4) recreation management; 5) hydropower; 6) regulatory; and 7) emergency management. Implementing these business lines involves the Corps of Engineers in the planning, construction, operation or maintenance of over 8,000 civil works projects. These include about 900 ports and harbors and over 275 locks and dams for navigation, 4,300 recreation areas, and 75 hydropower generation facilities. The Corps' investments in new construction projects are typically joint ventures with non-federal sponsors. With the exception of navigation projects and multipurpose reservoirs, the local sponsor usually owns, operates, and maintains the project once it is built.

Congress periodically directs the Corps to work in other areas that duplicate existing federal programs or are activities that should be carried out by non-federal interests. This "mission creep" diverts the Corps from its primary business lines, slows down completion of higher priority construction projects, and postpones the benefits that completing these projects would bring.

Status Report On Select Programs

The Administration is reviewing programs throughout the federal government to identify strong and weak performers. The accompanying table provides its assessment of program performance for each of the Corps' primary business lines. The budget for the Corps proposes to redirect funds from the Corps' lesser performing projects and programs to higher priority or more effective ones and to improve performance in other areas.

Program	Assessment	Explanation
Navigation:		
Deep-draft	**Moderately Effective**	Planning is typically done project-by-project rather than considering nationwide needs systematically.
Shallow-draft	**Ineffective**	Many projects provide recreational benefits rather than commercial benefits.
Inland waterways	**Moderately Effective**	Ohio and Mississippi River systems highly efficient, but some other segments benefit few commercial users; traffic management system needs improvement; heavily subsidized by the federal government.
Flood and Storm Damage Reduction	**Effective**	Projects meet performance goals; concerns with inadequate local cost-sharing of shore protection projects.
Environmental Restoration	**Unknown**	Little data on environmental outcomes of completed restoration projects and other environmental activities.
Recreation Management	**Moderately Effective**	Generally high customer satisfaction; many facilities are obsolete.

Program	Assessment	Explanation
Hydropower	**Moderately Effective**	Opportunities exist to reduce facility "downtime."
Regulatory	**Moderately Effective**	Opportunities exist to accelerate permit processing; little data on environmental outcomes of permit actions.
Emergency Response	**Effective**	Consistently high performance.

Congressional Earmarks

The 2003 Budget focuses Corps funding on the main Civil Works mission areas that benefit the nation—commercial navigation, flood damage reduction, and environmental restoration.

In recent years, the Congress has authorized and appropriated funds for the Corps to undertake an increasing number of projects that fall outside the scope of its historic missions, such as building sewage treatment plants, revitalizing local waterfronts, and maintaining waterways primarily for local recreation. Whatever the merit of these projects, they should be carried out by others. For instance, the Environmental Protection Agency (EPA) provides funds specifically for building sewage treatment plants. These ancillary projects divert resources and delay completion of economically justified projects that are within the Corps' primary mission areas.

Congressional Earmarks

Year	Number	BA in millions of dollars	Percent of Total Budget Authority
2001	405	367	8%
2002	604	431	10%

Unrequested earmarks include congressional directives that preempt the administrative allocation process for small projects in the Corps' "continuing authorities" programs, and directives for larger projects outside the Corps' mission areas. For example, in 2002, over three-fourths of the funding for congressionally added projects in the Corps' construction program were for projects that are inconsistent with long-established policies for the Corps of Engineers, which should not be part of the Corps program. These include over 30 of the 47 new construction projects started in 2002. It would require about $5 billion to complete all the projects added by the Congress that are inconsistent with Corps policies—that's $5 billion diverted from nationally important navigation, flood damage reduction, and environmental restoration projects already underway.

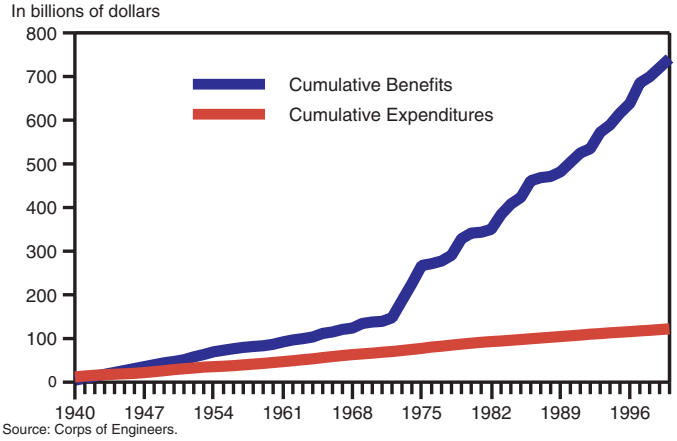
Mission Creep

In 2002, the Congress earmarked $500,000 to start construction of the Florida Keys Water Quality Improvements project, a wastewater treatment initiative that would require about $100 million to complete. Corps funding of such projects circumvents procedures in EPA's Clean Water State Revolving Fund (CWSRF) for ensuring that these funds address the state's highest priority wastewater needs. Florida received nearly $46 million of CWSRF funding in 2002.

Flood Damage Reduction

The Corps estimates that its existing flood damage reduction projects prevent about $21 billion in damages in an average year, and over time have returned $6 for every $1 invested (see accompanying chart). These benefits vary greatly from year-to-year depending on flood events. Despite these federal investments, flood damage nationwide is increasing. Federal, state, and local decisions can diminish or increase flood risks and affect flood damages.

Corps Flood Damage Reduction Projects:
$6 Returned for Every $1 Invested



Source: Corps of Engineers.

Besides funding justified investments in Corps flood damage reduction projects, the 2003 Budget will continue assistance to states and communities to reduce flood risks through planning and promoting better floodplain management. The Corps is also increasingly incorporating environmentally beneficial designs into its flood damage reduction projects. For example, the project to protect the City of Napa, California, reestablishes former marshes and floodplains along the Napa River. These areas will provide wildlife habitat as well as space to convey floodwaters away from the city.

The Administration's goal is to ensure that the American people get the most flood protection for each dollar invested. The accompanying table is a rough comparison of the estimated return that the Corps expects from each dollar it spends on flood damage reduction projects with returns for selected federal programs with a similar objective. As discussed in the Department of Agriculture chapter, the 2003 Budget proposes to reduce federal funding for the Natural Resource Conservation Service's Small Watershed Program, which has a

lower economic return than both the Corps or the Federal Emergency Management Agency (FEMA) programs. The budget also proposes to restructure FEMA's 404 hazard mitigation program to improve its effectiveness, as discussed in the FEMA chapter.

Benefits from Each Dollar Invested in Selected Federal Flood Damage Reduction Programs

Corps of Engineers	Federal Emergency Management Agency's 404 Flood Risk Mitigation [1]	Department of Agriculture's Small Watershed Program
$1.90	$2.30	$1.40



Corps personnel are often among the first people on the scene in flood emergencies.

The Corps provides emergency assistance during and after floods or coastal storms to save lives and protect public facilities and critical infrastructure. As part of its emergency response mission, the Corps also assists FEMA, states, and localities with responses to natural and other disasters. Corps personnel are often among the first people on the scene in flood and other emergencies, providing pumps, generators, sandbags, clean water, and technical assistance to search and rescue operations. For example, the Corps assisted FEMA in responding to the terrorist attacks of September 11th, by providing the New York City Fire Department interim communications equipment to replace phone lines destroyed by the attacks, evaluating the safety of damaged buildings, providing emergency power to the financial district, and assisting with debris removal and disposal. With regard to homeland security, the budget provides $65 million for the continuing costs of additional guard positions at critical Corps facilities.

[1] Cost-benefit estimate is for flood-related projects in the 404 Mitigation program. FEMA cost-benefit comparisons are not strictly comparable due to differences in methods used to measure costs and benefits. Also, some projects in the FEMA program were exempted from cost-benefit requirements by law or regulation, because of presumed benefits.

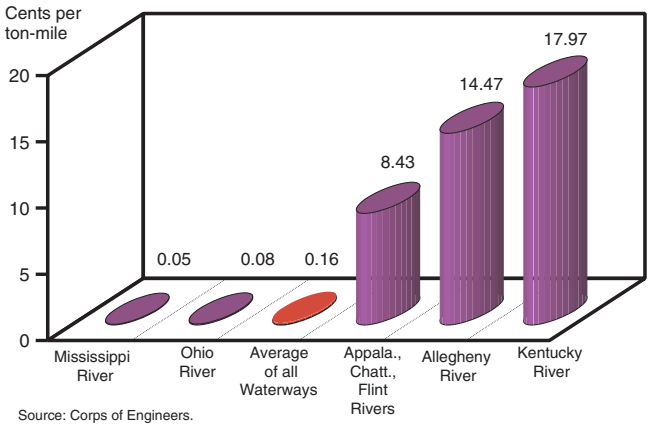
Navigation

The Corps maintains nearly 11,000 miles of commercial waterways and hundreds of ports and harbors, typically through lock operations and dredging. The Corps estimates that its navigation activities provide about $20 billion in benefits every year. Each dollar it spends in 2003 to construct commercial navigation projects will return an average of $3.30 in benefits upon project completion.

The 2003 Budget targets funds to those waterways providing the greatest economic return to the nation, and limits funding for those with little commercial traffic. It includes $77 million for construction of Olmsted Lock and Dam in Illinois and Kentucky, an increase of $37 million over 2002, to expedite completion of this important modernization project on the Ohio River. The budget also provides $120 million, an increase of $31.5 million over 2002, to accelerate the transportation cost savings and other economic benefits of deepening the Port of New York/New Jersey.

The Corps operates and maintains some harbors and segments of the inland waterway system that benefit few commercial users. The accompanying chart shows the wide variation in cost to operate and maintain segments of the inland waterway system in terms of cost per commercial ton-mile, where the lower cost is indicative of higher commercial benefits. The 2003 Budget targets funds to those waterways that provide the greatest economic return, and substantially reduces funding for those that provide minor commercial navigation benefits. For two projects with minimal commercial usage—the navigation features on the Fox River, Wisconsin, and Locks and Dams 5 through 14 on the Kentucky River, Kentucky—the Corps is in the midst of transferring ownership, operation, and maintenance responsibilities to non-federal interests.

Corps of Engineers Costs to Operate and Maintain Selected Inland Waterways



Source: Corps of Engineers.

Environmental Restoration

Enhancing the environment is another Corps main mission. The 2003 Budget includes substantial funding for Corps of Engineers environmental projects:

- The budget provides a total of $245 million for Everglades restoration. This includes Corps funding of $149 million, a $10 million increase over 2002, and $96 million for programs within the Department of the Interior. The budget includes $46 million specifically for implementation of the Comprehensive Everglades Restoration Plan, of which $37 million is for the Corps and $9 million is for research, monitoring, and planning studies in the Department of the Interior. Everglades restoration efforts may start to pay off as early as September, 2003, when five of the 68 known federally endangered and threatened species in South Florida are expected to be changed from “endangered” status to “threatened” status or removed from the list of federally protected species.

- The budget ensures that the Corps will meet environmental requirements for salmon conservation in the Columbia River Basin (WA, OR, ID). It provides $128 million for the Corps' salmon conservation efforts, a $19 million, or 17 percent, increase over 2002 funding. This allocation includes $100 million for the Columbia River Fish Mitigation and Lower Columbia River Ecosystem Restoration programs, $17 million for operation and maintenance activities, and $11 million for studies and other activities needed to ensure compliance.

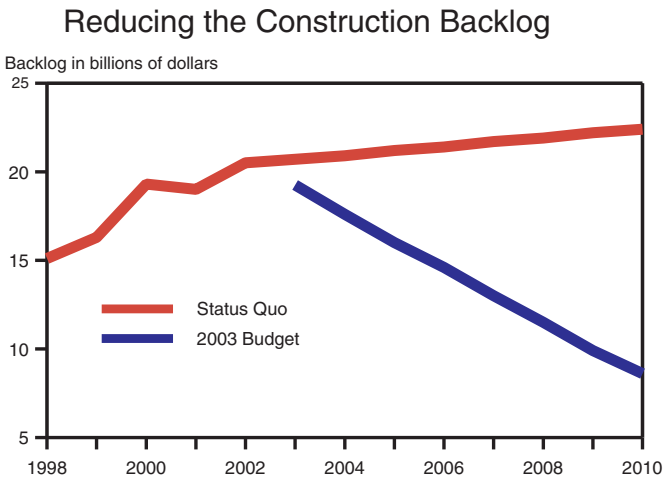
Many of the Corps' ecosystem restoration projects are designed to improve the nation's wetlands resources. Other federal programs have a similar purpose. The accompanying table provides a rough, first-order comparison of the Corps' per-acre costs with two programs of other federal agencies with a similar mission, the Department of the Interior's North American Wetlands Conservation Fund and the Department of Agriculture's Wetlands Reserve Program. It is difficult to draw definite conclusions about program performance because the underlying cost of the land and the type and quality of resulting habitat can vary significantly by project and program. For this reason, the Administration will work over the next year to refine these data and to determine whether reallocating funds among the agencies would further improve the nation's wetlands.

Average Cost to Establish an Acre of Wetlands

Corps of Engineers	Department of the Interior	Department of Agriculture
$3,900	$2,250	$1,200

Improving Performance

The Corps must work in a number of ways to improve its performance delivering services to the public. The Corps estimates that the balance of funding needed to complete all active construction or pre-construction work (including projects that are being studied, but are not yet authorized for construction) is over $40 billion. Of this, more than $21 billion of future federal funding is necessary to complete the flood control, navigation, and environmental restoration projects funded in the budget for the Corps' primary construction program. Therefore, its major challenge is to complete those projects already underway in its primary construction program. This backlog needs immediate and sustained attention. It is about 12 times the entire amount appropriated in 2002 for the construction program ($1.7 billion). Put another way, it would take 12 years at the rate of funding the Congress provided in 2002 for the Corps just to finish funding the ongoing construction projects supported in the budget. Unfortunately, as the accompanying chart shows, this backlog of ongoing construction projects has increased in recent years, as the Congress has added funds to start more new projects than can be afforded. The 2003 Budget proposes to reverse this trend.



This increasing backlog also hurts the Corps' overall performance, as each new project diverts resources from completing ongoing construction efforts. This means the benefits the public reasonably expects to receive from these projects are often delayed significantly. For example, construction work on Olmsted Lock and Dam began in 1991 and was scheduled for completion by 2006. However, it may not be finished until 2011.

There are only three ways to shrink the backlog of ongoing, budgeted construction projects:

- provide more funding;
- defer or cease work on some ongoing projects; or
- stop adding new projects.

Recent experience demonstrates that more funding alone does not cut this backlog. During the last six years, funding for the Corps construction budget has increased more than 50 percent, but the backlog has grown by 43 percent. Backlog growth occurred because more new projects were started than could be funded efficiently.

Deferring or ceasing work is an option, but it is difficult to stop a project already underway. The Administration is reviewing projects in the backlog to determine whether any should be delayed in order to accelerate completion of others, but this is unlikely to dramatically change the situation because the number of such projects appears to be small.

That leaves not starting new projects. Stopping the flow of new commitments is a logical step toward completing ongoing projects sooner. To the extent that the need for a particular new project is compelling, it may be necessary to defer funding of one or more ongoing projects.

Focus on Completing Projects

The budget reduces the backlog of ongoing construction projects in the budget from $21 billion to $13 billion over the next five years by:

- providing $1.44 billion for the Corps' ongoing construction program in 2003 and comparable levels in future years;
- providing no funds for discretionary new construction in 2003;
- targeting funding to projects that fall within the Corps' primary missions; and
- dropping funding significantly for studies of potential future construction projects.

These actions will allow the Corps to complete 30 projects in 2003, which is 15 percent of the construction projects in the budget, and to complete other ongoing projects in the budget sooner than possible under current spending trends.

Finally, an additional important challenge confronts the Corps. If it is to improve its performance in its main missions, it must find ways to prevent the diversion of resources away from these missions. As noted previously, many of the unrequested Corps projects added by the Congress are either not a federal responsibility or should be funded by other federal programs. The budget does not include funds for the Corps to continue these projects.

The 2003 Budget includes several other initiatives to improve the Corps' performance. It proposes a $17 million, or 13 percent, increase in funding for the Corps' regulatory program for activities affecting navigable waters and wetlands. This increase would allow the Corps to reduce the average time for reviewing individual permit applications to 120 days by 2004, compared to the estimate of 160 days for 2002. The funding boost also would allow the Corps to issue 70 percent of individual permits within 120 days, compared to the estimate of 54 percent for 2002. It would strengthen protection of wetlands by supporting watershed approaches in sensitive areas and through improved oversight of mitigation efforts.

Improving Hydropower Performance

In 1999, the General Accounting Office found that the Corps' hydropower facilities are twice as likely to experience "unplanned outages" as private-sector facilities, because the Corps does not always have funds for maintenance and repairs when needed. Such outages result in lost power production. The budget's proposal for direct funding of the Corps hydropower maintenance by Power Marketing Administration customers should enable the Corps to cut its unscheduled "downtime" by up to 40 percent over the next few years and achieve a performance level matching that of non-federal hydropower facilities.

The budget also includes a proposal for the Power Marketing Administrations to provide direct funding from power sales revenues for the operation and maintenance costs of Corps' hydropower facilities. This new financing arrangement will permit more timely maintenance of hydropower facilities, which will enable the Corps to reduce facility "downtime" and increase power generation.

Strengthening Management

The Corps of Engineers has made progress addressing certain parts of the President's Management Agenda. For example, the Corps expects to achieve a clean opinion on its balance sheet for 2001. However, it has made little progress on other initiatives, and has failed to develop a satisfactory plan to achieve the President's goals for competitive sourcing and human resources. A scorecard and summary of the Corps' status is shown below.

In addition, the 2002 Budget *Blueprint* highlighted reforms needed in the Corps' project planning process to ensure higher quality, objective analysis of potential construction projects. The Army Corps of Engineers has made some progress on these reforms. The Assistant Secretary of the Army for Civil Works has established a new group to strengthen the policy consistency of Corps studies. The Administration will soon release its proposal for independent review of significant projects, another reform highlighted in the *Blueprint*.

Initiative	2001 Status
Human Capital—The Corps has reduced its staff and supervisory ratio over the past eight years. However, its human capital plan does not adequately address competitive sourcing, e-government, workforce skills, or field office workload and staffing requirements. The Corps plans to complete a human resources plan by March 2002.	
Competitive Sourcing—The Corps currently contracts out about 60 percent of its work, but still has a significant inventory of commercial work performed by governmental employees. It has agreed to complete its assessment of competitive sourcing opportunities and its competitive sourcing plan by September 2002, to achieve the Administration's two-year 15 percent goal in an effort to eventually compete 50 percent of all commercial activities.	
Financial Management—Auditors were unable to give an opinion on the Corps' 2000 financial statements because of unresolved issues with valuing property, plant, and equipment, and a material weakness with computer security. The Corps expects to achieve a clean opinion on its 2001 statements.	
E-Government—The Corps failed to prepare adequate business cases for all of its major information technology investments. It is developing business cases and improving the planning and control processes that support these investments.	
Budget/Performance Integration—The Corps' 2003 Budget submission included little integration of either outcome or output performance information to support proposed resource levels. The Corps will improve performance information in several key areas for the 2004 Budget (e.g., operation and maintenance and regulatory activities).	

Corps of Engineers—Civil Works

(In millions of dollars)

	2001 Actual	Estimate 2002	Estimate 2003
Spending:			
Discretionary Budget Authority:			
Construction, General	1,736	1,736	1,440
Operation and Maintenance, General	2,046	1,939	1,979
General Investigations	166	159	108
Flood Control, Mississippi River and Tributaries	366	353	288
Regulatory Program	131	134	151
All other programs	350	276	323
Subtotal, Discretionary budget authority adjusted [1]	4,795	4,597	4,290
Legislative Proposal, Operation and Maintenance	—	—	–149
Remove contingent adjustments	–108	–111	–115
Total, Discretionary budget authority	4,687	4,486	4,026
Emergency Response Fund, Budgetary resources	—	139	—
Mandatory Outlays:			
Operation and Maintenance, General:			
Existing law	3	3	55
Legislative proposal	—	—	–6
Total, Mandatory outlays	—	—	49

[1] Adjusted to include the full share of accruing employee pensions and annuitants health benefits.

For more information, see Chapter 14, "Preview Report," in *Analytical Perspectives.*

ENVIRONMENTAL PROTECTION AGENCY

The President's Proposal:

- Contains the highest funding level ever for regulatory, enforcement, and state grant support (the Operating Program), a critical component of the agency's environmental protection efforts;
- Assists 20 watersheds in restoration efforts under a new community-based cooperative program;
- Provides additional enforcement resources for states to more efficiently implement national environmental policies;
- Spurs clean up of abandoned industrial or commercial facilities known as "brownfields";
- Keeps our water resources safe, including from terrorist attack; and
- Supports strong science and innovation in regulatory approaches to controlling water and air pollution.

Environmental Protection Agency

Christine Todd Whitman, Administrator

www.epa.gov 202–564–4700

Number of Employees: 17,645

2002 Spending: $4.1 billion Operating Program, and $7.8 billion in total

Organization: 17 labs and 10 regional offices across the country.

The Environmental Protection Agency (EPA) protects human health and the environment. EPA is generally focused on four areas: 1) air pollution; 2) water pollution; 3) solid waste; and 4) regulation of chemical products. It also cleans up hazardous waste sites and leaking underground tanks. States are largely responsible for implementing these programs. For example, approximately one third of EPA's funding is spent on grants to states to build and maintain water infrastructure, including sewage treatment plants and drinking water facilities.

Overview

In the last 30 years, the United States has dramatically improved the protection of human health and the environment by reducing pollution. The reversal of environmental degradation to environmental improvement is one of this country's greatest success stories. Few, if any other nations have achieved such a turnaround on such a tremendous scale. For example:

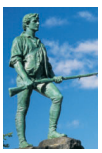
- American drivers now emit 41 percent fewer pollutants from their cars despite now driving 143 percent more miles since 1970;
- Since 1988, the human health risk index from chronic exposure to toxic chemicals decreased by over two-thirds from 100 to 27 points;
- Most of our lakes and rivers continue to get cleaner. For instance, the Bass Anglers Sportsman Society rates the Potomac River—the river President Lyndon Johnson once called a "national disgrace"—as one of the top 10 bass waters in the United States; and
- Today, more than 265 million Americans who rely on public water systems enjoy some of the safest drinking water in the world.

However, health and environmental problems remain. Unfortunately, many government policies that achieved successes over the past 25 years need to be updated. The National Academy of Public Administration and other experts who have reviewed the nation's environmental protection system conclude that today's system is limited, uncoordinated, and inflexible. Because of the environmental challenges that lie ahead and the inefficiencies of the current system, government policies must evolve for progress to continue. The system must become as efficient and low cost as possible while at the same time maintaining environmental progress. Preserving the gains we have made, it is time to move to the next generation of environmental protection.

The Administration is implementing policies that support the next generation of environmental protection. Approaches that will deliver significant additional health protection and greatly improve the environment reflect five major themes: stewardship, sound science, state and local control, innovation, and compliance. Ensuring continuous improvement toward effective implementation of these themes requires preparing for terrorist attacks, funding projects based on merit rather than earmarking, managing for performance, environmental federalism and ensuring that a strong scientific basis undergirds the regulatory process.

Homeland Security

EPA has adjusted well to its new role of supervising the decontamination of anthrax infected buildings. However, this experience has shown that better information and new technologies are needed for this work. The President's Budget includes $75 million in new research funding to help develop technologies to clean up buildings attacked by bioterrorists. In addition, the President's Budget includes $20 million to continue assessing and addressing potential vulnerabilities of the nation's drinking water systems.



Status Report on Select Programs

The Administration is reviewing programs throughout the federal government to identify strong and weak performers. The budget seeks to redirect funds from poorly performing programs to higher priority or more effective ones. The following table provides illustrative examples of the ratings for some of EPA's programs. This chapter also discusses how some of these programs may be improved.

Program	Assessment	Explanation
Acid Rain Program	**Effective**	By 2010, sulfur dioxide emissions from utilities will be reduced by approximately 50 percent of the 1980 baseline. EPA estimates direct costs to be around $2 billion annually, which, at around $200/ton, is among the best performing air quality programs at EPA. This cap-and-trade program enjoys almost 100 percent compliance.
Nonpoint Source Grants to States	**Unknown**	Although nonpoint sources are the biggest remaining water pollution problem, states have not focused sufficiently on eliminating nonpoint source impairment of water quality.
Environmental Education	**Ineffective**	This program has supported environmental advocacy rather than environmental education. The budget transfers funding to the National Science Foundation's (NSF) math and science programs so that a consolidated program can better serve educators and students.
Common Sense Initiative (CSI)	**Ineffective**	The CSI was developed in 1994 to devise new approaches to environmental protection. This program struggled to produce results because of a lack of clear objectives and inflexibility. No legal authority for CSI exists, so litigation and risk of failure are high.
Pesticide Reregistrations	**Ineffective**	EPA worked for almost 30 years to reregister old pesticides on the market based on updated toxicity tests. Congress rewrote the statute twice to speed the process. Fees begun in 1987 to finish the process by 1996 have been extended for seven years. The program has had limited success identifying and reducing exposure to highest risk pesticides.

Congressional Earmarks

The President's Budget generally provides funding for specific projects and programs based on an analysis of national interest, demonstrated needs, and statutory requirements. Unfortunately, Congressional earmarks ignore these determinations and divert funds from higher priority and more effective programs. During the past two years, Congress has earmarked over six percent of EPA's discretionary funds. This budget meets the President's priorities and EPA's needs by eliminating earmarked projects and focusing EPA funding on activities needed to carry out its missions. Congressional earmarks include research projects targeted to specific institutions that bypass the normal competitive process; projects that benefit a limited geographic area with no

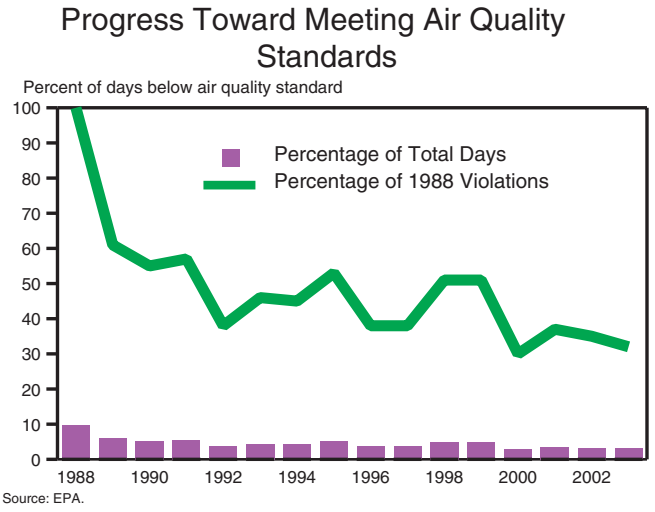
national significance; and infrastructure projects that bypass the State formula allocation and priority-setting process. Some Congressional earmarks have nothing to do with improving the environment, such as $250 thousand to the County of Maui to remove seaweed from the beach. Over $343 million in earmarks were made for drinking and wastewater projects alone.

Congressional Earmarks

	Number	BA in millions of dollars	Percent of Total
2001.....	397	493	6.3%
2002.....	479	494	6.2%

EPA's Performance

Air Pollution



Air in the United States is now the cleanest it has been since EPA began tracking its quality 20 years ago. National air quality, measured at thousands of monitoring stations across the country, has shown improvements for each of the six principal air pollutants, including carbon monoxide, lead, and nitrogen dioxide. This means with each passing year, people breathe a little easier, see a little better, and the environment is a little cleaner.

EPA sets air quality standards to protect the health of sensitive populations such as asthmatics, children, and the elderly in accordance with the Clean Air Act. The agency tracks trends through its pollution standards index. As the chart shows, the percentage of days across the country that air quality violated a health standard has dropped from almost ten percent in 1988 to three percent in 2000. On those relatively few days of noncompliance, the standard generally was violated for only a few hours. Not only has the number of days of noncompliance declined, the air is less polluted on those days when standards are exceeded.

EPA's primary method for controlling air pollution is regulation. In 2003, EPA is expected to spend almost $560 million on reducing emissions into our air. However, in terms of social costs, all of us, mainly through increased prices, pay one hundred times that: approximately $50 billion to $60 billion annually for clean air. The challenge is to continue to reduce emissions into the air at the same or even less cost.

Although the next generation of environmental protection relies on the cooperation inherent in the marketplace, market-based approaches are already demonstrating cost-effective air pollution control. EPA has pioneered the use of economic incentives and market based approaches that allow pollution sources to buy and sell emission allowances. For example, the Acid Rain program was established by the Clean Air Act Amendments of 1990 to control power plant emissions of sulfur dioxide and oxides of nitrogen, both of which contribute to acid rain. Each utility must have sufficient allowances to cover annual emissions. To cover the necessary allowances, the utility must either purchase allowances or reduce emission levels. Excess allowances can be banked for later use. EPA conducts an annual auction for purchasing or selling allowances. One hallmark of this program is its compliance rate, which is close to 100 percent. By one estimate, the saving associated with this "cap-and-trade" program is 55 percent compared with costs for doing this through traditional enforcement.

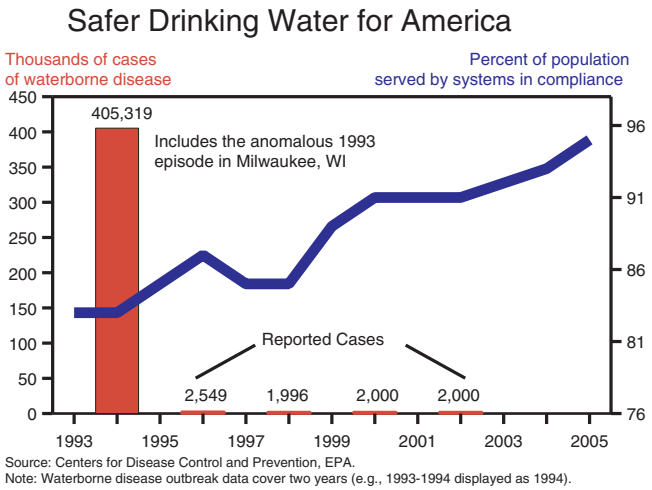
Markets Work for Environmental Protection

The Administration believes that innovative and market-based approaches can achieve clean air cost-effectively. The Administration is working on a legislative proposal for a flexible, market-based program to significantly reduce and cap emissions of sulfur dioxide, nitrogen oxides, and mercury from electric power generators. The program would be phased in over a reasonable period of time, provide regulatory certainty, and offer market-based incentives to help achieve required reductions.

Water Quality and Safe Drinking Water

Like air quality, water quality has significantly improved since the Clean Water Act became law in 1972. The gains are so large, in fact, that storm water runoff from homes, streets, and fields (called "nonpoint source pollution"), now cause more water pollution than industrial sources.

Nearly all the improvements in water quality can be attributed to legislation enacted since EPA's formation in 1970 and the significant federal, state, local, and private investments in their implementation. Under the Clean Water Act, EPA administers both regulatory and voluntary programs in conjunction with the States. For example, 44 states and EPA regulate the discharge of point source pollutants from factories and wastewater treatment plants. Since 1988, the federal government has provided over $19 billion in grants to the clean water state revolving funds (CWSRF), and these funds have made over $37 billion available for loans. Currently, approximately 99 percent of wastewater treatment plants provide secondary treatment or better, significantly reducing pollutant loadings to the nation's waterways. EPA's goal is to increase by 100 (for a total of 600) the number of the nation's 2,262 watersheds that will have more than 80 percent of their assessed waters meet all water quality standards by 2003.



The drinking water program develops regulations, conducts research to support regulations, and works with States to implement them. For 2003, EPA aims to have 92 percent of the population served by community systems with water that meets all health-based standards in effect by 1994. The hurdle has been raised from 83 percent in 1994. Actual reports of waterborne disease outbreaks, compiled by the Centers for Disease Control and Prevention, have been very low for some time except for an outbreak in 1993 and are expected to stay level with 2001. Regulations have been put in place to prevent outbreaks from microbes, such as cryptosporidium outbreak that occurred during 1993 in Milwaukee, Wisconsin, which is shown in the chart above.

In total, the 2003 President's Budget for EPA would provide approximately $3 billion to support its performance goal of clean and safe water, including $2 billion to improve local wastewater and drinking water infrastructure through the CWSRF and drinking water state revolving fund.

Water quality is not free. Although the EPA will spend approximately $3 billion in 2003 on restoring, maintaining and protecting water quality, all of us pay for clean water through taxes, utility bills, and increased prices. These costs to society are estimated to be over $80 billion, or almost 30 times EPA's water budget. Once again the challenge is to continue to improve water quality at the same or less cost.

The President's Budget provides $20 million for a new watershed initiative. Twenty pilot projects will be funded that will help stakeholders protect and restore their watersheds. EPA will work with other federal agencies, states, tribes, communities and others to select watersheds primarily based on community support and the likelihood of positive environmental outcomes. This collaborative approach can provide more efficient and effective solutions to water pollution. The results of these pilot projects will be measured and will be made available to the public. The budget also funds several pilot projects on water quality trading. Trading to achieve water pollution reductions in a watershed will improve water quality at less cost. Widespread use of incentive programs will substantially speed progress toward cleaning up areas that do not currently meet water quality standards and help to achieve this goal in a cost-effective manner.

Solid and Hazardous Waste

EPA runs the $1.3 billion Superfund program that aims to clean up contaminated sites and remove substances that pose an immediate threat. Where groundwater is contaminated, wells are dug and the water treated. Where soil is toxic, it is removed and safely disposed. The goal is to make the site useful again. When EPA determines who is responsible for the contamination, it has the authority to compel them to pay. But cleanups have often been delayed by litigation.



As the accompanying chart shows, 804 hazardous waste sites have been cleaned up. This is projected to rise to 884 by the end of 2003, or 60 percent of the current number of Superfund sites.

The improvement of a site can be dramatic, as visually represented in these "before and after" pictures of the Army Creek Landfill Superfund site (see accompanying pictures). Where once leaking barrels contaminated water supplies, there is now an open wildlife area.



The Army Creek Landfill of New Castle, Delaware before being cleaned up under the Superfund program.



Now a wildlife area flourishes where the Army Creek Landfill used to be.

After the Superfund program began, concern emerged about whether many abandoned industrial sites were contaminated and who was responsible for cleaning them up. Developers worried about liability and steered clear of these properties. To reinvigorate development of these fallow areas, states and local communities, as well as the federal government created the brownfields program. The program assesses sites for potential contamination to assure developers and where necessary, clean sites to make them suitable for new development. The President's brownfields program will remove obstacles to cleanup and reform cleanup mechanisms. This budget keeps the President's commitment to clean up these sites by doubling current funding to $200 million, subject to the authorizing legislation recently passed by the Congress.

Toxic Chemicals

EPA also works to reduce risks from toxic substances. EPA uses a wide range of tactics to accomplish this. Activities include making available important chemical and hazard data to workers and to the general public; reviewing commercial and industrial chemicals; and registering pesticides to ensure adverse risks are not introduced to the public at large.

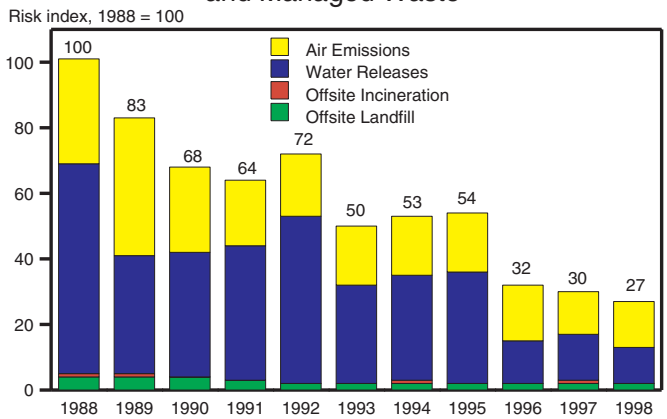
Pesticides can pose risks to humans through food consumption. Thus, EPA administers programs designed to reduce these concerns and promote a safe food supply. For example, EPA sets maximum limits on the amount of pesticide residues on food and reviews limits set in the past to ensure that they meet current scientific standards. By the end of this year, EPA expects to reassess a cumulative 66 percent of these limits and, by the end of 2003, EPA expects to reassess a cumulative 70 percent of the total 9,721 that need to be reviewed by 2006. This includes 75 percent of the 893 that have the greatest potential impact on dietary risks to children.

Also, EPA registers new pesticides to help ensure that they do not pose significant risks. Through this program, EPA expedites the registration of safer pesticides to encourage the use of lower risk products. New pesticides are judged to be "safer" if they pose less risk to human health and the environment or have lower toxicity than current, conventional pesticides. Usage trends show that the percentage of agricultural acres treated with safer pesticides increased from 1.8 percent to 4.3 percent between 1996 and 1998.

Sound Science

From air to water to toxic substances that persist in the environment, sound science plays a pivotal role in adequately managing the risks involved. Many of the Agency's priorities reflect this. For example, in 2003, EPA will begin new biotechnology research. This is expected to result in an improved capability to address three areas: the allergenicity risk from genetically modified foods, the ecological risks from genetically modified organisms, and the management of gene transfers and resistance issues. This research will help determine better metrics for meeting the goal of reducing risks to human health and the environment. Sound science will also be enhanced through improved human capital planning that addresses workforce issues such as retirements and skill gaps. Analysis shows that 60 percent of the Agency's physical scientists and chemists in the Office of Research and Development will be eligible to retire by 2005. This potential skill shortfall needs to be addressed now in order to ensure future scientific integrity of EPA programs; thus, EPA plans to complete a workforce restructuring plan by May 31, 2002 to support its mission goals and strategic plan.

Chronic Human Health Risk Index for Pollution and Managed Waste



Sources: EPA and Florida State University; reflects latest data available.

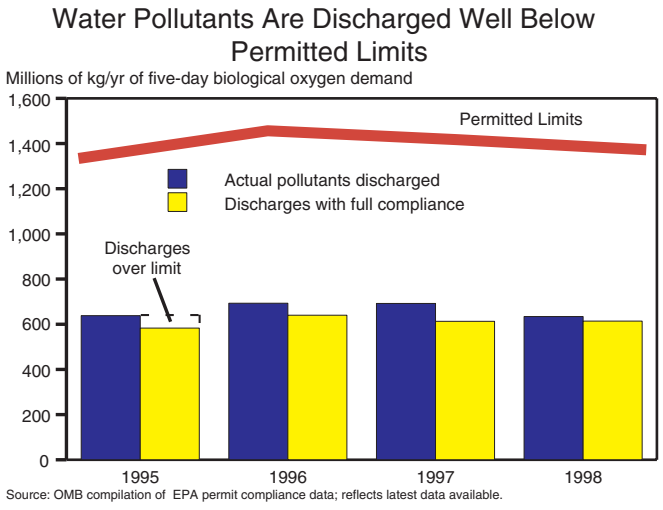
Scientifically sound metrics must be used when evaluating the success of efforts to protect human health and the environment. Measuring the impact of toxic chemicals on human health is a difficult undertaking, but EPA is developing indicators that measure these relationships. The chart shows a rough index of risk from chemicals by weighting releases by toxicity and their fate in the environment.

The Administration is fully committed to ensuring that the rules it issues are based on sound science, public health and safety, and the needs of the economy, consistent with applicable law.

Improving Performance

Environmental Federalism

In many respects, EPA programs are models of federalism. Under most pollution control statutes, EPA conducts research and promulgates national standards for protecting human health and the environment. EPA has generally delegated implementation of these statutes to the states, which take primary responsibility for monitoring pollution, permitting emissions, and enforcing the permits. State enforcement of environmental laws has generally worked well, with states conducting 90 percent of enforcement actions. Currently, 49 states run air pollution programs and 48 run the core hazardous waste programs. EPA has delegated the management of water pollution programs to 44 states. Thus, most facilities that discharge water pollution are regulated by state governments. As an example of the excellent job states do in controlling such pollution, most facilities discharge amounts of water pollution that are well below their permitted limits. For example, in 1998, municipal and industrial sources actually discharged in total less than half of the amount of organic water pollution that they were allowed to discharge under the law. Furthermore, only a small amount of those discharges (three percent in 1998) exceeded legal permit levels (see accompanying chart on five-day biological oxygen demand).



Despite this degree of delegation, EPA still maintains over 1,000 enforcement personnel to assist the states with their workload. The budget proposes to strengthen EPA's partnership with states by shifting more enforcement responsibility and resources to states through establishment of a new $15 million state enforcement grant program. Such an approach properly recognizes that states have the primary responsibility to implement pollution control programs and that increasing state resources would result in more "cops on the beat," more inspections, and more enforcement, since state enforcement costs are lower than federal costs.

Recognizing that the needs of interstate commerce may require uniformity in many circumstances, EPA will work to ensure that patchwork regulatory activities by states under the federal program do not burden interstate commerce.

Better Regulation through Transparent Analysis

In total, the benefits of EPA's pollution control efforts far exceed the costs. However, when considered on a case-by-case basis, some actions are more effective than others.

For example, overall benefits from air pollution control are due mainly to reductions in lead and particulate matter and not other air pollutants. In 1997, EPA developed new regulations for ozone and particulate matter. EPA's data show that the new ozone standard results in a net cost (the costs exceed the benefits) to society ranging from $1.1 billion to $8.1 billion annually, whereas the new particulate matter standards are likely to result in significant net benefits.

Improving the Regulatory Process

The President's Budget reinvigorates the role of science at EPA by supporting funding of a top-level policy office. The office will, among other responsibilities, ensure that sound science has been incorporated into decisions and that the analysis behind decisions is transparent to the public.

Environmental protection, like any major undertaking, depends on performance. The cost-effective delivery of this service demands solid management, planning, and evaluation. Using common metrics across government, each agency, including EPA, has been rated according to key resource management initiatives. These ratings are designed to ensure better performance and tighter linkages between management and budget.

Strengthening Management

Central to improving government performance is aggressive implementation of the President's Management Reform Agenda. EPA's actions in each of the five initiatives will lead to improvement of EPA's programs.

Initiative	2001 Status
Human Capital—EPA does not have an up-to-date workforce strategy that supports mission goals and its strategic plan. Significant skill imbalances exist in critical occupations important to electronic government and sound science initiatives. For example, all statisticians and 53 percent of computer specialists in the Office of Environmental Information, and 60 percent of the physical scientists and chemists in the Office of Research and Development will be eligible to retire by 2005. EPA plans to complete a restructuring plan by May 31, 2002.	
Competitive Sourcing—EPA has established an intra-agency-working group headed by the deputy CFO to implement the President's competitive sourcing initiative. EPA is in the process of finalizing its plan to meet the two-year 15 percent goal on its way to eventually compete 50 percent of all commercial activities.	

Initiative	2001 Status
Financial Management—EPA is unable to provide an unqualified assurance statement as to systems of management accounting and administrative controls because of material weaknesses, including information security and NPDES permits. EPA is working to correct these material weaknesses.	
E-Government—Most of EPA's capital asset planning for information technology (IT) acquisition is well done and on average, major IT projects operate near cost, schedule, and performance targets. EPA plans to make regulatory information including proposed rules and comments on them more readily available on-line to the public through a consolidated docket. The agency aims to improve capital planning and investment control; integrate its enterprise architecture and budget process; implement a broad based network for efficient electronic sharing of environmental information; develop an agency-wide security action plan; and promote E-Government through central data exchange.	
Budget/Performance Integration —EPA has integrated presentation of resources with performance goals. The agency budget sets forth goals and output targets. Its budget accounts were reorganized by the Congress to allow more flexibility in resource management. The agency is working on continuing improvement in linking results and resources. As part of this effort, EPA is expected to include social costs in each of its goals when revising its strategic plan. The agency is studying reducing the number of strategic goals; delivering flexibility in program missions; and establishing a budgetary accounting system for managerial accountability.	

Environmental Protection Agency

(In millions of dollars)

	2001 Actual	Estimate 2002	Estimate 2003
Spending:			
Discretionary Budget Authority:			
Operating program	3,940	3,985	4,056
Clean water state revolving funds (CWSRF)	1,347	1,350	1,212
Drinking water state revolving funds (DWSRF)	823	850	850
Brownfields cleanup funding [1]	—	—	121
Targeted water infrastructure funding	465	459	123
Requested	(112)	(110)	(123)
Unrequested	(353)	(344)	(—)
Superfund	1,286	1,289	1,293
Other	73	74	69
Subtotal, Discretionary budget authority adjusted [2]	7,934	8,007	7,724
Remove contingent adjustments	–99	–104	–107
Total, Discretionary budget authority	7,835	7,903	7,617
Emergency Response Fund, Budgetary resources	—	175	—
Mandatory Outlays:			
Environmental services	–12	–11	–11
Superfund recoveries	–202	–175	–175
Reregistration revolving fund	3	—	–44
Other	4	–1	—
Total, Mandatory outlays	–207	–187	–230

[1] An additional $79 million in Brownfields funding for personnel costs and state program grants is included in the operating program.

[2] Adjusted to include the full share of accruing employee pensions and annuitants health benefits

For more information, please see Chapter 14, "Preview Report," in *Analytical Perspectives.*

FEDERAL EMERGENCY MANAGEMENT AGENCY

The President's Proposal:

- Provides $3.5 billion for new equipment and training to enhance state and local preparedness against terrorist attacks;
- Improves federal assistance for credible and cost-effective disaster prevention strategies by
  - replacing the formula-based Hazard Mitigation Grant Program with a new pre-disaster competitive grant program; and
  - modernizing flood maps to better guide future development and flood prevention efforts.
- Provides the agency with over $1.8 billion in base resources to pay for disaster relief efforts;
- Reforms the National Flood Insurance Program to improve financial performance and transfer greater financial responsibility to individuals who build in flood prone areas; and
- Transfers the agency's Emergency Food and Shelter program to the Department of Housing and Urban Development to consolidate services to the homeless.

Federal Emergency Management Agency

Joe M. Allbaugh, Director

www.fema.gov 202–646–4600

Number of Employee: 5,009

2002 Spending: $5.8 billion

Field Offices: Atlanta; Boston; Bothell, WA; Chicago; Denton, TX; Denver; Kansas City, MO; New York; Philadelphia; and San Francisco.

When a disaster goes beyond state or local capacity to respond, the President often declares an emergency or a disaster. The Federal Emergency Management Agency (FEMA) then responds with disaster support while coordinating the assistance of up to 27 other agencies and volunteer organizations. FEMA helps the nation prepare for and reduce the impact of natural and technological hazards, such as Y2K-related critical computer failures. FEMA also responds to the aftermath of terrorism, such as the destruction wrought by the incidents of September 11th. FEMA helps people protect themselves, their homes, and their communities from hazards that can lead to emergencies or disasters. FEMA also manages a number of important national security activities to ensure that the government is ready to meet its responsibilities in all situations.

Status Report on Select Programs

The Administration is reviewing programs throughout the government to identify strong and weak performers. Often, as in the case of FEMA, the budget seeks to redirect funds from lesser performing programs—or programs with unknown performance—to higher priority or more effective programs.

Program	Assessment	Explanation
Terrorism-related Programs	**Effective**	Well established working relationships with first responders, including firefighters, police, and emergency medical technicians, foster well-targeted assistance.
Disaster Response and Relief Programs	**Effective**	Effectively responds to meet the needs of victims and communities after disasters; better performance measures are needed.
Flood Insurance Program	**Moderately Effective**	Processes flood damage claims quickly; however, many at-risk homes and businesses are not insured.
Disaster Mitigation	**Ineffective**	Formula funding and lack of rigorous cost-benefit criteria for funded projects limit program's effectiveness; better performance measures are needed.
Flood Map Program	**Ineffective**	Inadequate funding hinders program; maps are needed to assist rebuilding after disasters and to steer future development away from floodplains.

Enhance State and Local Terrorism Preparedness

The President recognized the need to increase our nation's preparedness for terrorist attacks even before the events of September 11, 2001. On May 8, 2001, he directed FEMA to establish an Office of National Preparedness (ONP). The President wants FEMA to work closely with state and local governments to ensure their planning, training, and equipment needs are addressed, and with other agencies to ensure that the response to weapons of mass destruction threats is well-organized. As demonstrated during the response to September 11th when more than 300 police and firefighters lost their lives, first responders bear a unique burden. All Americans are grateful for their service and FEMA will continue to work in support of their efforts.





Urban Search and Rescue Team uses canine at the World Trade Center site.

The budget provides FEMA $3.6 billion to address these new priorities, an increase of $3.2 billion over 2002. Most of this funding will be used for terrorism-related equipment for states and localities, as well as training grants for first responders, including firefighters, police, and emergency medical technicians. While state and local jurisdictions will have discretion to tailor the assistance to meet local needs, it is anticipated that more than one-third of the funds will be used to improve communications. It is further assumed that an additional one-third will be used to equip state and local first responders and that the remainder will be used for training, planning, technical assistance and administration. More than 11,000 emergency response personnel could be equipped and trained in 2003. The funding also would allow FEMA to provide grants to states to train 400,000 citizen volunteers for Community Emergency Response Teams, which provide assistance and support to first responders following terrorism incidents and other emergencies. The First Responder state/local preparedness grant program would consolidate several existing programs, including a first responder grant previously funded within the Department of Justice (funded at $635 million in 2002). As part of the consolidation, FEMA will take over the functions of Justice's Office of Domestic Preparedness. The First Responder program also would encompass the recently created FEMA Fire Investment and Response Enhancement (FIRE) grant program (funded at $360 million in 2002).

The budget also provides $50 million for FEMA's Office of National Preparedness to work with states and localities on terrorism preparedness, as well as to administer the first responder grant program. In November 2001, FEMA completed work with each of the states and territories to develop plans for terrorism preparedness training and equipment for chemical and biological threats in 2002. These plans are being used to help allocate first responder grant assistance provided in the 2002 Emergency Supplemental Appropriations Act.

Today, numerous departments and agencies have programs to deal with the consequences of a potential use of a chemical, biological, radiological, or nuclear weapon in the United States. Many of these programs offer training, planning, and assistance to state and local governments. But to maximize their effectiveness, these efforts need to be seamlessly integrated, harmonious, and comprehensive.

President George W. Bush
May 8, 2001

Improve Assistance for Credible and Cost-Effective Disaster Prevention Strategies

> *... [M]itigation works. The Seattle-Tacoma area did not suffer significant losses [following the February 28, 2001, earthquake] because 20 to 30 years ago local leaders invested in its future by passing building codes and issuing municipal bonds that implemented solid protective measures.*
>
> FEMA Director Allbaugh
> Congressional testimony, May 16, 2001

Much of the devastation caused by disasters can be minimized through well-designed mitigation programs. For example, properties in flood-prone areas can be elevated or moved. Homes and businesses can be braced for better protection against earthquakes. And, storm shutters and other features can be added to buildings to reduce wind damage. Having a significant, dedicated stream of funds for these programs is critical to FEMA's efforts to protect individuals and communities from future disasters.

Flooding stands out as the single most pervasive disaster hazard facing the nation. It causes an estimated $6 billion in property damage annually. FEMA spends approximately 57 percent of its disaster relief resources alleviating flood damage. Yet much of this after-the-fact spending can be avoided with some up-front planning.

In the past, many of the nation's efforts to avert flood disasters have focused on structural changes to waterways—for example, building dams and levies. Focusing flood reduction efforts on identifying the areas at risk for flooding and steering development away from those areas can be a less costly long-term approach to mitigation.

Modernizing the nation's flood maps is critical to that effort. Many of the nation's Flood Insurance Rate Maps (FIRMs) are out of date and inaccurate—63 percent of maps are more than 10 years old. A third of maps are more than 15 years old. About 2,700 communities are not mapped at all. New and updated FIRMs can provide crucial guidance for future building, development, and flood mitigation efforts—determining how and where individuals, private developers, and local governments build. In 2003, FEMA will invest $350 million to modernize flood maps. FEMA also will digitize its maps and make them available over the Internet.

Effectiveness of Mitigation Programs

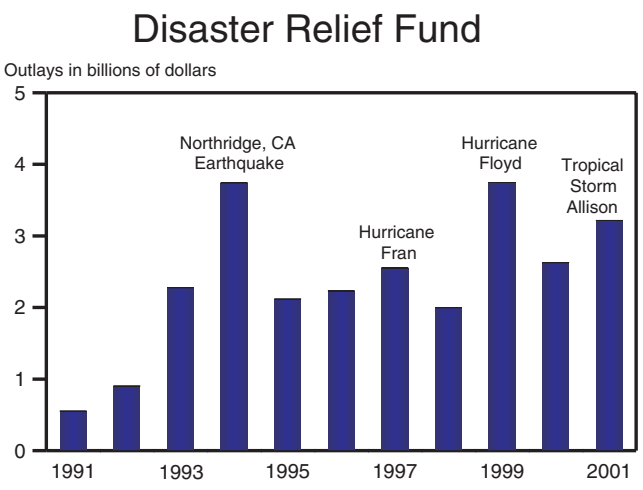
From 1993 to 2000, 45 percent of projects funded from FEMA's Hazard Mitigation Grant Program were either minimally cost effective or not cost effective at all.

FEMA data provided to the Congress in 2000

FEMA also will dedicate $300 million to a new competitive grant for predisaster mitigation. This new program will replace the formula-based Hazard Mitigation Grant Program currently funded through the Disaster Relief Fund. The new program will operate independently of the disaster relief programs, assuring that funding remains stable from year to year and is not subject to spikes in disaster activity. Awarding grants on a competitive basis will ensure that the most worthwhile, cost-beneficial projects receive funding.

Disaster Relief

When major disasters strike, FEMA provides disaster assistance to meet emergency needs of families and individuals, and to help pay for the rebuilding and repair of critical community infrastructure. In 2001, FEMA responded to 50 major disasters and 15 emergencies, as well as funding continuing needs from previous disasters. Major disasters in 2001 included the September 11th attacks, Tropical Storm Allison, and the Seattle-Tacoma earthquake.



The Administration has set a goal of meeting the needs of disaster victims for shelter, food, and water within 12 hours after the President declares a major disaster. FEMA has automated its core disaster information processing systems to improve its response time for disasters.

The budget provides for a program level of $2.9 billion for FEMA disaster relief—a level consistent with the five-year average of obligations. To fund the program, the budget provides $1.8 billion in new budget authority and commits to an intensive review of unspent balances beginning with the 1994 California Northridge earthquake that is expected to result in $1.1 billion in grant recoveries over a two-year period. Unspent balances often result from mitigation and other projects that appeared to be needed in the aftermath of a disaster but were not pursued after public review or further examination.

The five-year average is a reasonable benchmark for the resources FEMA will need to respond to disasters. It is not always possible, however, to anticipate extraordinary events such as the incidents of September 11th.

Proposed Reforms

- Phase out taxpayer subsidies of second homes and vacation properties.
- Require that mortgage borrowers insure the full replacement value of their properties.
- End state taxation of flood insurance policies.
- Include the cost of expected coastal erosion losses in premiums for policies issued in coastal areas.

Reforms for the National Flood Insurance Program

The National Flood Insurance Program (NFIP) faces major financial challenges. In some years, the program has expenses greater than its revenue from insurance premiums, preventing it from building long-term reserves to handle the costs of flood insurance claims. A large portion of policyholders—29 percent—pay only a portion of the cost of their premiums, with the Treasury

subsidizing the rest. By law, FEMA is prohibited from charging full premiums for properties built before adoption of NFIP building standards by local communities. A small number of these older properties are poorly situated and are repeatedly flooded, accounting for a significant share of the program's losses. In contrast, FEMA charges true actuarial rates for newer properties and requires that new construction comply with floodplain management guidelines.

The budget proposes several reforms to improve financial performance and transfer greater financial liability to individuals building in flood prone areas, as shown in the accompanying box.

In 2001, FEMA paid out $1.5 billion to settle flood insurance claims. The Administration seeks to aid the recovery of individuals, businesses, and communities after floods by increasing the number of flood insurance policies in force. FEMA will increase the number of policies in force by five percent in 2003—to 5.1 million policies.

Transfer the Emergency Food and Shelter Program

The Emergency Food and Shelter Program was created in 1983 to help meet the needs of hungry and homeless people throughout the United States by providing funds for emergency food and shelter. Funds are used to support homeless shelters and other organizations that provide assistance for those who are homeless, facing eviction, or in need of food assistance. FEMA has not demonstrated the effectiveness of this program and has no expertise in managing programs for the homeless. The budget proposes to transfer this program to the Department of Housing and Urban Development—permitting better coordination of services for the homeless.

Strengthening Management

Charged with managing the response to major disasters, as well as coordinating consequence management for terrorism events, FEMA effectively coordinates direct assistance—principally cash grants—as well as the relief activities of other agencies and volunteer organizations. Generally, FEMA performs well in getting resources to stricken communities and disaster victims quickly. The agency performs less well in its oversight role to ensure the effective use of such assistance. Further, the agency suffers from an inability to clearly measure program performance, or to link resources to performance information. FEMA has begun to address the President's Management Agenda, but has a poor starting point in all key areas.

Initiative	2001 Status
Human Capital—FEMA lacks a strategy for linking human capital to fiscal resources and agency goals. FEMA needs to develop a workforce-restructuring plan that addresses how the agency will attract and retain personnel with the skills to perform core agency functions including program oversight and analysis. FEMA needs to address managing a fluctuating cadre of temporary staff that performs front-line disaster assistance functions. FEMA also should develop a strategy for redirecting supervisory positions to citizen service delivery. FEMA must produce an interim workforce restructuring report by mid-2002 that will address many of these issues.	
Competitive Sourcing—FEMA has not produced a plan for meeting the Administration's short- and long-term competitive-sourcing goals. FEMA must develop a new competitive sourcing and management plan, then complete public-private competitions or direct conversions on 15 percent of the jobs on its list of positions that are commercial in nature by the end of 2003.	
Financial Management—Despite the fact that FEMA has received audit opinions for three years that the financial statements as a whole are in conformity with generally accepted accounting principles, the agency has had repeated material weaknesses in its financial management system, which does not comply with standards. FEMA's financial management system is unable to generate timely and reliable financial statements. In addition, FEMA needs to improve its disaster cost projections, oversight of state administration of public assistance and mitigation grants, and monitoring of unspent funds. FEMA will develop an implementation plan for system improvements and develop improved disaster cost projections by mid-2002.	
E-Government—Although FEMA has documented processes for outlining its systems and capital planning investment needs, FEMA has not provided adequate justification or documentation of its information technology (IT) projects to OMB and the Congress. Traditionally, little oversight has been given to FEMA's IT spending, and FEMA reallocated funds from its various accounts to pay for projects. This led to ineffective and costly IT projects, such as the agency's core information tracking system, NEMIS, or National Emergency Management Information System, which cost $67 million. The system has a history of crashing during disaster response operations and cannot be easily adapted to program design changes.	
Budget/Performance Integration—FEMA lags other agencies in integrating budget and performance information. FEMA needs to develop performance measures that better capture the relative effectiveness of its programs. The agency should link program activities to strategic goals, and clearly articulate output and outcome goals for use in subsequent budgets.	

Federal Emergency Management Agency

(In millions of dollars)

	2001 Actual	Estimate	
		2002	2003
Spending:			
Discretionary Budget Authority:			
Salaries and Expenses	224	245	249
Disaster Relief Fund	1,597	2,113	1,821
Emergency Management Planning and Assistance	372	431	3,750
Pre-disaster Mitigation Grant Program	—	—	300
Emergency Food and Shelter:			
Existing Law	140	140	153
Legislative Proposal (Transfer to HUD)	—	—	–153
Flood Map Modernization Fund	18	32	300
All other programs	97	109	143
Subtotal, Discretionary budget authority adjusted [1]	2,448	3,070	6,563
Remove contingent adjustments	–13	–12	–13
Total, Discretionary budget authority	2,435	3,058	6,550
Emergency Response Fund, Budgetary Resources:			
Salaries and Expenses	—	25	—
Disaster Relief Fund	2,000	4,357	—
Emergency Management Planning and Assistance	—	220	—
Total, Emergency Response Fund, Budgetary resources	2,000	4,602	—
Mandatory Outlays:			
National Flood Insurance Program:			
Existing Law	172	–296	–317
Legislative Proposals	—	—	–43
Total, Mandatory outlays	172	–296	–360
Credit activity:			
Direct Loan Disbursements:			
Disaster Assistance Direct Loan Programs	31	25	25
Total, Direct loan disbursements	31	25	25

[1]Adjusted to include the full share of accruing employee pensions and annuitants health benefits. For more information, see Chapter 14, "Preview Report," in *Analytical Perspectives*.

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

The President's Proposal:

- Realigns science programs to focus on high priority planetary exploration, climate change research, and biological sciences;
- Enables new technologies for more effective access to space, and accomplishing more capable planetary missions;
- Gets the massive cost overruns in NASA's Human Space Flight development programs under control while maintaining the U.S. core Space Station and the necessary Space Shuttle flights to safely assemble it;
- Reduces NASA's operational and institutional burdens by pursuing activities like Space Shuttle competitive sourcing, while furthering research goals in areas like Space Station-related research and development; and
- Promotes cost management reforms to ensure ongoing projects meet performance, cost, and schedule plans.

National Aeronautics and Space Administration

Sean O'Keefe, Administrator

www.nasa.gov 202–358–0000

Number of Employees: 19,005 Federal and 140,000 Contractor

2002 Spending: $14.5 billion

Field Offices: Nine federal centers and one federally funded research and development center.

The National Aeronautics and Space Administration (NASA) pushes the frontiers of discovery in space and aeronautics. It supports science, technology, and exploration in four areas: 1) Space Science to better understand the origin and evolution of the universe; 2) Earth Science to better comprehend environmental forces including the Earth's climate; 3) Biological and Physical Research that studies living and physical systems in the environment of space; and 4) Aeronautics Technology to improve aviation safety, reduce air traffic congestion, and enable breakthrough aircraft design.

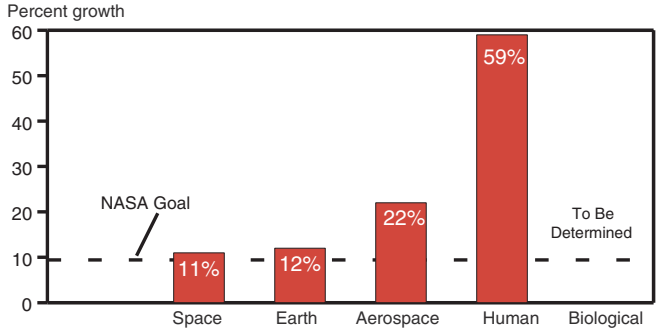
NASA's work in science, technology, and exploration would not be possible without its pursuit of supporting capabilities such as space launch vehicles (e.g., the Space Shuttle) and orbiting platforms (e.g., the Space Station). Supporting capabilities currently consume about two-thirds of NASA's $15 billion budget.

Status Report on Select Programs

The Administration is reviewing programs throughout the federal government to identify strong and weak performers. The budget seeks to redirect funds where appropriate from lesser performing programs to higher priority or more effective programs. Particularly, when low performing programs are in priority areas, deficiencies will be addressed through reforms to improve performance. The following table presents the ratings of selected programs for illustrative purposes. Some of these programs will be improved by proposals described in this chapter.

Program	Assessment	Explanation
Discovery and Explorer Programs	**Effective**	Space science missions competitively selected from researcher proposals. Successful cost/risk management and science results.
Mars Exploration Program	**Moderately Effective**	Robotic exploration of Mars. Completed major restructuring in wake of spacecraft failures. Recovery from failures successful so far.
Space Launch Initiative	**Moderately Effective**	Preparation for competition to replace the Space Shuttle with lower cost vehicles. Need to better understand key requirements and manage risks.
Earth Observing System Program	**Moderately Effective**	Satellite remote sensing to understand global climate change. Need improved integration with federal climate change and applications efforts.
Aeronautics Research	**Moderately Effective**	Technology research to improve the nation's aviation system and for breakthrough aircraft. Need to better transfer technology to users.
Outer Planets Program	**Ineffective**	Major planetary science missions. Large cost increases and schedule delays. Budget proposes program restructuring.
Space Shuttle Safety Upgrades	**Ineffective**	Need to address large cost overruns and schedule delays to improve shuttle safety through effective investments.
International Space Station	**Ineffective**	Supports space-based biological and physical research. Effective technically, but need much better management controls to eliminate huge cost overruns.

NASA Development Projects Experience a Range of Cost Growth

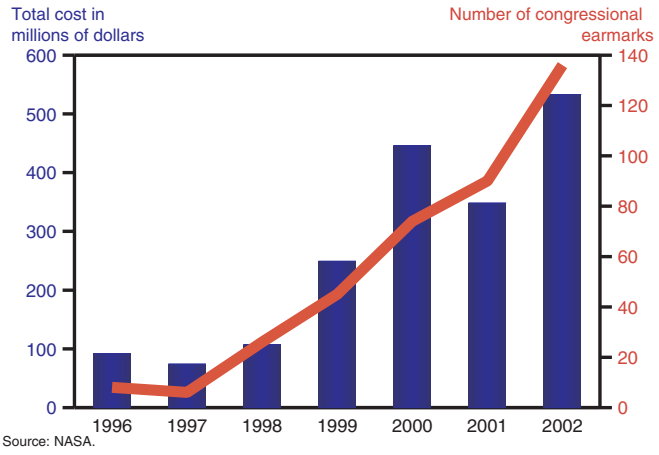


The accompanying chart shows total cost growth for ongoing development programs in each of NASA's five enterprises or organizational divisions. Although ideally no NASA enterprise would demonstrate any cost growth, a goal of not exceeding 10 percent cost growth across all development programs within an enterprise would be realistic. NASA's Space Science and Earth Science enterprises nearly meet this goal. Through management reforms and cost-saving initiatives, NASA will increase the proportion of its budget that goes directly towards science, technology, and exploration activities as described in the following section.

Science, Technology, and Exploration

In making investments in the nation's future, NASA must set priorities and establish an integrated portfolio of research and technology investments. One foundation of ensuring quality science is the competitive selection of merit-reviewed research. In most areas NASA does this well. Its three science enterprises will competitively award in excess of 80 percent of their research in 2002—with Space Science at 99 percent. The integrity of NASA's merit-based research is seriously eroded by the practice of congressionally directed spending known as earmarks. NASA has suffered from a surge in both the number and cost of earmarks.

NASA Earmarks Have Risen Dramatically



Earmarks Disrupt NASA's Science Activities

Many earmarks in NASA's budget have little to do with the agency's mission in scientific research, technology development, and exploration. For example, the Congress earmarked NASA's current budget to fund corporate jets, college dormitories, libraries, and museums. Some especially damaging earmarks divert funds from critical NASA needs and reverse good cost management decisions at NASA. For example, after costs had doubled, NASA cancelled its Pluto-Kuiper Belt mission last year, but the Congress earmarked funds to put the mission back in NASA's budget. However, the Congress only provided $30 million, while over $400 million more is needed to finish the mission. Congress also redirected $40 million from the Space Station 2002 budget to an unaffordable space test vehicle at a time when NASA is trying to get Station costs under control. Finally, the Congress earmarked funds for a low priority propulsion lab by cutting the very research the lab it is meant to support.

While the Congress adds partial funding to pay for some earmarks, funding often must be diverted from higher priority activities. Unfortunately, the number and cost of earmarks have increased more than fivefold in recent years (see accompanying chart). This detracts from the important science, technology, and exploration activities described below.

Space Science

NASA is the sole federal agency that conducts planetary exploration, and is a major contributor to studying the universe beyond our solar system. NASA develops and operates a wide array of space probes and telescopes to answer fundamental questions about the evolution and structure of the universe, galaxies, and stars including: how our own star—the sun—affects our planet; the origins and development of planets and life; and the existence and distribution of life beyond Earth.

Overall Performance. NASA now routinely launches multiple missions in place of the once-a-decade, multi-billion dollar missions that previously dominated Space Science research. NASA currently has over 30 Space Science missions in operation, over 20 missions under development, over 40 missions under study, and participates in many other international missions. For Space Science missions under development, total cost overruns average 11 percent, and 60 percent of missions are within 10 percent of their planned development schedule.

In recent years, research sponsored by NASA and the National Science Foundation identified approximately 80 new planets outside our solar system, and last year the Hubble Space Telescope obtained the first chemical data on the atmosphere of one of these planets. Future NASA space telescopes will search for smaller planets, with the intent of eventually finding and characterizing planets similar to Earth. NASA planetary probes have also found that water, a key ingredient in the development of life: existed on Mars in the distant past; may still be present under the surface of Mars (see accompanying image); and may exist as underground oceans on one or more moons of Jupiter. Future planetary missions will attempt to confirm these water-bearing environments and search for evidence of life.



Images of gullies on Mars taken by NASA's Mars Global Surveyor mission indicate that large amounts of liquid water may be erupting from the surface today. This image shows an area of nearly seven square miles.

Despite these successes, NASA's largest and most technically challenging Space Science missions still suffer from poor cost and schedule estimates. The Outer Planets program, whose goal was to uncover clues about the origins of and potential for life on Jupiter's moons and beyond, cannot be implemented as planned because some mission cost and schedule estimates have nearly doubled. For example, NASA proposed to cancel the Pluto-Kuiper Belt mission because of its skyrocketing costs. The Outer Planets program is also seriously hindered by the long time needed to travel to key targets in the outer solar system and by a lack of adequate power sources.

Improving Performance. The Administration proposes to improve Space Science by:

- *Improving Planetary Exploration*. Given continued growth in cost and schedule estimates, the President's 2003 Budget redirects funding to a reformulated New Frontiers program driven by

four key principles: clear science prioritization; frequent and affordable missions; competitive innovation; and advanced technology. The budget redirects funds to this program by canceling NASA's existing Outer Planets Program. The revamped program will set science priorities that support key goals for understanding the origins and existence of life beyond Earth. These priorities will be flexible enough to allow NASA to maintain regular and affordable missions. NASA will also select missions through open competitions instead of assigning development to a NASA field center. NASA's highly successful Discovery program will serve as the model for this competitive selection process.

- *Greatly Expanding the Science Capability of Future Missions*. The budget proposes investments in safe and reliable nuclear-electric propulsion and nuclear power technologies that will enable much faster and more frequent planetary investigations with greater science capabilities. In this decade, nuclear power technology will enable NASA to land a rover on Mars to conduct experiments over several years, instead of several months, thereby expanding scientific returns many fold. With nuclear-electric propulsion, affordable planetary missions: could reach targets in half the time it would take now; would not be limited by the power and mass constraints of today's spacecraft; and could conduct long-term observations of multiple planets or moons.

Why Study the Stars?

Astrophysical research sponsored by NASA and other federal research agencies tells a lot about where we come from, whether we're alone in the universe, how the fundamental laws of the universe work, and how events beyond Earth may influence our future.

NASA's Chandra X-ray Telescope mission, launched in 1999, can observe neutron stars, black holes, and quasars, allowing physicists to see how the physical laws of the universe operate under conditions that cannot be replicated on Earth. Another recently launched mission will create a baseline for observing how future changes in the Sun's energy output work as a major driver of change in the Earth's climate. Other space telescopes to be launched later this decade will be capable of detecting Earth-like planets that may harbor life around other stars, and seeing how the earliest stars and galaxies formed in our universe.

Earth Science

NASA's Earth Science program seeks better scientific understanding of Earth's environmental system, thus enabling improved prediction of climate, weather, and natural hazards.

Overall performance. In the past three years, Earth Science has successfully launched 11 missions. Current missions under development have cost overruns averaging 12 percent and most are experiencing launch delays, as only 15 percent of missions are within 10 percent of their planned development schedule.

Earth Science funds and performs the scientific inquiries to explain satellite observations and improve climate predictions. For example, NASA's Earth observing satellites and research: provided advance warning of the last El Nino; aided control of major forest fires in the Western states by providing near-real time data to the U.S. Forest Service; improved NOAA's marine weather

forecasting; and collected the first high resolution data on global land cover and topography for both basic research and applications such as agriculture and civil engineering. NASA has improved climate-modeling speed tenfold since 2000, matching the best capabilities in Europe, and expects another fourfold improvement by the end of 2002. Such improvements permit Earth scientists to dramatically improve climate projections.

Nonetheless, significant challenges confront NASA's Earth Science enterprise. Several of its Earth Observing System missions now in development are facing costly delays in completion. Also, NASA must demonstrate the ability to transfer responsibility for data collection from research satellites at NASA to the operational satellites at the agencies that use them. NASA will be undertaking two such demonstrations—the National Polar-orbiting Operational Environmental Satellite System Preparatory Project and the Jason follow-on—which will measure key variables that are needed to provide long-term, quality data to understand how the Earth's climate is changing.

Improving Performance. The Administration proposes to improve Earth Science by:

- *Focusing Science*. The President's Budget proposes a multi-agency Climate Change Research Initiative (CCRI), which will focus on providing useful information and understandable climate products in the near term (two to five years). In 2003, NASA will participate in CCRI but will not initiate development of new follow-on satellite missions until a government-wide review of the interagency United States Global Change Research Program determines the best means for achieving CCRI goals.
- *More Science at Less Cost.* NASA has traditionally owned and operated the satellites it needs to provide scientific data. However, with the development of commercial satellites that sell Earth images to customers, NASA will now purchase data from commercial sources to sustain the 30-year set of images of the Earth's surface, rather than building and flying an eighth Landsat satellite. NASA will share its remote sensing capabilities with other federal agencies, as well as state and local governments seeking to achieve their own objectives.

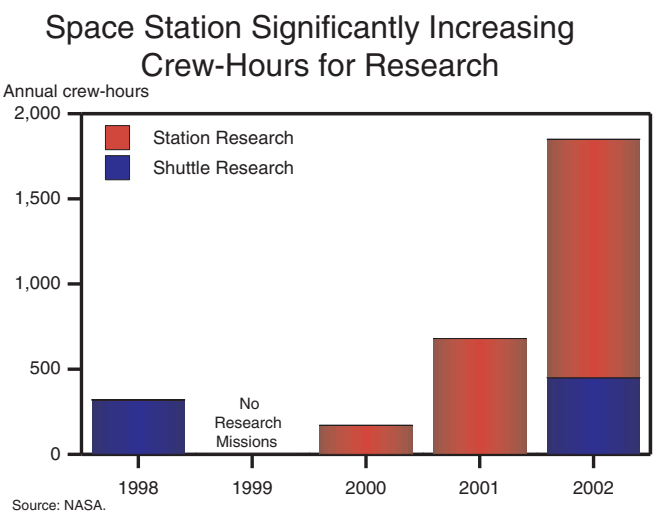
Why the Increasing Uncertainty About Global Change?

Although increased knowledge usually reduces uncertainties, sometimes the opposite can be true. Take the question of global climate change. Since 1990, many billions of dollars has been devoted to research on climate change, yet predictions regarding the range of possible changes in temperature due to increasing carbon dioxide concentrations has become broader, rather than narrower. This is not a failure of the research community. Scientists have gained a great deal of knowledge over the past decade. A big part of that new knowledge has been that the Earth's atmosphere is much more complex – and unpredictable – than originally thought.

Biological and Physical Research

NASA uses space to accelerate scientific progress and to understand and control the health risks to humans in space. Space provides a unique environment to focus on the fundamental biological processes that are masked by the presence of gravity here on Earth.

Overall Performance. The Space Station is the primary means to conduct high-quality biological and physical research for the foreseeable future. The accompanying chart illustrates how the Space Station has significantly expanded the number of hours that astronauts spend conducting research in orbit. Forty-seven distinct experiments have already begun on the Space Station. One discovery revealed growth patterns in microscopic crystals that could lead to improved manufacturing for pharmaceuticals and other materials. However, NASA's science strategy does not adequately prioritize among the many disciplines interested in the Space Station and their multiple objectives, thus impeding significant progress. Moreover, the development of research equipment for the Space Station has suffered from multiple design changes, repeated delays, and insufficient oversight. Poor cost controls have been the result.



Improving Performance. The Administration proposes to improve Biological and Physical Research by:

- *Establishing and Pursuing Science Priorities.* This year, NASA will be working with the White House Office of Science and Technology Policy (OSTP) to engage the scientific community and establish clear high-priority, affordable science objectives with near-term focus on improving scientific productivity. The results of this review will help set the science agenda for Biological and Physical Research that will in turn drive how the Space Station is used. It should increase the efficiency and output of research at the Station, and realign NASA's research portfolio to reflect current priorities.
- *Diversifying Research Platforms.* While the Space Station will be the focus of biological and physical research, alternative space platforms are needed to fill gaps in research the Station cannot do. Examples include conducting radiation experiments on probes beyond the Van Allen belts—where the near-Earth environment no longer provides shielding from solar and galactic cosmic radiation. This budget provides increased funding for the Space Radiation and Space Biology Generations programs to launch multigenerational research both in low-Earth orbit and beyond the Van Allen belts, that could uncover the effects of those environments on evolutionary processes.

Aeronautics Technology

NASA develops aeronautics technologies to address long-term issues in the nation's air system. NASA works with the Federal Aviation Administration (FAA) to advance technologies that can improve aircraft safety, alleviate airport congestion, and reduce air and noise pollution from aircraft.

Overall Performance. NASA assesses its progress in aeronautics research by measuring the potential impact of new technology developments on the aviation system. For example, NASA

investments in engine technology have the potential by 2005 to reduce the pollution from jet engines to half of what they were in 1999.

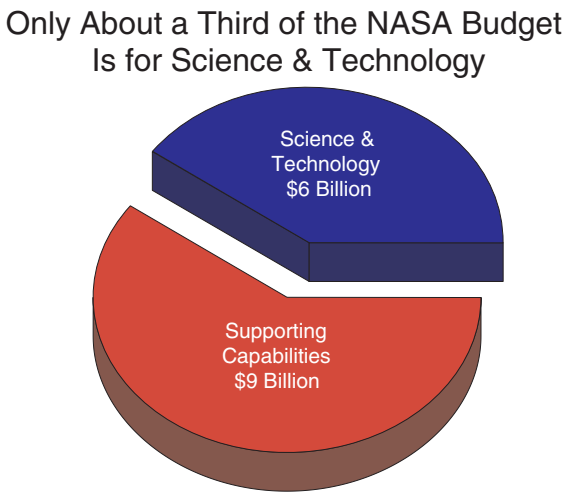
Although NASA's aeronautics programs generally demonstrate good progress, there is no way to ensure that NASA is developing technology that will actually be incorporated into the national air system. NASA also conducts the majority of its aeronautics research itself, rather than opening up competition that could take advantage of skills and innovation in the private sector and academia.

Improving Performance. The Administration proposes to improve Aeronautics Technology by:

- *Improving the Likelihood Technology Gets Used.* To ensure that NASA technology investments are incorporated into the national air system, NASA will strengthen its ties with the FAA. Also, OMB and OSTP will be working with major research agencies to develop new criteria for evaluating applied research, like NASA's aeronautics research, in preparation for the 2004 Budget.
- *Expanding Quality Reviews and Competitive Opportunities.* NASA will have the National Academy of Sciences undertake reviews of its aeronautics technology program (as well as space transportation and fundamental technology) every three years. These reviews will provide independent quality assessments of NASA's technology research and program planning, whether the research can be performed by universities or corporations outside NASA, and how well NASA's technology research integrates with customer needs. NASA will also seek to reduce institutional costs at its field centers so more funds can be invested in technology research through openly competed NASA research announcements and through university and industry partnerships.

Supporting Capabilities

NASA has had many technical successes, but is hampered by the high cost of access to space—nearly a third of its budget—and struggles to achieve a management capability that matches its technical capability. There has been significant cost growth in several areas, and a lack of competition to help spark innovation. Needed reforms are beginning to improve NASA's ability to manage its long-term, complex and challenging programs within cost and schedule plans. NASA will build a new foundation to prepare its capabilities for the future, while reducing the cost of supporting capabilities—now nearly two-thirds of the agency budget.



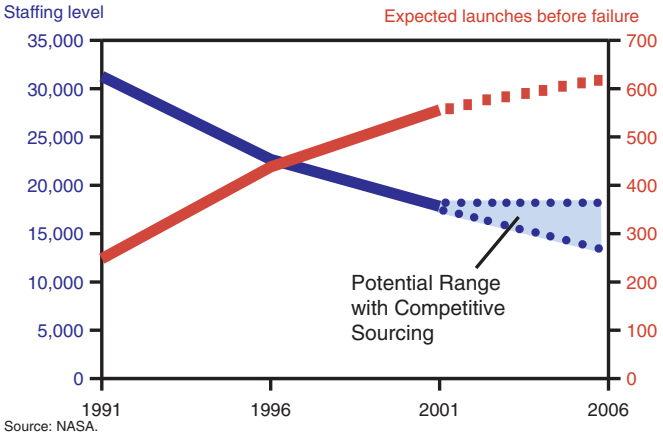
Space Launch

NASA provides transportation to and from space for humans and cargo using the Space Shuttle, and uses commercial expendable rockets for the launch of many science spacecraft.

Overall Performance. The Space Shuttle is the only U.S. vehicle that can launch humans into space and return experiments from orbit. Since the Challenger tragedy, NASA has been improving the safety of the Space Shuttle, from an estimated risk of catastrophic failure during launch for each mission of one in 78 in 1986 to one in 556 now. This improvement took place even as staffing for the Space Shuttle has dropped significantly (see chart on Space Shuttle reliability). NASA continues to invest in improving Shuttle safety, but some of the planned investments are experiencing significant problems (see chart on cost overruns). For example, the electric auxiliary power unit was the highest priority safety upgrade last year, but delays, technical difficulties, decreasing safety benefits, and a tripling of its projected cost led NASA, with the support of its advisory committee, to cancel the project.

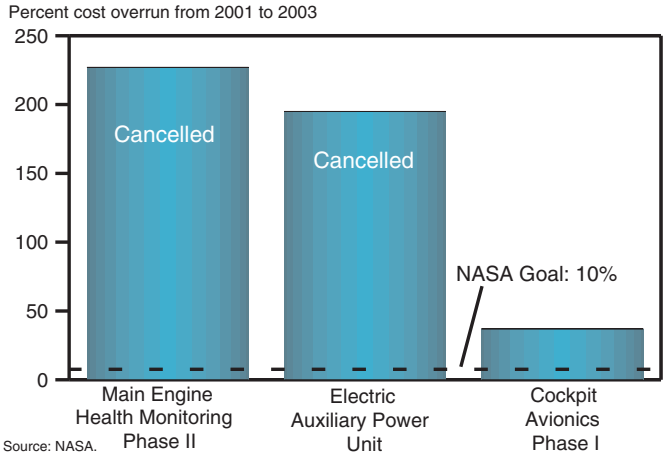
While the safety and schedule record of Shuttle operations has been very good, and costs have come down considerably in the last decade, the Shuttle remains a very expensive vehicle to operate. Moreover, in the last few years, Shuttle costs have been rising considerably, due to personnel costs, aging infrastructure, growing vehicle obsolescence, and a shrinking industrial base. A comparison of the cost to orbit for the Shuttle relative to other space launch systems is provided in the accompanying chart, which underscores the need to quickly develop a new system for space launch.

Space Shuttle Reliability Improved while Staffing Levels Decreased



Source: NASA.

Cost Overruns of Shuttle Safety Upgrades



Source: NASA.

Improving Performance. The Administration proposes to improve space launch by:

- *Improving Shuttle Safety.* This budget continues to invest in safety improvements for the Space Shuttle and increases investment in repairing aging Shuttle infrastructure. Planned safety upgrades will enhance safety during launch by 12 percent, to a one in 620 risk of catastrophic failure. Delays in the planned implementation of these upgrades continue to be a concern, so funding will be set aside specifically to accelerate the availability of planned upgrades.
- *Pursuing Shuttle Competitive Sourcing*. Competitive sourcing will enable the full transfer of Shuttle operations and possibly some portion of infrastructure ownership to a private entity, based on criteria in the accompanying box. The benefits of pursuing competitive sourcing are:

1) greater flexibility to recruit and retain the skilled personnel necessary to safely operate the Shuttle; 2) avoiding potential continued cost growth for Shuttle operations by moving to a private organization that has greater flexibility to make business decisions that increase efficiency; and 3) significant culture change in Human Space Flight at NASA by making it a purchaser of services rather than an operator of infrastructure. Adapting such an approach will let NASA focus on advancing the state of science, technology, and exploration. NASA will release competitive sourcing plans this year that will address important issues such as how to effectively transfer critical skills from the federal workforce to a private entity.

Shuttle Competitive Sourcing Criteria

1) *Safety*. Maintain safety over operating life for at least the next 10 years. Provide for appropriate government role to ensure essential safety features.

2) *Competitive Sourcing*. Transfer appropriate NASA personnel, assets, and facilities needed for Space Shuttle operations to a private entity. Enable NASA to focus on advancing the state of science, technology, and exploration.

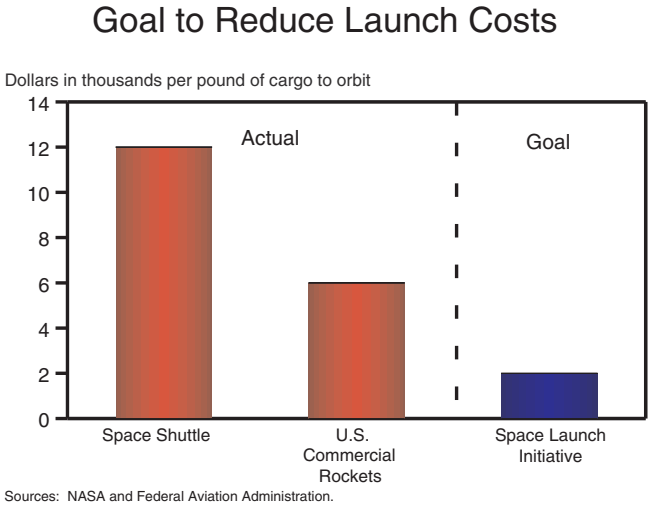
3) *Competition*. Ensure a competitive environment to satisfy government space launch requirements and maintain a robust U.S. space launch industry.

4) *Cost*. Establish a baseline and conduct cost comparisons based on the full cost (operations, maintenance, upgrades, infrastructure, personnel) of the Shuttle program, not to exceed the President's 2003 five-year budget for the Shuttle.

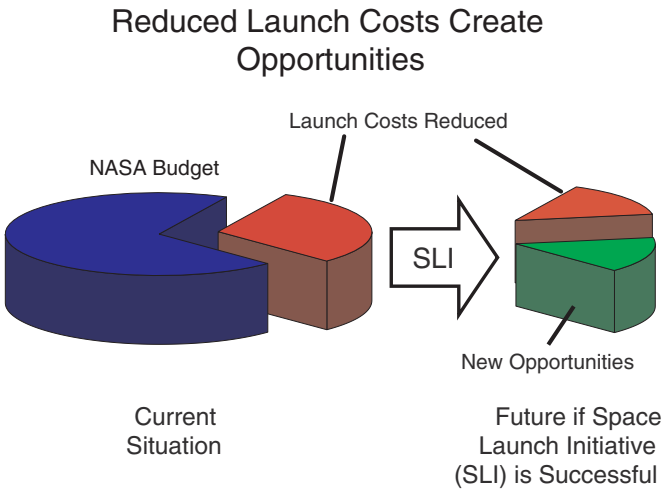
5) *Business Base*. Enable pursuit of other government and commercial business opportunities consistent with principles of a level playing field and international trade policy. Business risks from dependence on outside business will be borne by a private entity, not the government.

6) *Future Plans*. Ensure consistency of Shuttle launch commitments, upgrades and infrastructure investments with future decisions on development of new launch systems.

- *Controlling Shuttle Cost Growth*. As recommended by the International Space Station Management and Cost Evaluation task force, reducing Space Shuttle flights to four per year appears sufficient to meet Station needs. However, NASA will be reviewing this decision to determine whether any additional flights are necessary. Other adjustments are being pursued as well, such as the size of the astronaut corps and the period of time between Shuttle overhauls.



- *Pursuing Space Launch Initiative.* Another major investment in space transportation is the Space Launch Initiative (SLI) which could pave the way for replacing the Space Shuttle early in the next decade with much safer and less costly vehicles. Investments in SLI will reduce the huge burden on NASA's budget from the high cost of access to space. Reducing the nearly $5 billion annually that NASA spends on access to space will free up billions for future opportunities (see accompanying chart). To minimize costs across NASA's programs, NASA will coordinate and potentially integrate emergency crew return capabilities for the Space Station with SLI vehicle design efforts. To most efficiently use government resources, NASA will also increase coordination with the Department of Defense on launch technologies, and improve cost and risk management capabilities.



Space Station

NASA is building the International Space Station to create a laboratory for scientific research in the unique environment of space.

Overall Performance. With the second phase of Space Station construction now complete, a fully functioning orbital research laboratory circles the Earth every 90 minutes. Astronaut crews aboard the Station have been exceeding expectations by devoting an increasing amount of time to science activities.

In spite of these technical successes, the Space Station has not succeeded at staying within planned costs. Last year, NASA determined that it needed a 50 percent funding increase to its remaining $8.3 billion budget to finish the planned Space Station. The request marked the latest chapter in a history of cost growth. To keep the Station within planned budgets, the Administration scaled it down to a core Station. The Space Station's Management and Cost Evaluation (IMCE) task force called on the space agency to undertake management changes to achieve the core Station's goals.



Research on the Space Station has already made important discoveries that could improve manufacturing processes for pharmaceuticals and other materials on Earth.

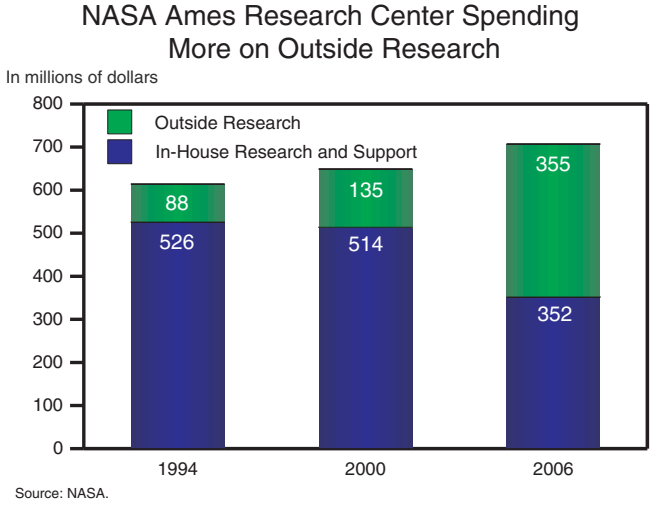
Improving Performance. The budget adopts many of the key recommendations of the IMCE task force, including:

- *Improving Science Efficiency*. NASA is exploring how to increase the amount of time available for research, to achieve the maximum scientific benefit from the investment in the Space Station. One option involves creating a non-governmental organization (NGO) as soon as possible to more efficiently manage research aboard the Space Station. NASA created a similar organization in 1981 to support the Hubble Space Telescope, and the availability for research time rose by a factor of two. NASA is exploring many other options to increase science efficiency such as easing the maintenance burden on the orbiting crew and increasing automation of research facilities.
- *Demonstrating Needed Reforms within Two Years*. NASA must demonstrate over the next two years that it has made the necessary management reforms and changes in the human space flight program to get the Space Station costs under control. For example, NASA must give the Station program more authority over contractors and civil servants working on the Space Station. Less than half the Space Station's contractors and only a sixth of the civil servants working on it report directly to the program. The Administration is developing criteria to judge NASA's success. If NASA is successful, the Administration will address the resource requirements to expand the capability of the Station, based on research priorities. If NASA is not successful, U.S. assembly of the Space Station will end with the completion of the core Station, expected sometime in 2004.

Field Centers

NASA relies on nine field centers and one federally funded R&D center for implementation and day-to-day management of its programs.

Overall Performance. Although all NASA field centers have room for improvement, performance varies widely. Lean field centers unburdened by institutional needs are more agile and thus more capable of pursuing future directions in science, technology, and exploration. The accompanying chart shows that NASA's Ames Research Center in California has begun to reduce institutional and in-house activities to expand opportunities for competitive, external research. Such dedication to institutional reform ensures that research per federal dollar is maximized.



Improving Performance. To improve program and institutional management, NASA will take the following actions this year:

- *Strategic Resources Review*. NASA will begin outsourcing and consolidation efforts to improve the ability of its field centers to respond to future challenges in science, technology, and exploration. One pathfinder effort would transfer a portion of NASA's Ames Research Center activities to a University-Affiliated Research Center organization, in order to greatly improve

the flexibility of its workforce and facilities and ensure access to world-class researchers. Other pathfinder efforts may include consolidating some NASA facilities with military installations.

- *Improving Cost Management*. Huge cost growth on the Space Station has highlighted the need for improved cost estimating capability in Human Space Flight, but this capability needs to be strengthened across the agency. NASA will implement a plan of action to: 1) generate independent cost estimates, particularly in Human Space Flight, and improve the capability of program offices to credibly estimate costs; 2) strengthen and use the capabilities of the chief financial officer and system management offices at all NASA centers; 3) strengthen NASA headquarters capabilities for cost assessment and tracking program execution; and 4) increase NASA's use of outside experts to conduct rigorous independent cost and risk estimates of major programs.

Strengthening Management

Apart from the specific performance improvements discussed above, the Administration seeks to improve the management of NASA in a number of areas that will benefit all activities. Five specific problem areas slated for improvement are part of the government-wide President's Management Agenda.

Initiative	2001 Status
Human Capital—NASA is pursuing management reforms that will alter its workforce. NASA needs to continue to attract and retain employees with critical skills while depending on outside organizations for most others. Two obstacles complicate resolution. NASA has skill shortages in some key areas and excesses in others. NASA also has limited capability for personnel tracking and planning. To address these challenges, NASA will develop and implement an overall human capital strategic plan complete with needed reforms.	
Competitive Sourcing—NASA has identified 4,333 of its 19,005 positions as engaging in commercial activities, but has yet to develop a plan to achieve the competition goals for its commercial positions (15 percent by 2003 and 50 percent long-term). NASA also needs to significantly increase the portion of its functions classified as commercial, and to exempt fewer of them from cost comparisons. NASA will incorporate the three major outsourcing efforts for Space Shuttle competitive sourcing, Space Station non-government organization, and Strategic Resources Review initiatives in its next analysis. NASA will present an integrated competitive sourcing plan in 2002 to achieve the 50 percent long term goal including, for each year, specific targets, costs, schedules and explanations of competitive sourcing mechanisms.	
Financial Management—NASA financial management systems allow the agency to track resources, but the agency lacks systems to support day-to-day operations and track task completion. Implementation of NASA's Integrated Financial Management System (IFMS) in 2004 will provide support in the future and implement full cost management with NASA's 2004 Budget. NASA will proceed with IFMS implementation and seek to accelerate it where justified.	

Initiative	2001 Status
E-Government—NASA has failed to adequately justify its information technology (IT) investments. NASA will continue to improve its Enterprise Architecture, and the Chief Information Officer will ensure that the IT planning process is integrated into agency decision-making processes.	
Budget/Performance Integration—NASA has had difficulty in identifying appropriate annual R&D measures for multi-year programs. NASA will prepare multi-year program-level performance measures for all programs for its next performance plan. These performance measures will originate with the program and project managers.	

National Aeronautics and Space Administration

(In millions of dollars)

	2001 Actual	Estimate 2002	Estimate 2003
Spending:			
Discretionary Budget Authority:			
Human Space Flight	*7,198*	*6,797*	*6,173*
Space Shuttle	3,119	3,273	3,208
Space Station	2,128	1,722	1,492
Other Programs	1,951	1,802	1,473
Science, Aeronautics and Technology	*7,135*	*8,082*	*8,918*
Space Science	2,618	2,873	3,428
Earth Science	1,771	1,631	1,639
Biological and Physical Research	365	823	851
Aero-Space Technology	2,248	2,528	2,856
Other Programs	133	227	144
Inspector General	24	25	26
Subtotal, Discretionary budget authority adjusted [1]	14,357	14,904	15,117
Remove contingent adjustments	–104	–111	–117
Total, Discretionary budget authority	14,253	14,793	15,000
Emergency Response Fund, Budgetary resources	—	108	—

[1] Adjusted to include the full share of accruing employee pensions and annuitants health benefits. For more information, see Chapter 14, "Preview Report," in *Analytical Perspectives*.

NATIONAL SCIENCE FOUNDATION

The President's Proposal:

- Underwrites cutting-edge discovery in science and engineering to provide significant breakthroughs in information technology, climate change research, mathematics, nanotechnology, and fundamental research related to combating bioterrorism;
- Concentrates more of the government's basic research under the National Science Foundation because it has the most competitive and effective research funding process in the federal government;
- Improves the quality of math and science education through the President's Math and Science Partnerships Initiative; and
- Attracts more of the most promising U.S. students into graduate level science and engineering by providing larger annual stipends.

National Science Foundation

Dr. Rita Colwell, Director

www.nsf.gov 703–292–5111

Headquarters: Arlington, VA

Number of Employees: 1,204

2002 spending: $4.6 billion

The National Science Foundation (NSF) is responsible for advancing science and engineering in the United States. NSF carries out its mission primarily by making merit-based grants to individual researchers and groups at more than 2,000 U.S. colleges, universities and other institutions. Although NSF represents about four percent of the total federal budget for research and development, it accounts for approximately one-fourth of all federal support for basic research at academic institutions. NSF evaluates research and education proposals using two criteria: the scientific merit of the proposed activity and the prospective impact on society. NSF categorizes its programs to align with its three strategic goals: 1) Ideas (research); 2) People (education); and 3) Tools (facilities and instrumentation).

Ideas

To foster discoveries in science and engineering, NSF primarily invests in researchers and educators at colleges and universities. The majority of grant recipients' work is in basic research (Ideas), which can yield important scientific discoveries that may lead to many applications. These

applications have driven economic growth and have enhanced the quality of life through advances such as better weather forecasting, earlier detection of cancerous tumors, and the creation of the Internet.

Although private industry has expanded its support for basic research over the past several years, its research focuses mostly on the short-term in order to bring new products to market. Federal investments in basic research provide a long-term foundation for breakthrough applications in areas not usually supported by private industry.

Overall Performance. NSF is the leading performer among federal agencies funding basic research. For example, of the nearly 10,000 awards NSF makes annually, 94 percent of the research awards are made through competition, based on merit review. A competitive merit review process ensures that high-quality research is funded. The accompanying table displays the percent of research competed at selected federal agencies.

NSF's competitive approach pays rich dividends. Its grants often lay the early foundation for future breakthroughs. For example, of the 11 Nobel Prize winners in the sciences in 2001, eight received NSF funding for the research that won them the award.



NSF-supported scientists are using a video camera on the back of a horseshoe crab to decipher the neural code for vision.

Agency	Percent of Research Competed in 2001
National Science Foundation	94
Department of Health and Human Services	83
National Aeronautics and Space Administration	75
Department of Commerce	42
Department of Energy	24

To further ensure high quality in its programs, external panels assess approximately one-third of NSF's programs each year, so that all programs are reviewed in a three-year period. During the past two years, these panels have judged the majority of the programs assessed to be of high quality and efficiently managed. NSF's reputation for running an efficient and effective competitive merit-review process has enabled it to provide leadership to other agencies, such as the Environmental Protection Agency and the Department of Education, in improving their research programs.

Creation of the Internet and the World Wide Web

Computers and information networks have significantly changed the way we live and how people interact with each other. NSF has been pivotal at many steps along the way. The NSF-supported NSFNET (1986–1995) has been transformed into today's Internet. Its backing of computer science research led to the creation of a graphic browser (MOSAIC) which precipitated the creation of the World Wide Web.

One of NSF's many strengths is its flexibility to redirect resources to emerging science and engineering opportunities. Unlike other agencies that own and operate numerous laboratories, NSF owns facilities related to only a few programs, such as the U.S. Antarctic Program. NSF is largely free from ongoing institutional obligations. In addition, NSF awards do not last indefinitely. The average NSF grant is typically for three years. This minimizes research stagnation or funding research that ceases to be important or cutting-edge. NSF also maintains programmatic flexibility by funding over one-half of new grants entirely in one year, rather than through installments. Instead of carrying financial commitments into future years, NSF can quickly redirect resources to new areas of emerging opportunity.

All these features contrast starkly with the increasing amount of federal research dollars directed by congressional earmarks to projects without due regard to competition or merit.

The Administration's overall aim is to position NSF to invest in priority research areas, such as information technology and nanotechnology, which connect discovery to learning, innovation, and benefit to society. Nanotechnology, which involves controlling the building of small and large structures atom by atom, holds promise for the development of technologies that could range from higher-performance materials to biomedical instruments as small as human cells.

Small Streams Contribute Far More Than Previously Thought to Cleaning Waterways

Excess nitrogen can cause ecologically damaging effects in large waterways. Small streams remove nitrogen from water faster than do their larger counterparts. This finding is based on data collected from streams in NSF's Arctic Tundra Long-Term Ecological Research site in Alaska. According to the research, the smaller the stream, the more quickly nitrogen can be removed. Taking greater care to ensure small streams can work effectively to clean the water will reduce the overall nitrogen load that makes its way into larger bodies of water. The finding could have important implications for land-use policies in watersheds from the Chesapeake Bay on the East Coast to Puget Sound in the West.

Priorities like these tend to arise from NSF's core research efforts–disciplinary and multidisciplinary programs that support ideas generated by the academic community. NSF allocates approximately 25 percent of its research budget in priority areas that will deliver scientific breakthroughs, and 75 percent in core programs to build the capacity needed for the emergence of new technologies.

Improving Performance. The President's Budget proposes to improve the quality and efficiency of federal funding of basic research at NSF by:

- *Emphasizing research in highly promising, multidisciplinary areas*. In addition to nanotechnology, the 2003 Budget provides significant NSF funding for fundamental research

related to bioterrorism, information technology, mathematics, and climate change. Each of these areas has the potential for significant breakthroughs.

- *Improving the quality of a number of science and engineering programs by transferring them to NSF*. Based on NSF's noted expertise and success in funding competitive research, the budget transfers the National Oceanographic and Atmospheric Administration's (NOAA's) Sea Grant program and the U.S. Geological Survey's toxic substances hydrology research program to NSF to conduct merit-based competition and improve program effectiveness. The Sea Grant program will be administered in partnership with NOAA to ensure that the agency's research and outreach objectives are reflected in the program's ongoing work. The Administration may also transfer non-competitive funding from the Smithsonian Institution's astrophysics and environment programs to NSF, following a program review by an independent panel.
- *Improving efficiency of research by increasing grant size*. One means of improving research efficiency is by providing adequately-funded grants to ensure the proposed work can be accomplished as planned. Inadequately funded grants can result in an inefficient research process, with an award only funding a portion of a research project. A researcher then has to write additional proposals to get funding to complete the project and realize research objectives. The 2003 Budget increases the average annual NSF award size to $120,000, an increase of approximately $30,000 since 1998. NSF believes reaching this award size will result in approximately 200 fewer awards (a two percent reduction), from 2002. NSF also believes that the increased size will help ensure that its grants are more effective in achieving research project objectives.

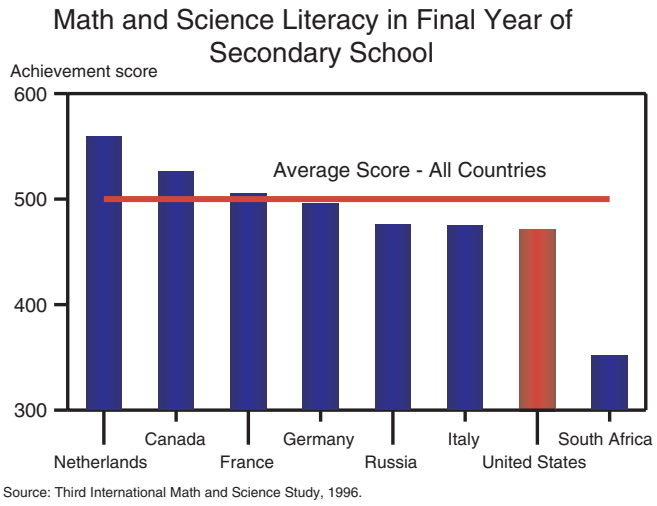
People

NSF invests in People—students, researchers, and educators—to strengthen math, science, environmental, and engineering education, thus equipping the American workforce for the challenges of the 21st Century.

Overall Performance. Longtime concern persists over the state of grades K–12 science and mathematics education in the United States. The Third International Math and Science Study compared American and other countries' students in math and science and found that U.S. fourth graders did relatively well in both subjects. But by the time they reached their senior year in high school, U.S. students ranked among the worst in the world. In 2000, the National Assessment of Educational Progress showed no improvement in U.S. student performance in science and limited improvement in mathematics since 1996.



NSF-supported graduate fellows are helping teach math and science concepts to students in kindergarten through twelfth grades.



Source: Third International Math and Science Study, 1996.

Achievement in mathematics and science is most directly dependent on state and local educational systems. NSF's role is in supporting new models of math and science education. In the past decade, NSF has supported new models that, if successful, could be adopted by state and local districts, which have the resources to implement those models. Initial indications are that some of these NSF-supported models are proving successful in improving student achievement. For example, over the first six years of the NSF-funded Chicago Urban Systemic Initiative, the percentage of fourth grade students meeting Illinois state standards in science increased from 46 to 66. For the NSF-funded San Antonio Urban Systemic Initiative, the average scores of African-Americans in grade 4 on the Texas Assessment of Academic Skills increased by 32 percent over four years, and those of Hispanic students by 39 percentage points, compared to a 16 percentage point increase for Texas fourth-graders overall.

In the area of graduate education there is concern that fewer U.S. students are enrolling in U.S. graduate science and engineering programs. Since 1993, enrollment of U.S. students in graduate level science and engineering programs dropped by nine percent. During the same period, enrollment of foreign students on temporary visas increased by three percent. If fewer scientists and engineers are entering the workforce, U.S. high technology firms may have to increasingly rely on foreign high technology workers who are in the U.S. on temporary non-immigrant worker visas.

A recent survey of the Department of Education found that 57 percent of surveyed U.S. baccalaureate recipients did not apply to science and engineering graduate programs for financial reasons. Using their bachelor in science or engineering degree to get a job that may pay more than twice the level of a graduate student stipend (salary) is often more enticing to a person carrying debt from undergraduate school. One strategy of enabling U.S. students to go on to graduate school is to provide competitive stipends to ease the financial burden. NSF performance in the 1990s in providing competitive stipends was not good. From 1993 to 1999, NSF stipend levels dropped as a percentage of starting salaries for bachelor students in the sciences and engineering from 65 percent to 52 percent and the difference may be growing wider.

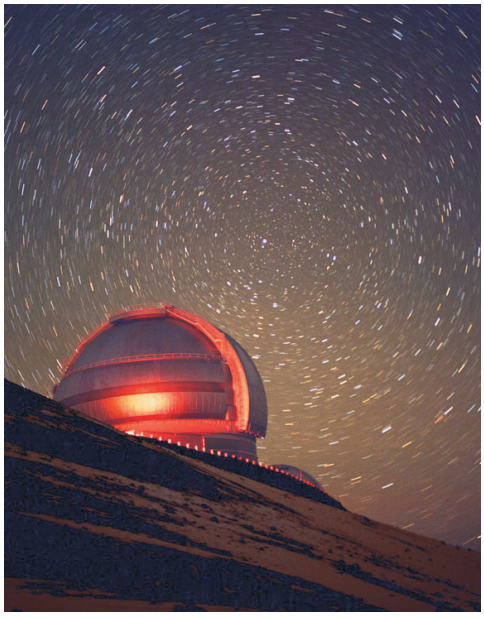
Higher Scores in West Virginia

Students in West Virginia are considered "proficient" if they score above the 50th percentile on the SAT-9. At the outset of the NSF-funded Appalachian Rural Systemic Initiative education project in 1996, schools participating in the project were scoring below the state average in both mathematics and science. By 2000, those same schools show a marked improvement in the number of students scoring in the upper percentiles. Most importantly, students in participating schools have not only "closed the gap" but all participating schools have surpassed the state average in mathematics.

Improving Performance. The President's Budget proposes to strengthen math and science education in the United States by:

- *Improving the quality of math and science education in Grades K–12 through the President's Math and Science Partnerships Initiative.* Support for the President's Math and Science Partnerships initiative is increased in the 2003 Budget. The Partnerships Initiative builds on the fact that while states and local governments deliver education, NSF has a proven record in supporting successful models to enhance math and science curriculum and student test scores as a result. The Initiative provides funds for states and local school districts to join with institutions of higher learning, particularly with their departments of mathematics, science, and engineering, to beef up math and science education.
- *Attracting the most promising U.S. students into graduate level science and engineering by providing more competitive stipends.* The 2003 Budget increases the annual stipends for NSF's fellowship and traineeship programs from $21,500 to $25,000 to further attract U.S. students to graduate level programs in science and engineering. NSF also will conduct a study on graduate stipends in 2002 to recommend what the ultimate target for graduate stipends should be as well as develop measures to assess its impact on the larger national effort to increase and improve graduate students in science and engineering.
- *Improving quality of environmental education programs.* Based on NSF's noted expertise and success in funding competitive programs, the budget transfers the Environmental Protection Agency's environmental education program to NSF to improve program effectiveness and merit-based selection.

Tools



The Gemini North Telescope on Mauna Kea in Hawaii provides some of the sharpest images of any telescope on Earth.

NSF invests in widely accessible, state-of-the-art science and engineering Tools—sophisticated instruments, equipment, facilities, databases, and large surveys. NSF's funding of facilities has grown and diversified and now includes shared-use research facilities that are often connected by high-speed networks.

Except for U.S. Antarctic Program facilities, NSF does not directly operate the large-facilities that it supports, such as the Gemini North telescope in Hawaii or the Terascale Supercomputer in Pittsburgh. NSF primarily makes awards to universities and non-profit organizations to construct, manage, and operate large projects.

Overall Performance. Research agencies must strive to keep the development and upgrade of research facilities on schedule and within budget. In running the facilities, agencies should keep the operating time lost due to unscheduled downtime to a minimum. NSF does relatively well in meeting these goals. In 2000, all 11 construction projects that NSF supports were within 10 percent of their estimated annual cost, and seven of the 11 projects were within 10 percent of meeting their annual schedule

milestones. Also in 2000, 22 of 26 operating facilities kept time lost due to unscheduled downtime to less than 10 percent of the total scheduled operating time. For major capital projects completed since 1996, cost growth on five science projects was eight percent (or $36 million), generally less than the average cost increase for major projects at most science agencies.

Although NSF has done relatively well in managing construction of its large facilities, project complexity, cost, and risk are increasing. Future projects will challenge traditional NSF approaches. To address this concern, the Administration directed NSF to develop a plan to enhance its management of large facility projects. In response, NSF is now implementing a Large Facilities Projects Management and Oversight Plan that improves the process for reviewing and approving large projects and increases oversight of its projects. All current and future large projects will be subject to these new guidelines and oversight.

Improving performance. The President's Budget proposes to improve NSF investments in Tools by:

- *Enhancing infrastructure capabilities in astronomy, earthquake research, and the environment.* The budget proposes initiating construction of the international Atacama Large Millimeter Array telescope in Chile and the Earthscope projects across the United States. The Atacama Large Millimeter Array will be the world's most sensitive, highest resolution, millimeter-wavelength telescope. This telescope will serve as a testing platform for theories of star birth and stellar evolution, galaxy formation and evolution, and the evolution of the universe itself. Earthscope will provide several instruments, some portable, to investigate the structure and evolution of the North American continent and the physical processes controlling earthquake and volcanic eruptions. This will provide significant data to assess and mitigate national risks associated with earthquakes, volcanic eruptions, and landslides. The 2003 Budget also provides funding to test at least two sites of the National Ecological Observatory Network, which will provide an integrated network of regional environmental research observatories.

The Really Sharp and The Really Fast

The Gemini Telescope Project is an international partnership that will result in two 8.1-meter telescopes (each telescope has a main mirror over 26 feet across.) One telescope, partly funded by NSF, is located on Hawaii's Mauna Kea, and the other on Chile's Cerro Pachón. Each of the Gemini telescopes is designed to provide some of the sharpest images of any telescope on (or even above) our planet. In many instances, the Gemini telescopes will outperform even the Hubble Space Telescope in clarity. Both telescopes will be fully operational in 2002.

With the capability to perform up to six trillion calculations every second, the NSF-funded Terascale Computing System in Pittsburgh will be the world's most powerful computer doing public research. In tests in 2001, the machine established itself as the second-most powerful in the world. The Terascale computer will be used for large-scale research modeling in areas that include the life sciences, weather forecasting and climate change.

- *Improving priority setting and the visibility of the selection process for large facility projects.* For the first time, the 2003 Budget identifies funding for early-stage planning and development of potential new, large facility projects. This will increase the visibility of NSF's

facility selection process. The Office of Science and Technology Policy also will request that the National Academy of Sciences review the scientific merit of IceCube and other proposed U.S. neutrino collectors in the context of current and planned neutrino research capabilities throughout the world. Neutrinos are one of the fundamental particles that make up the universe and are also one of the least understood. Understanding neutrinos better will mean greater understanding of the universe.

Research Network Brings Wireless Internet to Native American Reservations

In August 2000, the University of California, San Diego received a $2.3 million NSF award to develop a prototype wide-area network for research and education. The High Performance Research and Education Network is overcoming geographical, social and technical barriers to bring high-speed Internet access to the La Jolla and Pala Native American reservations. In remote San Diego County, the network connects the low-lying San Diego coastline with the county's mountainous eastern region, home of the reservations. This network also links the University with the Mount Laguna Observatory, an earthquake-detection site. The network is a prototype that could be useful for geophysicists, astronomers and ecologists, while demonstrating that the same tools can connect under-served educational users at remote locations like the Pala and La Jolla reservations.

Status Report on Select Programs

The Administration is reviewing programs throughout the federal government to identify strong and weak performers. The budget seeks to redirect funds from lesser performing programs to higher priority or more effective ones.

Program	Assessment	Explanation
Information Technology Research	**Effective**	Began focusing on long-term, high-risk information technology research in 2000. Priority goals and objectives identified. Five-year funding plan established. Program will be evaluated in 2002.
Nanotechnology	**Effective**	In 2001, began emphasizing long-term fundamental research aimed at discovering novel phenomena, processes, and tools at the nanoscale (10,000 times smaller than the diameter of a human hair). Priority goals and objectives identified. Five-year funding plan established. Program will be evaluated in 2003.
Core Research	**Effective**	Individual research divisions have research strategies; however, overall core research strategy is not well communicated by NSF. External evaluations of programs have generally produced positive reviews while occasionally identifying areas for improvement.

Program	Assessment	Explanation
Education and Human Resources	**Moderately Effective**	An overall strategy for NSF's education programs is not well articulated. External evaluations of programs have generally given positive reviews while occasionally identifying areas for improvement.
Major Research Equipment and Facility Construction	**Moderately Effective**	Appropriations account established in 1995 to fund development of major research facilities. New process being implemented to determine priorities among new facility projects. New facility management guidelines are being developed.

Strengthening Management

NSF is a relatively well-run agency. Funding for the agency has grown significantly in the past decade, while the agency's staffing level has remained flat. The agency has accommodated the increase in funding and responsibilities through the use of information technology and continued reliance on outsourcing support of NSF's review process to the academic community. Nevertheless, there are major hurdles on the horizon.

Of the total federal funds NSF receives, 95 percent go to researchers and educators; the agency's overhead is only five percent. Many in Congress and the NSF Inspector General have questioned whether the agency has enough resources to adequately manage its growing portfolio and conduct adequate oversight of its awards. The 2003 Budget addresses these concerns by providing a significant funding increase to expand award oversight by providing for more travel to review large award recipients, providing additional personnel through temporary and permanent appointments, and enhancing information technology (IT) systems to improve worker productivity and efficiency of the award process.

NSF has been better managed and has a better baseline evaluation than most other agencies. For example, NSF is the only agency to receive the top rating for financial management. NSF is also a federal government leader for e-government and information technology. The growing demands on NSF, however, will require it to further improve its management. In particular, NSF needs to improve results of its human capital management, competitive sourcing, and integration of performance and the budget efforts. A scorecard of NSF's activities for the President's management initiatives follows. The agency is performing well, but there are areas of concern.

Initiative	2001 Status
Human Capital—NSF's human capital strategy is not integrated into its budget and strategic plans and the agency does not implement succession plans. NSF does use staffing flexibilities well, such as those provided in the Intergovernmental Personnel Act. NSF is moving expeditiously to develop a Training Academy and to conduct an Organizational Assessment Survey. The agency also will initiate a significant workforce analysis in 2002. The Foundation is developing a five-year administration and management strategic plan to lay out how it plans to address its workforce issues in the coming years.	
Competitive Sourcing—NSF has not yet launched a viable competitive sourcing initiative. In its 2000 analysis of workforce activities, NSF identified 533 positions as performing commercial functions. NSF has not decided if it will compete any positions at this time. The agency wants to wait until it gets results from its upcoming workforce analysis before it makes a decision on competing positions. At that rate it will be difficult for the agency to meet 2003 competition goals. NSF must develop and submit a competitive sourcing plan to meet near-term goals.	
Financial Management—NSF is the federal leader in financial management and has met all core criteria for a green rating for financial management. NSF's financial management systems meet federal financial management system requirements and it has received unqualified and timely audit opinions on its annual financial statements. NSF expects to maintain this position.	
E-Government—NSF meets most, but not all, of the standard core criteria for expanding E-Government. All major information technology projects provided sufficient business cases. However, NSF's Government Information Security Reform Act report reflects deficiencies in a number of important areas of security. These concerns include failure to implement appropriate security controls to protect critical information and risk of disruption of essential services. NSF has submitted its corrective action plans and will be reallocating 2002 funds to quickly correct identified problems.	
Budget/Performance Integration—NSF's budget does not tie resources to results, provides limited focus on outcomes, and does not charge the full budgetary cost to individual activities. There are inherent difficulties in integrating the budget with performance given the long-term nature of research, in which results may not occur until 10 years or more. Nonetheless, NSF could do more. In Spring 2002, OMB and OSTP will work with major research agencies to develop criteria for evaluating basic research during the formulation of the 2004 Budget.	

National Science Foundation

(In millions of dollars)

	2001 Actual	Estimate	
		2002	2003
Spending:			
Discretionary Budget Authority:			
Research and Related Activities	3,357	3,598	3,783
Education and Human Resources	785	875	908
Major Research Equipment and Facility Construction	122	139	126
Salaries and Expenses	167	176	210
Inspector General	6	7	8
Subtotal, Discretionary budget authority adjusted [1]	4,437	4,795	5,035
Remove contingent adjustments	–6	–6	–7
Total, Discretionary budget authority	4,431	4,789	5,028
Mandatory Outlays:			
H-1B Fee Programs	11	100	97
All other programs	28	45	49
Total, Mandatory outlays	39	145	146

[1] Adjusted to include the full share of accruing employee pensions and annuitants health benefits.

For more information, see Chapter 14, "Preview Report," in *Analytical Perspectives.*

SMALL BUSINESS ADMINISTRATION

The President's Proposal:

- Leverages small business lending and equity investment;
- Establishes an online access point to help small businesses comply with federal regulations;
- Supports Small Business Development Centers; and
- Eliminates or reduces redundant or poorly performing programs, such as the One-Stop-Capital Shop program.

Small Business Administration

Hecto V. Barreto, Administrator

www.sba.gov 202–205–6605

Number of Employees: 3,026 permanent employees and 1,221 temporary employees for disasters

2002 Spending: $1.1 billion

Field Offices: 93 nationwide

The Small Business Administration (SBA) was created in 1953 to aid, counsel, assist, and protect the interests of small businesses and help families and businesses recover from physical disasters. Critical to this mission are SBA's efforts to foster a business-friendly environment, help clients to succeed, and serve as the federal disaster bank.

Providing Access to Capital

Through a variety of financing programs, SBA guarantees general small business loans, equipment loans, and microloans, as well as venture capital equity investments. These programs offer a wide spectrum of assistance, from an average of $12,000 for microloans to a maximum of $1.5 million for general business loans. Guaranteed equity investments can be as high as $20 million.

To address the lending needs of small businesses affected by the September 11th attacks, the Congress passed and the President signed legislation that temporarily lowers fees for SBA lending programs and transfers more risk to the government. While the fee reductions may help a small number of businesses cope, it also means that SBA's lending programs will be more expensive. Given the additional cost, the Administration intends to target the available resources

to credit-worthy small businesses most likely to be underserved by the commercial capital markets including start-ups and those seeking loans of less than $150,000. These types of firms need the extra assistance because they generally entail more risk for lenders and their smaller loans are more administratively burdensome. Without SBA support, the private sector may not make these loans because they do not produce the same profit margins as larger loans.

Historically, SBA's lending programs served less than one-tenth of one percent of the nation's small businesses annually and provided less than one percent of annual small business lending. The Administration will work with the Congress and the lending and small business communities to explore new approaches to ensure that a greater number of the nation's small businesses have adequate access to capital, such as Capital Access Programs (CAPs). Under a CAP program, the bank and the borrower pay an up-front insurance premium typically between three and seven percent of the loan amount into a reserve account, which is matched by state governments. CAPs or other innovative state programs that place greater emphasis on market solutions may point the way toward modernizing SBA's lending programs.

A Hand Up Not a Hand Out

[T]he government can never guarantee success in the private sector. That's not what happens in a system based upon free enterprise. And so the best thing we can do is help you to get your business started.

President George W. Bush
December 3, 2001

Disaster Assistance

In the wake of physical disasters, SBA's disaster loans are the primary form of federal assistance for individuals and businesses. SBA's disaster loans help homeowners, renters, businesses of all sizes, and nonprofit organizations finance rebuilding and recovery efforts from physical damage. Working closely with other federal disaster assistance agencies, particularly the Federal Emergency Management Agency, SBA establishes temporary field offices in disaster areas where it helps the public apply for low-interest construction and economic assistance loans. In 2001, SBA responded to about 70 disasters and approved $986 million in loans. In 2002, the Administration sought and the Congress provided nearly $1.4 billion in lending, including almost $600 million to support businesses adversely impacted by the September 11th attacks. For 2003, the budget requests funding to support SBA's activity level consistent with its five-year average.

SBA Provides Front-Line Disaster Relief

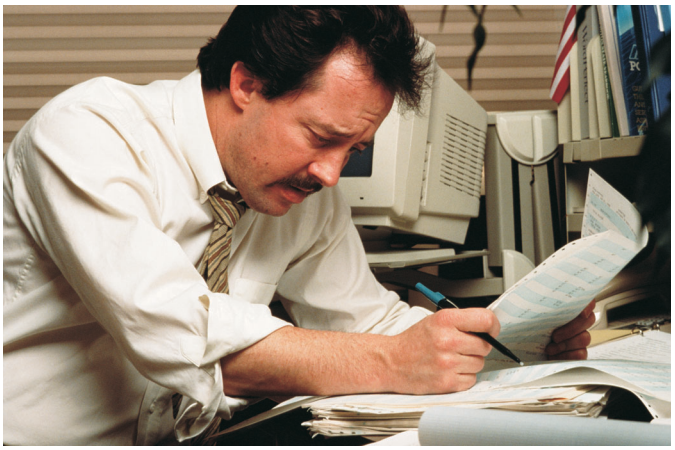
"They were the most efficient, most humane organization I've ever dealt with," says Marvin Rafeld, owner of a small business in lower Manhattan. The SBA approved his loan request for nearly $125,000 less than 24 hours after he applied. *"I was shocked by how quick it was."*

Improve Disaster Response. SBA's Disaster Loan Program plans to significantly improve response capabilities in 2003 by installing a paperless loan application processing system. The new system will allow SBA to process loan applications electronically, thereby reducing turnaround time as well as personnel and administrative costs. SBA's goal is to increase its productivity by at least 25 percent. The new system will also enable

SBA to review electronic files anywhere regardless of where a disaster occurs, and to share data more easily with other SBA programs and other disaster relief agencies.

Technical Assistance

SBA's technical assistance programs annually provide direct assistance to more than 1.3 million small businesses through grants that support more than 1,000 Small Business Development Centers (SBDCs). SBA and its resource partners provide training and counseling to small businesses on topics ranging from developing business plans to managing cashflows. SBA has 389 Service Corps of Retired Executives (SCORE) chapters, as well as grants provided for microloan lenders to provide business assistance.



Across the United States, small business owners struggle to understand the overwhelming number of government regulations.

Measuring the performance of these programs has been difficult because many factors beyond SBA assistance affect small business sustainability and growth. In addition, the SBDCs have been reluctant to provide information to SBA. In fact, Congress passed legislation prohibiting SBA from collecting client-level information. SBA has pledged to work more aggressively with its technical assistance grant recipients to collect information on business longevity, increased taxable business activity, and the number of start-up firms attributable to technical assistance services. This data is necessary to monitor the impact of SBA resources and hold program managers accountable for results.

In addition, duplication and overlap in these technical assistance programs can lead to confusion and diminish service delivery. The budget includes $161 million for these programs and saves taxpayers $31 million by eliminating or reducing poorly performing or redundant programs such as the One-Stop-Capital Shop program and the Program for Reinvestment in Microentrepreneurs (PRIME).

Federal Procurement

The federal government annually purchases about $200 billion in goods and services and in 2003, the Administration expects to award about $44 billion in contracts to small businesses. The Administration is committed to achieving the government-wide small business procurement goal of 23 percent.

In 2001, while the federal government met its small disadvantaged business procurement goals, it fell short elsewhere, having problems meeting statutory goals where participation of eligible small businesses remains low. For example, Historically Underutilized Business Zones (HUBZone) business goals were not met. Though it is not clear how many eligible small businesses exist, a recent study by the General Accounting Office cited poorly designed eligibility criteria and

burdensome and costly application processes as major barriers to small business participation in the HUBZone program. SBA is working to correct these problems through regulatory changes.

Small Is Beautiful

Complying with regulations is a major burden for small businesses and a principal impediment to their success. Laid end to end, federal regulations measure 16 feet long—and this does not include state and local laws. Apart from being particularly costly for firms with fewer than 20 employees, regulations are just too hard for the typical small business to find. Under the present arrangement, each of the nation's 25 million small businesses must coordinate with dozens of agencies to order licenses, select locations, negotiate leases, pay taxes, even hire employees. No wonder many small business owners do not even know where to start.

To address this problem, SBA has launched *BusinessLaw.gov*, an Internet-site that provides one-stop access to more than 30 types of regulatory information, 20,000 links to state and local laws, along with interactive help to find additional solutions. As part of the Administration's E-Government initiative, SBA will continue to offer small businesses more on-line options to make complying with regulations easier.

Status Report on Select Programs

The Administration is reviewing programs throughout the federal government to identify strong and weak performers. The budget seeks to redirect funds from lesser performing programs to higher priority or more effective ones.

Program	Assessment	Explanation
Small Business Investment Company (SBIC)	**Effective**	The SBIC venture capital program serves small businesses whose needs are usually below $5 million.
Disaster Loan Program (direct loans)	**Effective**	The disaster program responds quickly to disasters and processes loan applications in a timely manner.
7(a) General Business Loan Program	**Moderately Effective**	Declining defaults have improved performance but lender oversight needs to be improved.
Small Business Development Centers (SBDCs)	**Unknown**	SBA should develop measures to determine if the SBDCs effectively use the $88 million they receive in annual federal funding.

Program	Assessment	Explanation
Section 8(a) Program	Ineffective	A recent Inspector General report noted that a small number of the same businesses receive most 8(a) contracts and award dollars year after year. Both business participants and agency procurement officials are concerned about the administrative burden imposed by the program.
One-Stop-Capital Shops	Ineffective	Duplicates other SBA technical assistance programs.

Strengthening Management

SBA is making progress on the President's Management Agenda. For example, it is one of only four agencies whose financial systems met the Federal Financial Management Improvement Act requirements. However, the Loan Monitoring System (LMS), SBA's largest information technology (IT) investment, which has significant impact on SBA's ability to manage its $50 billion loan portfolio, is behind schedule, over budget and not performing to expectations.

To advance the Administration's management goals, SBA is administering a successful asset sales program. The program is improving the collection of outstanding debts and moving loan servicing functions to the private sector. In fact, SBA has sold more than 110,000 loans totaling over $4 billion, collecting more from its sales to private sector investors than if it held and serviced the loans to maturity. Some 135,000 loans worth $4.5 billion will be sold over the next few years. However, even more improvements can be made. For example, the asset sales program has significantly reduced SBA's loan servicing workload yet SBA has not reduced staff for such activities.

This year, the Administration will implement a fundamental reorganization of the SBA's field office operations. Back office operations (servicing, liquidations, loan processing, etc.) will be centralized or contracted out. District offices will focus on reaching a much larger percentage of the small business community and improving oversight and marketing to lending institutions. Specific strategies will be tested through District Office pilot projects in three offices during 2002 with implementation for 20 Districts in 2003. The pilots include using telecommuters, video teleconferencing, and restructuring the relationship with SBA's technical assistance grant recipients to increase accountability.

Initiative	2001 Status
Human Capital—The agency has not articulated a clear vision of what role it should fulfill in the marketplace. In addition, the benefits of asset sales and technological improvements have not been translated into human resource efficiencies. While SBA recognizes the need to restructure, little progress has been made to date. SBA expects to better articulate goals in a 2002 restructuring plan.	
Competitive Sourcing—SBA's analysis of its workforce indicates that 66 percent of SBA's activities are commercial in nature. However, SBA has not developed a competitive-sourcing plan, something it will do in 2002. This effort will be closely coordinated with SBA's human resource restructuring.	
Financial Management—SBA has received an unqualified and timely audit opinion five years in a row, and its financial management system is compliant with relevant federal law. In addition, SBA is improving the accuracy of cost estimates for its general business loan program and will continue its successful asset sales program. In contrast to these successes, the Loan Monitoring System (LMS) technology project is over budget, behind schedule, and not performing as expected. SBA's inability to implement LMS adversely affects its risk management and oversight of its $50 billion loan portfolio. SBA is refining the LMS project and developing specific implementation milestones.	
E-Government—SBA has a documented enterprise architecture and capital planning investment process, which help inform business decisions and the allocation of the agency's $50 million technology budget. SBA will lead the government-wide efforts in creating a one-stop regulatory compliance tool for businesses. However, SBA's difficulties continue in developing cost, schedule, and performance goals for other E-gov projects and corresponding security plans, such as the LMS.	
Budget/Performance Integration—SBA submitted an integrated budget and performance plan, which attempted to tie resources to output targets. However, SBA has been unsuccessful at overcoming barriers to the collection of meaningful performance measures in some programs, such as the SBDC program. SBA has pledged to work more aggressively with its technical assistance grant recipients to collect information on performance measures such as business longevity, increased taxable business activity, and the number of start-up firms attributable to technical assistance services.	

Small Business Administration

(In millions of dollars)

	2001 Actual	Estimate 2002	Estimate 2003
Spending:			
Discretionary Budget Authority:			
Business Loans	298	208	223
Disaster Loans	188	214	197
Non-Credit Business Programs	245	177	144
Salaries and Expenses	175	171	218
All Other Programs	14	12	15
Subtotal, Discretionary budget authority adjusted [1]	920	782	797
Remove contingent adjustments	–20	–20	–18
Total, Discretionary budget authority	900	762	779
Emergency Response Fund, Budgetary Resources:			
Disaster Loans	100	75	—
Business Loans	—	75	—
Total, Emergency Response Fund, Budgetary resources	100	150	—
Mandatory Outlays:			
Loan Reestimates and Loan Asset Sale Proceeds	–1,380	70	–238
Total, Mandatory outlays	–1,380	70	–238
Credit activity:			
Direct Loan Disbursements:			
Disaster Loans	683	1,334	976
Business Loans	67	41	29
Total, Direct loan disbursements	750	1,375	1,005
Guaranteed Loans:			
Business Loans	10,963	9,111	10,111
Total, Guaranteed loans	10,963	9,111	10,111

[1] Adjusted to include the full share of accruing employee pensions and annuitants health benefits. For more information, see Chapter 14, "Preview Report," in *Analytical Perspectives*.

SMITHSONIAN INSTITUTION

The President's Proposal:

- Completes federal funding for construction of the National Museum of the American Indian and continues restoration of the Patent Office Building;
- Upgrades security for national treasures;
- Provides funding to decrease the large backlog of required maintenance by six percent; and
- Assesses the opportunity for competition in scientific research.

Smithsonian Institution

Lawrence Small, Secretary

www.si.edu 202–357–2700

Number of Employees: 4,560

2002 Spending: $548 million

Facilities: 15 museums, plus the National Zoo and three major scientific centers

The Smithsonian Institution's mission is "the increase and diffusion of knowledge." The Smithsonian fulfills both parts of its mission through scientific research and by operating 15 museums in New York City and Washington, D.C., as well as the National Zoo. More than perhaps any federal establishment, the Smithsonian must maintain its facilities to safeguard the nation's priceless collections. The Smithsonian receives about two-thirds of its annual operating funds from federal appropriations. The remaining one-third comes from the Smithsonian Trust funds, which include donations, income from the Trust endowment, proceeds from Smithsonian business ventures, grants, and contracts. Over the past five years, federal appropriations have increased 24 percent, providing a total of $2.2 billion. On the Trust side, funding has risen 20 percent, providing a total of $1.1 billion.

Museums

Overall performance. Smithsonian museums educate and entertain the public. If the number of visits is used as a yardstick for overall performance, the Smithsonian has three of the four top-performing museums in the United States. Five of the Smithsonian museums and facilities—Air and Space, Natural History, American History, the Castle, and the National Zoo—receive over 85 percent of all Smithsonian visitors. The remaining 11 welcome less than 15 percent of the visitors,

yet consume over 35 percent of the Smithsonian's operating costs. Moreover, these museums will require over 50 percent of future capital project costs.

Just as important as measuring the number of visitors, their enjoyment and learning, is the cost of providing those services. This can be measured by the dollars per visit spent operating the museums. Looking across the Smithsonian's museums, there are great differences in the efficiency of providing museum services. As the accompanying chart shows, the cost to taxpayers of a visit to a Smithsonian museum ranges from about $2 to nearly $20.



Improving performance. The Institution will continue to improve efficiency, and will expand its performance data to determine cost per visit at each of its museums in 2003. Beginning in 2003, Institution performance also will be measured by visitor assessments of enjoyment and learning.

Research



Smithsonian researchers utilize the vast collection of fossil plants belonging to the Institution.

Overall performance. Scientific research at the Smithsonian is as vast and varied as its collections, and ranges from paintings and insects to artifacts to animal reproduction. In addition to its collections-based research, the Smithsonian operates a trio of scientific research centers.

The Smithsonian recently appointed a commission to review its science programs. The charge to this commission is to answer the question: How should the Smithsonian set priorities for scientific research in the years ahead and, in general, carry out its historic mission more effectively? This commission will provide its report later in 2002.

In general, a merit-based, competitive process should govern the investment of federal research funds. For decades, the scientific community has agreed that such a process produces the highest quality science and the most innovative research. This approach is consonant with the Administration's emphasis on better management of federal programs. The President's Management Agenda, released in August 2001, calls for a results-oriented government that promotes innovation through competition. While most federal research and development agencies allocate at least some of their federal funds through merit-based competition, the Smithsonian does not.

Improving performance. An outside group will be appointed to recommend how much of the funds directly appropriated to the Smithsonian for scientific research should be awarded competitively. The review will encompass all Smithsonian scientific research. It will focus on enabling Smithsonian scientific research to compete on a level playing field with other potential performers of the research, where that potential exists. Following the review, if appropriate, the Administration will submit its request to transfer necessary amounts from the Smithsonian to the National Science Foundation. Any transferred funds would be available directly to the Smithsonian to ease the transition in 2003 and then made available for competition in future years.

Facilities

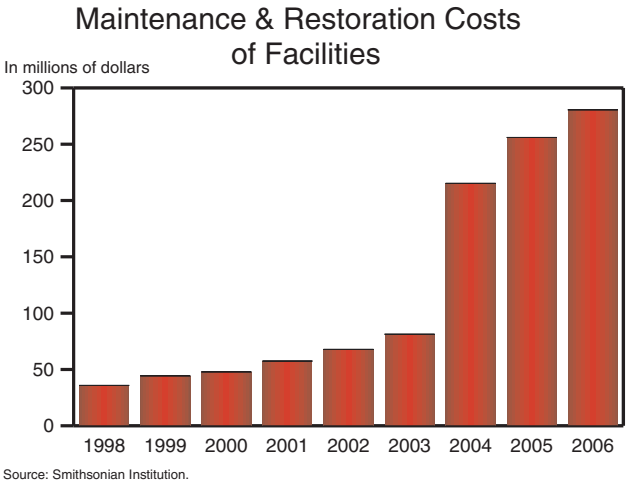


The National Museum of the American Indian will occupy the last remaining space along the National Mall in Washington, D.C.

Overall performance. The Smithsonian must maintain over 400 buildings, and currently has commitments to build two more: the National Museum of the American Indian, and the Udvar-Hazy extension of the Air and Space Museum at Dulles Airport near Washington, D.C. These new buildings will increase the size of the Smithsonian's museums by nearly 20 percent, from 4.5 million to 5.5 million square feet.

The Smithsonian has not stayed within cost estimates for significant projects. Estimates for the cost of construction of the American Indian Museum and the restoration of the Patent Office Building (where the American Art Museum and the Portrait Gallery are housed) have nearly doubled since 1999. Substantial improvement in the Smithsonian's ability to estimate costs is expected from its use of new cost estimating techniques and management controls that were recently endorsed by the National Academy of Public Administration (NAPA). In addition, the Smithsonian has hired new management staff in this area.

At the same time, deterioration of existing buildings over the past decade at the expense of expansion and new museums has created a huge maintenance and restoration backlog (see accompanying chart). In 1995, the Commission on the Future of the Smithsonian indicated that $50 million per year for the subsequent decade would be needed. After steady budget increases, that level was reached in 2001. However, a new assessment indicates more is needed, due to more deterioration than was previously realized. A recent report from the National Academy of Public Administration estimated the total cost of repair, restoration, and alterations over the next decade at $1.5 billion. Based on these



Source: Smithsonian Institution.

projections, the Smithsonian's maintenance and restoration budget would need to increase fourfold within five years. Because such massive funding increases will not be possible under current budget constraints, the Smithsonian will set priorities within the Institution for repair and restoration.

Improving Performance. The 2003 Budget addresses some of the Smithsonian's most significant performance challenges. The budget increases resources for maintenance, boosting funds to reduce the large backlog of currently identified revitalization needs by six percent from 2001. The budget completes the federal commitment to construct the National Museum of the American Indian and provides funds for the ongoing restoration of the Patent Office Building. The budget addresses physical security for both collections and visitors, correcting currently identified hazardous conditions. In addition, it provides funding for improvements in financial management.

Making the Smithsonian Safe and Secure

Keeping collections of plants and animals requires that they be preserved for future study. Certain kinds of animal samples are preserved in potentially hazardous solvents such as alcohol. Currently, the Smithsonian has a significant amount of alcohol on hand to store and preserve scientific specimens. The budget provides funding to design a separate offsite building to store these collections. In addition, the budget provides $20 million to address immediate security concerns following the events of September 11th.

Strengthening Management

Aggressive implementation of the President's Management Reform Agenda is central to improving government performance. For each initiative, the scorecard below describes how well the Smithsonian is executing the management initiatives, and where it scored in 2001 against the overall standards for success.

Initiative	2001 Status
Human Capital—The Smithsonian does not have an adequate plan for managing its workforce. Total federal FTEs at the Institution in 2002 stood at 4,560. In addition, the Smithsonian's trust side supports approximately 1,400 FTEs. The Institution will provide a workforce plan to control costs and improve management with the 2004 Budget.	
Competitive Sourcing—The Smithsonian produced an inventory that lists 1,146 positions (25 percent) as potentially performing commercial activities. Of that group, however, all but 36 were categorized as exempt from the cost comparison process. Among the exempt was the Institution's security workforce of 628. However, the U.S. Holocaust Memorial Museum has outsourced its security workforce and is satisfied with its performance. The Smithsonian has a timeline for completing a competitive sourcing plan by June 2002.	

Initiative	2001 Status
Financial Management—Although it has received clean opinions on its audited financial statements, the Smithsonian is concerned that the unqualified opinion may be in jeopardy due to the inadequacy of its accounting system. The recent NAPA report notes that "the Smithsonian's accounting system provides useful information only at the summary level and does not support either federal requirements for obligation and outlay information or the Smithsonian's internal project management requirements." A recent congressional request for obligations and outlay information for repair projects required a labor-intensive effort by the Smithsonian budget office staff. Replacement of the financial management system is a high priority, and funds for it are included in the 2003 Budget request.	
E-Government—Information Technology (IT) investment at the Smithsonian includes a request for $64 million in 2003. Considerable effort has been poured into justifications and business cases for two of the investments: Enterprise Resource Planning and Managed IT Infrastructure (totaling $14 million of the 2003 request). A review of the IT portfolio indicates duplicative system efforts. Over the next year, the Smithsonian will assess this issue and craft a strategy for unifying and simplifying business processes and systems.	
Budget/Performance Integration—To date, the Smithsonian has not finalized an updated Strategic Plan or a Performance Plan. In previous years, the Smithsonian's budget request was based on incremental funding increases, such as pay raises and increases in utilities costs, with no information on performance. For 2003, the budget shows some improvement in performance measures. Performance information will be much more integrated with the budget request in 2004.	

Smithsonian Institution

(In millions of dollars)

	2001 Actual	Estimate 2002	Estimate 2003
Spending:			
Discretionary Budget Authority:			
Salaries and Expenses	406	418	455
Capital Projects	68	98	93
Subtotal, Discretionary budget authority adjusted [1]	474	516	548
Remove contingent adjustments	–19	–19	–20
Available from prior years	—	—	14
Total, Discretionary budget authority, gross	455	497	542
Total, Discretionary budget authority, net	455	497	528
Emergency Response Fund, Budgetary resources	—	22	—

[1] Adjusted to include the full share of accruing employee pensions and annuitants health benefits. For more information, see Chapter 14, "Preview Report," in *Analytical Perspectives.*

SOCIAL SECURITY ADMINISTRATION

The President's Proposal:

- Enhances program integrity initiatives to reduce payment errors;
- Institutes new information technology initiatives to improve customer access and expand the range of services offered to customers; and
- Increases productivity in key work areas.

Social Security Administration

Jo Anne B. Barnhart, Commissioner

www.ssa.gov 800–SSA–1213

Headquarters: Baltimore, Maryland

Number of Employees: 63,464

2002 Spending: $492.7 billion

Field Offices: 1,337

The Social Security Administration (SSA) promotes the economic security of the nation through disbursing America's major income support entitlements for the elderly, disabled, and their dependents. SSA manages the Old-Age, Survivors, and Disability Insurance (OASDI) programs, universally known as Social Security. SSA also administers the Supplemental Security Income (SSI) program for low-income aged and disabled individuals. In addition, the agency provides services that support the Medicare program on behalf of the Centers for Medicare and Medicaid Services.

Administering Benefits

SSA is responsible for paying around $40 billion in benefits to more than 50 million people every month, processing more than five million new claims for benefits each year, handling approximately 61 million phone calls to its 800-number, and issuing 136 million Social Security statements. Other activities include issuing Social Security numbers, maintaining earnings records for wage earners and self-employed individuals, updating beneficiary eligibility information, educating the public about programs, combating fraud, and conducting research, policy analysis, and program evaluation. These activities are largely integrated across the various programs that SSA administers.

The 2003 Budget includes resources to increase productivity in customer service areas while also redeploying staff to front-line customer service positions, thus improving performance in important areas as identified in the accompanying table.

Performance Measurements

Goal	2001	2002	2003
Percent of retirement claims processed within 14 days	83%	85%	88%
Percent of SSA's customer-initiated services available to customers either electronically via the Internet or through automated telephone service	21%	30%	40%
Percent of callers that access SSA's 800 number within five minutes of their first attempt	92%	92%	94%

Services for Persons with Disabilities. The Ticket to Work and Work Incentives Improvement Act of 1999 was designed to reduce barriers and increase incentives for individuals with disabilities to participate in the workforce. Ticket to Work makes it easier for disability beneficiaries to obtain employment services and lets them choose from a wider array of service providers. The program also provides for cooperative agreements and grant programs in each state for activities aimed at educating beneficiaries about available employment support services and helping them understand the work incentives built into the law. For example, one important incentive gives Disability Insurance (DI) beneficiaries the opportunity to test their ability to earn wages during a nine-month trial work period without affecting their eligibility for benefits.



The Ticket to Work program helps people with disabilities return to work.

As part of his New Freedom Initiative, the President supported swiftly implementing Ticket to Work. The program will be up and running in 13 states this year. SSA will expand Ticket to Work to all states and U.S. territories in 2003, and the program will be fully operational by early 2004. Over the long run, Ticket to Work is expected to increase the percentage of DI and SSI beneficiaries who are employed. Achieving this goal generates at least a three-way benefit. First, the federal government sees benefit payments to such persons drop. Second, the U.S. Treasury collects taxes on wages earned. More importantly, though, the beneficiaries return to the dignity and independence of work. The budget includes $40 million for SSA's return-to-work activities in 2003.

Stewardship

SSA conducts activities that at some point touch nearly everyone in America—including issuing Social Security numbers, maintaining earnings records that will later be used to calculate Social Security benefits, and administering the benefit programs. As such, SSA has an obligation to ensure

sound financial management of its programs, as well as accurate and reliable processes in other areas such as Social Security number issuance.

A crucial aspect of good management in income support programs is ensuring that only eligible individuals receive benefits, and that they receive benefits in the correct amount. SSA undertakes a variety of activities to minimize improper payments through means such as verifying beneficiaries' eligibility status, collecting debt, and investigating and deterring fraud. Despite these efforts, the SSI program, in particular, remains inherently vulnerable to payment error and consequently has been designated as a high-risk program by the General Accounting Office since 1997.

SSA has two major tools for ensuring payment accuracy: Continuing Disability Reviews (CDRs) and SSI non-disability redeterminations. The first does what its title implies to ensure that only those who remain disabled continue receiving benefits. Redeterminations are used to assess whether an SSI recipient continues to meet the financial eligibility requirements or has experienced a change of circumstances that would affect his or her monthly benefit amount.

Detecting and Preventing Payment Errors. The budget supports activities undertaken by SSA to ensure the integrity of records and payments. The Administration proposes a total of $1.05 billion for conducting CDRs and redeterminations for 2003. The amount for CDRs ($642 million) and redeterminations ($411 million) will enable SSA to conduct CDRs on schedule and increase the number of SSI redeterminations conducted by nine percent over the budgeted 2002 level. This level of funding will allow SSA to conduct almost 1.4 million CDRs and 2.5 million redeterminations in 2003. Approximately two out of every five SSI recipients will receive a redetermination in 2003 with this level of funding. SSA targets its redetermination effort on cases that are most likely to experience a change in eligibility, such as when a beneficiary's non-SSI income changes. SSA's experience shows $11 in program savings for each $1 invested in CDRs and approximately $7 in program savings from overpayments collected and prevented for each $1 invested in redeterminations.

Protecting Social Security Numbers. Social Security numbers (SSNs) themselves have taken on added importance as the SSN has become widely used as the key to a person's identity. Firms request SSNs for such basic activities as employment, opening a bank account, and applying for credit. Their value motivates unscrupulous individuals to fraudulently acquire and use them. To effectively reduce SSN fraud, SSA is reexamining its enumeration process to improve its ability to assess whether individuals applying for SSNs are who they say they are.

SSI Recipient Used Over 30 Aliases to Conceal His Identity

SSA's Inspector General investigated a man in 2001 who used multiple SSNs and identification documents to obtain SSA benefits under various aliases. During searches, investigators seized counterfeit identifications, SSN cards, and fake military documents. The evidence showed the man used 33 or more aliases, was a five-time convicted felon, and was a federal fugitive for 17 years.

The man, a career criminal, at various times posed as a firefighter, traffic investigator, animal control officer, Central Intelligence Agency agent, and U.S. Marine Corps officer. At times, he portrayed himself as a highly decorated combat veteran and former prisoner of war. He was incarcerated and ordered to pay $56,900 in restitution to SSA.

SSA has gotten more sophisticated at preventing SSN fraud. Software changes planned for 2002 and 2003 will interrupt the issuance of a card in cases where suspicious circumstances exist. Nevertheless, vulnerabilities remain, especially with regard to verifying some documents presented as identification. Working in partnership with other federal agencies, SSA will remain at the forefront of conquering any technological obstacles and institutional barriers that provide an opportunity for fraud to occur.

Strengthening Social Security For The Long Term

For more than 60 years, Social Security has provided retirement security for tens of millions of Americans. Yet, Social Security itself is showing signs of insecurity. Increasing life expectancies and falling birthrates have combined to put the current system on a path to insolvency. Social Security costs are projected to exceed annual cash revenues starting in 2016, and the gap between costs and revenues will continue to grow thereafter. Between 2016 and 2038, Social Security trust fund "balances"—consisting of debt the government owes itself—will make up the difference, although all this means is that general tax revenues will increasingly be tapped to pay benefits. After 2038, incoming Social Security revenue will only cover 73 percent of currently scheduled benefits.

The President appointed a bipartisan commission in May 2001 to develop recommendations to modernize and restore fiscal soundness to Social Security, based on the following principles:

- Modernization must not change Social Security benefits for retirees or near-retirees.
- The entire Social Security surplus must be dedicated to Social Security only.
- Social Security payroll taxes must not be increased.
- Government must not invest Social Security funds in the stock market.
- Modernization must preserve Social Security's disability and survivor components.
- Modernization must include individually controlled, voluntary personal retirement accounts, which will augment the Social Security safety net.

In December, the President's Commission to Strengthen Social Security released its analysis of the financial problems confronting Social Security and its recommendations for addressing them. The Commission determined that reforming Social Security to include personal retirement accounts would lead to better long run outcomes for future beneficiaries, the Social Security program, and the economy as a whole.

Highlights of Commission Findings

Personal accounts would increase retirement security because they would facilitate wealth creation for all participants. Establishing personal accounts in Social Security would advance a highly progressive principle: it would provide an opportunity for wealth creation to the approximately half of American households who save nothing in an average year after contributing 12.4 percent of their wages to support the Social Security system. In addition, personal accounts could add valuable protections for widows, divorced persons, low-income households and other Americans at risk of poverty in old age.

Asset ownership would lead to improved financial security by diversifying risk. Over the decades, lawmakers have changed the Social Security benefit formulas and payroll tax rates numerous times in response to fiscal conditions. Future Social Security benefit levels remain uncertain due to the

current projected funding shortfall in the program. Social Security participants could hedge against this political risk by holding some of their future retirement benefits in the form of personal accounts, to which they would have a legal right of ownership. Workers could invest their accounts as they saw fit, and those wishing to avoid market risk could invest exclusively in government securities.

Commission to Strengthen Social Security: Models for Reform

Model 1. Future retirees who remain wholly in the traditional Social Security system would potentially receive currently scheduled benefits, subject to future actions to restore solvency. Expected benefits for those who opt for personal accounts would be substantially higher. Option to redirect two percent of payroll taxes to personal account, in exchange for partial offset to defined benefit. No provision for additional revenues or other measures to maintain solvency, so future benefit levels are uncertain.

Model 2. Future retirees who remain wholly in the traditional Social Security system would receive defined benefits at least as high as today's retirees in real terms. Expected benefits for those who opt for personal accounts would be substantially higher. Higher benefits for survivors and lifelong low-wage workers. Option to redirect up to four percent of payroll taxes (capped at $1,000) to personal account, in exchange for partial offset to defined benefit. Temporary transfers of general revenues to the trust funds to maintain solvency.

Model 3. Future retirees who remain wholly in the traditional Social Security system would receive defined benefits higher than today's retirees in real terms, but less than currently scheduled benefits. Expected benefits for those who opt for personal accounts would be substantially higher. Higher benefits for survivors and lifelong low-wage workers. Larger reductions for early retirement. Option to redirect up to 2.5 percent of payroll taxes to personal account (capped at $1,000), conditional on 1 percent out-of-pocket contribution (subsidized for low-wage workers), in exchange for partial offset to defined benefit. Additional federal revenues dedicated to Social Security indefinitely to maintain solvency.

Benefit and Cost Projections under the Three Models

Under all three models, expected benefits would be substantially higher than those payable with current-law Social Security revenues. The accompanying table compares expected benefits and costs under the three models with currently scheduled Social Security defined benefits, which are slated to grow in real terms for future retirees because they are indexed to the average wage level. However, currently scheduled benefits are uncertain after 2038 because the system is underfunded. The cost of currently scheduled benefit obligations would exceed Social Security revenues by $4.2 trillion over the next 75 years.

The model benefit projections are not directly comparable to one another. For example, while Model 1's total benefits are higher than Model 2, the Model 1 defined benefit is subject to considerable uncertainty because additional actions would be required to maintain solvency. Models 2 and 3 each fully fund the system. Model 2 provides an expected combined benefit higher than currently scheduled benefits for most workers, at significantly less cost to taxpayers than maintaining currently scheduled benefits under the existing system. Model 3 benefits are higher than Model 2, because Model 3 explicitly requires more federal revenues, as well as additional out-of-pocket account contributions from workers that are not captured in the measure of federal costs.

Comparison of Costs and Benefits of Currently Scheduled Payments and Models for Reform

	Low Earner	Medium Earner	High Earner	
Currently scheduled benefits, 2052 (2001 dollars)				*New revenues needed* [1]
	$986	$1,628	$2,151	$4.2 trillion
Change in expected benefits, with account proceeds, 2052 [2]				*Change in new revenues needed* [3]
Model 1	+8.9%	+12.0%	+14.5%	+3.8%
Model 2	+15.0%	+2.4%	-4.4%	-45.0%
Model 3	+19.2%	+21.8%	+22.7%	-33.9% [4]

[1] Represents present value of the net cash flow required from the general fund over the next 75 years to pay currently scheduled benefits.

[2] Expected percent change from currently scheduled benefits for new retirees in 2052. Assumes accounts invested 50 percent equities, 50 percent bonds, purchase of variable annuity upon retirement.

[3] Represents difference from the additional revenues that would be needed in any year simply to meet currently scheduled benefits over the next 75 years.

[4] Excludes costs of out-of-pocket contributions and associated subsidy.

Partial advance funding should be a goal of any effort to strengthen Social Security. Advance funding would increase the nation's capital stock and productive capacity. This would increase the total economic resources available to support a large population of retirees and would reduce Social Security's financial burden on future generations. Advance funding should occur through personal accounts rather than government investment in private securities. Government investment would likely lead to inappropriate political interference in the market, inefficiency, and conflicts of interest.

A Social Security system with personal accounts would offer higher total expected benefits to individuals than a system without accounts, regardless of what other steps are taken to balance the system's finances. Personal accounts improve total expected benefits by giving workers the opportunity to realize the gains that come from returns on capital. The Commission presented three models for balancing Social Security's finances and incorporating personal accounts. The models differed with respect to the extent to which they addressed Social Security's fiscal imbalance. Under each model, individuals with accounts invested in a standard portfolio could expect higher total benefits than individuals without accounts.

Personal accounts can reduce the long-term cost growth of Social Security, thus improving its fiscal sustainability. Each of the reform models developed by the Commission would allow individuals to redirect part of their payroll tax revenue toward a personal account. In exchange for the opportunity to pursue higher returns, individuals would agree to forego the defined benefit that would have been financed by these payroll taxes assuming a low interest rate. As long as the personal account earned a return higher than that interest rate, both the individual and the Social Security system would come out ahead.

Social Security could be made fiscally sustainable in a number of ways, all of which would require some combination of changing the rate of benefit growth and committing additional revenues to the system generated by taxation or by the proceeds of investment. In the absence of personal accounts, the only choices are to increase taxes, slow the scheduled growth of benefits, or some combination of the two. Whatever measures are ultimately taken to produce a fiscally sustainable system, voluntary personal accounts improve the system by offering individuals the opportunity to pursue higher expected returns by investing in a low-cost, diversified portfolio.

Finally, the Commission recommended that the Congress and the President engage in a period of national discussion for at least one year to carefully consider the alternatives, as well as the consequences of inaction, and then take the appropriate steps to strengthen and modernize Social Security.

The full text of the Commission's report is available at *www.csss.gov.*

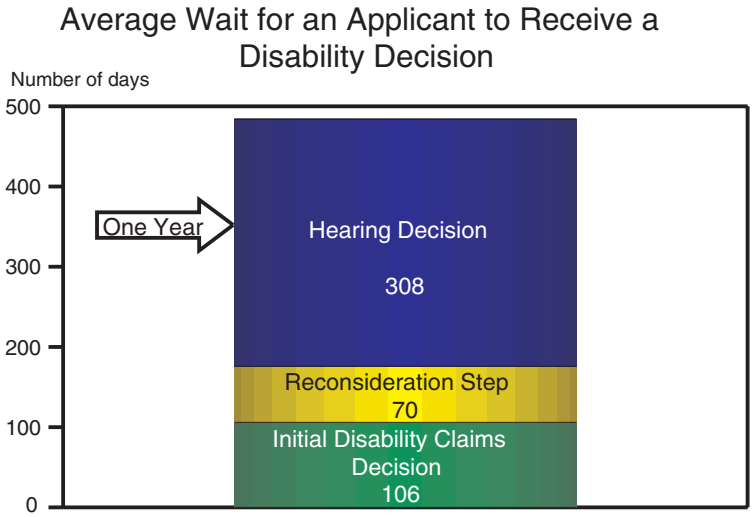
Improving Performance

Service Delivery Assessment

The Commissioner of Social Security is committed to assessing the level of service that SSA should be providing Americans, relate that to current service levels, and determine the necessary action to reach service delivery goals.

Disability Process Improvements

A long-standing management challenge for SSA has been the time and expense involved in processing claims for disability benefits, particularly appeals of unfavorable initial determinations. Initial claims are processed by state employees at state disability determination service agencies fully funded by SSA. In 2001, the average processing time for initial claims was 106 days, or about three and a half months. For those whose claims are denied, hearings are conducted by SSA's Office of Hearings and Appeals (OHA). Applicants requesting a hearing waited an average of another 10 months in 2001 for OHA to return with a decision (see accompanying chart).



Note: Claimant may receive a favorable decision before the final step.

Source: Social Security Administration.

The disability determination process is inherently complex. It involves the collection and evaluation of medical and other evidence from the claimant, physicians, and sometimes from employers or other individuals who may have information about the claimant's impairments or ability to work. SSA is exploring ways to automate the transmission and storage of case files, but

the process remains largely paper driven. Fragmentation across SSA's field offices, state agencies, and OHA also contributes to long processing times.

SSA periodically has investigated ways to reduce disability processing times. The most recent effort began in the mid-1990s and has not achieved expected results. The number of disability claims is expected to rise substantially in coming years, as the Baby Boom generation reaches the ages at which the incidence of disability increases. It is imperative that SSA develop the capacity to efficiently manage these workloads. SSA will examine potential process reforms that would use administrative resources more efficiently and improve management controls. The budget commits to reducing processing times for initial disability claims by five days in 2003.

The budget also proposes a management improvement by establishing a standard for accuracy in SSI disability awards identical to that which applies to Social Security Disability Insurance.

Leveraging Technology

SSA anticipates moderate increases in its workloads over the next five years and then considerable increases as the post-World War II Baby Boom generation enters retirement starting in 2008. Unless SSA improves upon its current business processes by investing in and making use of technology improvements, resources may not be able to meet workload demands over the next 10 years. When combined with procedural changes, exploiting the full potential of information technology will allow SSA to handle the workload increases and improve customer service without increases in staff.

21st Century Communication. SSA is developing a strategy to encourage citizens to interact with the agency in the most cost-effective manner possible, particularly through the Internet or SSA's 800-number. SSA has made progress in recent years, especially in its Internet presence. The agency has rapidly expanded the types of online interactions that customers can conduct, such as filing claims for retirement benefits over the Internet.

However, SSA remains a paper-driven agency. Only 3.5 percent of retirement claims are handled over the Internet at this time, and other online services also experience low utilization rates. SSA is developing aggressive outreach efforts to educate SSA customers about their options and encourage them to interact with the agency through electronic means when possible. Since there are situations which require an in-person visit to a local field office, and some customers prefer to conduct their business in person, the option to visit a field office will remain available. However, most routine transactions for those who have Internet access could be handled at lower cost to the agency and greater convenience to the public through electronic means. SSA will establish performance goals for the number of business transactions to be conducted via the Internet and through automated telephone service. This information will be included in performance and accountability reports as a performance indicator.

SSA's goal is to have 40 percent of customer-initiated services available either via the Internet or through automated telephone service in 2003, rising to 67 percent by 2005. The President's Budget provides $688 million in 2003 for SSA information technology, which will allow the agency to maintain its existing technology infrastructure as well as expand its Internet services, improve security capabilities, support electronic wage reporting by employers, and make a variety of other improvements.

Strengthening Management

SSA has made progress in implementing several components of the President's Management Agenda. In the area of financial management, SSA has already eliminated many of the serious deficiencies seen in most government agencies. Specifically, SSA is one of only four agencies that has received unqualified opinions on its financial audits since the agency first began submitting them in 1996. The scorecard below establishes how SSA stood in 2001 against the standards for success in each initiative. While the agency received one of the best evaluations overall, there are areas for improvement. The plans to improve management are identified in each of the management agenda sections.

Initiative	2001 Status
Human Capital—SSA has reduced its supervisor to employee ratio from 1:8 in 1990 to its current level of 1:14, which is one of the lowest percentages of the 23 largest federal agencies. In addition, from 1990 to 2001, SSA increased the number of front-line workers by over 5,000 while its workforce shrank two percent. However, given the expected future workloads and the state of customer service, there is a compelling argument for additional redeployment of staff to front-line positions.	
Competitive Sourcing—While SSA identifies 19 percent of its workforce as performing commercial tasks, there remain significant additional positions to be classified as commercial. SSA will implement a management plan for increasing competitive sourcing that identifies by function and location the competitions or direct conversions to be conducted as well as a time line for when and how they will take place. The management and competition plan will describe the strategies used to ensure that at least five percent of commercial positions will be competed or directly converted in 2002, and that SSA will compete or directly convert at least 15 percent of the commercial positions by 2003 to meet the Administration's two-year goal in a broader effort to eventually compete at least 50 percent of all commercial activities.	
Financial Management—In 2001, SSA received an unqualified audit opinion on its financial statements, and its accounting and internal control systems met federal standards. However, SSA does not have fully integrated financial and operating management systems, which support day to day decision making. SSA is on track to integrating its financial and performance management system, and will continue to integrate them through implementation of a new cost accounting system in 2002. Another key performance area is reducing erroneous payments. The problem plagues the agency's Supplemental Security Income (SSI) program, which remains a high-risk program due to improper payments. In recent years, SSA has increased its funding for initiatives focused on identifying erroneous payments. The 2003 Budget will enable SSA to increase SSI non-disability redeterminations by nine percent and achieve a payment accuracy rate of 94.7 percent.	

Initiative	2001 Status
E-Government—SSA has a broad strategic goal of attaining a paperless environment by 2010. SSA has taken constructive steps in the last two years by rapidly expanding online customer service options. These include retirement claims, Medicare replacement cards, online "account" status, access to change one's address and telephone number, and direct deposit. Despite these new services, SSA remains a paper-driven agency that still relies on moving claims folders from one site to the next for processing. To address this issue, SSA will give high priority to E-Government projects that will result in large productivity increases by improving the business process, such as with the "e-dib" project. This is a paperless process centered on employees sharing an electronic folder in a secure environment to review disability beneficiaries' files. SSA's capital planning process has improved markedly over the last two years. However, SSA will improve its risk management assessment, set performance goals associated with specific information technology (IT) projects, and develop a cost-tracking system that consolidates cost information for IT projects.	
Budget/Performance Integration—SSA has a wide range of performance measures for the various activities the agency conducts. However, SSA needs to strengthen the linkage between performance and funding. Currently, SSA's budget relates funding to outputs, by calculating the workforce it needs to process all of the work it expects to receive at given production rates, taking account of planned efficiencies and other changes. Only in a few activities (Continuing Disability Reviews and SSI Redeterminations) does SSA have costs specifically aligned with outcome measures. SSA will improve its ability to present a performance budget that permits direct comparisons between incremental budgeted amounts and outcomes in specific activities.	

Social Security Administration

(In millions of dollars)

	2001 Actual	Estimate 2002	Estimate 2003
Spending:			
Discretionary Budget Authority:			
Limitation on Administrative Expenses (LAE) [1]	7,448	7,907	8,283
Office of the Inspector General	72	79	87
Research and Development	23	30	23
Subtotal, Discretionary budget authority adjusted [2]	7,543	8,016	8,393
Remove contingent adjustments	–327	–343	–350
Total, Discretionary budget authority	7,216	7,673	8,043
Emergency Response Fund, Budgetary resources	—	8	—
Mandatory Outlays:			
Old-age, Survivors, and Disability Insurance	429,451	455,423	471,848
Supplemental Security Income	27,481	31,322	32,469
Special Benefits for Disabled Coal Miners			
Existing law	486	454	420
Legislative proposal	—	—	–420
Special Benefits for Certain World War II Veterans	7	9	9
Offsetting Collections	–1,692	–1,368	–1,880
Undistributed Offsetting Receipts	–7,910	–9,243	–9,564
Total, Mandatory outlays	447,823	476,597	492,882

[1] The LAE account includes funding from the Hospital Insurance and Supplementary Medical Insurance trust funds for services that support the Medicare program.

[2] Adjusted to include the full share of accruing employee pensions and annuitants health benefits. For more information, see Chapter 14, "Preview Report," in *Analytical Perspectives*.

FEDERAL DRUG CONTROL PROGRAMS

The President's Proposal:

- Focuses on preventing drug use before it starts, through education and community action;
- Increases support for treatment and prevention programs;
- Disrupts the drug market by attacking the economic basis of the drug trade; and
- Emphasizes performance, not business as usual.

The Office of National Drug Control Policy (ONDCP), which is part of the Executive Office of the President, is responsible for developing the government-wide National Drug Control Strategy and the budget that supports it. This strategy involves most of the major Cabinet Departments and encompasses programs that attempt to prevent the use of drugs, treat those who are addicted to illegal substances, enforce the nation's drug laws, interdict drugs before they reach the American border, and help other nations eliminate the production of illegal drugs. ONDCP also is directly responsible for four drug control programs, with funding totaling close to $500 million.

Overview

Although some progress in reducing drug use has been made, the record is clearly mixed. Use of illegal drugs by youths fell substantially between 1979 and 1992, but has increased since then. Among persons 18 and older, and among adolescents and young adults, reported use dropped over a 20-year period, but has not dropped significantly since the early 1990s.

Yet costs associated with drug use, such as incarceration, illness, and premature death, continue to rise and are estimated to exceed $160 billion annually. Despite substantial spending by all levels of government, and concerted efforts of parents, friends, schools, and faith-based organizations, drug use in the United States remains unacceptably high and imposes considerable costs on society. One part of the problem is reflected in the way the federal government confronts the drug problem. Much of the $19 billion spent in 2002 in the name of drug control actually reflects the failure of our drug efforts by funding the consequences of drug use.

A Greater Emphasis on Education and Community Action

> *Above all, we must reduce drug use for one great moral reason: over time, drugs rob men and women and children of their dignity and character. Illegal drugs are the enemies of ambition and hope. And when we fight against drugs, we fight for the souls of our fellow Americans.*
>
> President George W. Bush
> December 14, 2001

The President believes the most effective way to reduce the supply of drugs in America is to reduce the demand for drugs in America by stopping drug use before it starts. The President's Budget recognizes the central role of prevention in reducing drug use and the budget this year provides funding for several major efforts.

More than anything else, prevention means sending a consistent message. Two examples are the National Youth Anti-Drug Media Campaign and the Drug-Free Communities Program. The President's Budget includes $180 million for the media campaign, which attempts to educate young people about drug use and its consequences through targeted, paid messages in both the traditional mass media and on other media like the Internet. The Drug-Free Communities program, funded at $60 million in 2003, furnishes matching grants to local anti-drug coalitions trying to prevent the illegal use of drugs, alcohol, and tobacco by youth.

Disrupting the Market: Attacking the Economic Basis of the Drug Trade

Local efforts by themselves are not enough. Disrupting the drug trade remains an essential part of the federal government's approach to drug control. It is a two-front campaign. Internationally, disrupting the drug trade includes tracking and stopping aircraft and ships attempting to smuggle illegal drugs into the United States, cooperative efforts with other nations to dismantle drug production facilities, taking apart drug trafficking and money laundering organizations, and building the political and legal institutions to deter future drug trafficking.

A key component of this effort is the Andean Counterdrug Initiative. The President's Budget includes $731 million for this initiative, $106 million more than enacted in 2002. This funding request continues programs to aid law enforcement in the Andean region, including the operations and maintenance of the Colombian National Police and Army Counternarcotics Brigade. More details on the Andean Counterdrug Initiative can be found in the Department of State and International Assistance Programs chapter.

Increasing Support for Drug Treatment

When prevention and enforcement efforts fail, we must treat those who abuse drugs. There are approximately five million heavy users of illegal drugs in America today—one-third of whom ingest two-thirds of all drugs. In order to help those seeking treatment, the President has made increasing drug treatment a priority. The President's Budget proposes an increase of nearly $110 million for the Substance Abuse and Mental Health Services Administration's Targeted Capacity Expansion program, which is designed to support a rapid response to emerging trends in substance abuse. It also includes a $60 million increase for the Substance Abuse Prevention and Treatment Block Grant, which will provide additional funding to states for treatment and prevention services.

However, the majority of those who need treatment do not seek it voluntarily, and for that reason, $77 million is proposed for the Residential Substance Abuse Treatment (RSAT) program. RSAT distributes funds to states that support drug and alcohol treatment in state correctional systems. The budget also proposes $52 million for the Drug Courts program, which uses the courts' authority to force abstinence from drugs and to alter behavior with escalating sanctions, mandatory drug testing, treatment, and strong aftercare programs.

Emphasizing Performance

The President has committed the federal government to manage by results, and nowhere is the need for improved management greater than in federal drug control efforts. For example, the effectiveness of the Safe and Drug-Free Schools program has been questioned. While laudable in its goals, a recent Rand report on the program found that the locally-designed initiatives "are rarely based on proven models," and concluded that the program has not been credibly evaluated. To improve evaluation and better direct program activities in 2003, the Department of Education will develop an evaluation plan for these grants, one that will impose program accountability, while alerting schools to problem areas.

The High Intensity Drug Trafficking Areas (HIDTA) program was set up so that law enforcement agencies could zero in on areas designated by ONDCP as "centers" of major drug production, manufacturing, importation, or distribution. The program has grown from the five original HIDTAs of a decade ago to 28 HIDTAs currently. Much of the increase in the HIDTA program is the result of congressional direction of funds to specific HIDTAs. However, there are questions about whether some of these areas deserve to be designated as HIDTAs. No systematic evaluation of the HIDTA program has been conducted and no credible performance measures have been developed. The budget proposes $206 million for HIDTAs, a reduction of $20 million from the 2002 enacted level, and provides funding to measure performance.

ONDCP will continue the work to bring accountability to drug control programs through better performance measurements. Right now, the national program has a Performance Measures of Effectiveness (PME) system with five goals, 31 objectives, and nearly 100 performance targets. The Administration will carefully examine this system and its complex relationships to determine what fundamental changes and adjustments should be made. In arraying so much detail, this system obscures the fundamental aim of the Drug Strategy—to reduce drug use in America. Therefore, as an additional management reform, ONDCP will judge the overall success of the National Drug Control Program by focusing on two specific two-year and five-year goals, using as a baseline the 2000 National Household Survey on Drug Abuse.

Principal Goals of the National Drug Control Program

Two-Year Goals:

Reduce current drug use by 10 percent for ages 12–17 and for persons ages 18 and up.

Five-Year Goals:

Reduce current drug use by 25 percent for ages 12–17 and for persons ages 18 and up.

Restructuring the Drug Control Budget

To bring greater accountability to drug control efforts, the Administration will propose a significant restructuring of the drug control budget. The national drug control budget includes close to 50 budget accounts totaling $19 billion for 2003. Recent independent analyses commissioned by ONDCP, as well as ongoing, required reviews by Inspectors General, have identified weaknesses in the methodologies agencies use to measure drug control spending. These budgets are imprecise and often have only a weak association with core drug control missions. Reform of the national drug control budget is needed.

In the coming months, the Administration will develop a new way to report the drug control budget, based on the following guidelines:

- all funding items displayed in the drug control budget should be readily identifiable line items in the President's Budget or agency budget justifications; and
- the budget presentation should be simplified by eliminating several supporting agencies from the drug control budget tabulation. Only agencies with a primary supply reduction or demand reduction mission would be displayed in the drug control budget. Agencies with no or little direct involvement in drug control would be excluded from the revised drug control budget presentation.

The aim is to distinguish between funding for drug control efforts and funding for the consequences of drug use. It is the first category, drug control, that should be strengthened and emphasized. The second category, consequences of drug abuse, simply catalogues our policy failures. We should not confuse large expenditures on this second category with effective action against drug abuse.

This stricter definition of drug control is likely to reduce dramatically the federal funding deemed to represent drug control funding, but in fact represents a renewed federal commitment to actually reducing drug use. For example, the traditional methodology used in the accompanying table shows 2003 drug spending of $19.2 billion. The new methodology, when applied to this estimate, might show annual drug control spending to be several billion dollars less. This presentational change, while dramatically lowering the amount of funding attributed to the drug control budget, will not have a negative effect on federal drug control efforts. In fact, it will improve those efforts by focusing on managing programs genuinely directed at reducing drug use. The proposed methodological changes will be discussed more fully in the 2002 National Drug Control Strategy, and will be shared with the Congress and key stakeholders in the coming months. The 2004 Budget will show the changes in full.

Federal Drug Control Funding by Agency

(Budget authority, dollar amount in millions)

	2001 Actual	2002 Enacted	2003 Request	Change 2002- 2003 Dollar	Change 2002- 2003 Percent
Department of Agriculture:					
Agricultural Research Service	5	5	5	—	—
U.S. Forest Service	6	7	7	—	—
Special Supplemental Nutrition Program for Women, Infants and Children	16	18	19	1	8%
Total, Agriculture	27	29	31	1	5%
Corporation for National and Community Service	9	9	14	5	53%
DC Court Services and Offender Supervision	59	86	82	-4	-5%
Department of Defense:					
Counterdrug Operations	1,047	998	999	1	*
Plan Colombia/Andean Regional Initiative	103	11	—	-11	-100%
Total, Defense	1,150	1,009	999	-10	-1%
Intelligence Community Management Account	34	43	34	-9	-20%
Department of Education	634	660	635	-25	-4%
Deptartment of Health and Human Services (HHS):					
Administration for Children and Families	83	90	91	1	1%
Centers for Disease Control and Prevention	224	225	225	*	*
Centers for Medicare and Medicaid Services	500	560	620	60	11%
Health Resources and Services Administration	46	47	47	—	—
Indian Health Service	60	62	63	1	2%
National Institutes of Health (NIDA & NIAAA)	823	933	994	61	7%
Substance Abuse and Mental Health Services Administration	1,655	1,766	1,820	54	3%
Total, HHS	3,390	3,684	3,860	176	5%
Deptartment of Housing and Urban Development	309	9	9	—	—
Department of the Interior:					
Bureau of Indian Affairs	23	23	23	*	*
Bureau of Land Management	5	5	5	—	—
U.S. Fish and Wildlife Service	2	1	1	—	—
National Park Service	10	10	10	*	1%
Total, Department of the Interior	39	39	39	*	1%
The Judiciary	757	820	921	101	12%
Department of Justice:					
Assets Forfeiture Fund	440	360	430	70	19%
U.S. Attorneys	228	245	254	10	4%
Bureau of Prisons	2,342	2,525	2,443	-82	-3%
Community Policing	375	427	653	226	53%
Criminal Division	35	38	39	1	2%
Drug Enforcement Administration	1,480	1,605	1,699	93	6%
Federal Bureau of Investigation	707	416	421	6	1%
Federal Prisoner Detention	376	429	464	35	8%
Immigration and Naturalization Service	525	538	713	175	33%
Interagency Crime and Drug Enforcement	325	339	362	24	7%
INTERPOL	*	*	*	*	4%
U.S. Marshals Service	224	255	278	23	9%
Office of Justice Programs	1,017	963	309	-653	-68%
Tax Division	*	*	*	*	5%
Total, Department of Justice	8,074	8,140	8,067	-74	-1%

Federal Drug Control Funding by Agency—Continued

(Budget authority, dollar amount in millions)

	2001 Actual	2002 Enacted	2003 Request	Change 2002- 2003 Dollar	Change 2002- 2003 Percent
Department of Labor	79	79	79	*	*
Office of National Drug Control Policy:					
Operations (ONDCP)	25	25	25	*	1%
High Intensity Drug Trafficking Areas	208	226	206	-20	-9%
Counterdrug Technology Assessment Center	36	42	40	-2	-5%
Special Forfeiture Fund	233	239	251	12	5%
Total, ONDCP	502	533	523	-10	-2%
Small Business Administration	4	3	3	—	—
Department of State:					
Bureau of International Narcotics and Law Enforcement (INL)					
International Narcotics Control	279	198	152	-45	-23%
Plan Colombia/Andean Regional Initiative	—	625	731	106	17%
Subtotal, INL	279	823	883	61	7%
Emergencies in the Diplomatic and Consular Service	2	1	3	2	150%
Public Diplomacy	9	9	10	*	4%
Total, Department of State	290	833	895	63	8%
Department of Transportation:					
U.S. Coast Guard	745	540	629	89	16%
Federal Aviation Administration	20	19	20	1	6%
National Highway Traffic Safety Administration	30	32	32	*	1%
Total, Department of Transportation	796	591	682	90	15%
Department of the Treasury:					
Bureau of Alcohol, Tobacco, and Firearms	165	185	199	14	7%
U.S. Customs Service	708	995	996	1	*
Federal Law Enforcement Training Center	32	35	30	-5	-15%
Financial Crimes Enforcement Network	11	12	13	1	7%
Interagency Crime and Drug Enforcement	103	108	108	—	—
Internal Revenue Service	51	39	42	3	7%
U.S. Secret Service	22	26	31	5	17%
Treasury Forfeiture Fund	170	146	146	*	*
Total, Department of the Treasury	1,262	1,547	1,565	18	1%
Department of Veterans Affairs	681	709	742	32	5%
Total, Federal Drug Control Funding	18,095	18,823	19,180	357	2%

Notes: 2002 and 2003 data are preliminary.

*Less than $500 thousand or 0.5 percent.

OTHER AGENCIES

COMMODITY FUTURES TRADING COMMISSION

The Commodity Futures Trading Commission (CFTC) regulates U.S. futures and options markets. It strives to protect investors by preventing fraud and abuse and ensuring adequate disclosure of information. The President's Budget includes a proposed fee on each round-turn commodities futures and options transaction. The fee will be phased in during 2003. This proposal recognizes that market participants derive direct benefits from the CFTC's oversight, which provides legal certainty and contributes to the integrity and soundness of the markets. The 2003 Budget provides $83 million to fund mission critical activities (e.g., enforcement and market surveillance) and to strengthen U.S. competitiveness, as required by the Commodity Futures Modernization Act of 2001.

In 2003, the CFTC will work to review every contract market designation application and derivatives transaction execution facility registration application within 30 to 60 days and respond to applicant exchanges with a notification letter. CFTC also will review requests for approval of products and rule changes and respond to trading exchanges (e.g., Chicago Board of Trade) in writing within 90 days.

CONSUMER PRODUCT SAFETY COMMISSION

The primary responsibility of the Consumer Product Safety Commission (CPSC) is to protect the public from unreasonable risk of injury connected with consumer products. CPSC also helps develop uniform safety standards for consumer products, and conducts and promotes research into preventing product-related deaths, injuries, or illness.

A substantial portion of the CPSC's work focuses on decreasing fire hazards linked to consumer products and on reducing head injuries to children. CPSC's programs have helped drive down home fire death rates from consumer products by 46 percent since 1985, and head injury rates for children by 15 percent since 1986.

The Commission carries out its mission by emphasizing voluntary standards first, moving to mandatory standards only when necessary. CPSC also seeks to obtain major product recalls cooperatively with industry. It works actively with industry leaders to promote good product safety practices through conferences, special events, and expanded use of its toll-free hotline, 1–800–638–2772 and its website, *www.cpsc.gov*.

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

The Corporation for National and Community Service (CNCS) provides service opportunities for more than 1.5 million Americans in educational, public safety, and environmental activities through programs such as AmeriCorps and the National Senior Service Corps (NSSC). CNCS and its service opportunities are key components of the Administration's USA Freedom Corps—a



new initiative to engage citizens in promoting homeland security and civic volunteering at home and abroad. The budget requests $1,035 million, a $299 million or 41-percent increase, for the Corporation to support 75,000 AmeriCorps members, strengthen homeland security efforts, and expand service opportunities for an additional 100,000 seniors. This includes support for some 6,300 AmeriCorps VISTA members to provide outreach and technical assistance to community and faith-based organizations.

National Service and Homeland Security. Since the attacks of September 11th, the President has encouraged all Americans to help fight terrorism on the home front by "making a commitment of service in our own communities." The budget includes $118 million across all CNCS programs to support these efforts. It also places senior citizens and other volunteers in community activities to strengthen homeland security. CNCS will furnish grants to states and community organizations to support and mobilize volunteers in public safety, public health, disaster relief and preparedness.

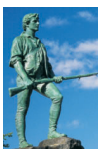
Expanding Opportunities for Service Through AmeriCorps. The AmeriCorps program enables Americans of all backgrounds to serve in local communities through programs sponsored by nonprofit organizations. The 2003 Budget includes an increase of $230 million to support an additional 25,000 AmeriCorps members. The Corporation's programs will support community-service organizations in meeting local needs and will conduct activities to promote public safety, public health, and emergency preparedness. The budget also includes $10 million for challenge grants for teaching and other national service programs under section 126 of the National and Community Service Act, where private sources provide at least 50 percent of funds required to operate the program.

Senior Service and Special Volunteer Programs. The National Senior Service Corps (NSSC) uses the talents of more than 500,000 older Americans to meet a wide range of community needs. Consisting of the Retired and Senior Volunteer Program, the Foster Grandparent Program, and the Senior Companion Program, the NSSC serves young people with special needs, helps seniors live independently in their homes, and provides support services to youth ex-offenders. The budget includes $213 million for the NSSC, a $6 million increase over 2002 and the second step of the President's five-year strategy to increase annual funding for the Senior Corps to $250 million over five years. In addition, the budget proposes $55 million for Special Volunteer Programs to provide service opportunities for an additional 100,000 seniors, including activities in homeland security and a new Parent Drugs Corps.

DISTRICT OF COLUMBIA

The nation's capital city faces new and unique challenges following the events of September 11th. The President's Budget provides additional federal funding to support the District of Columbia's public safety response to events directly related to the federal government's presence in the District. The Congress provided $200 million in 2002 to help the District address immediate security needs arising from the September 11th attacks. The 2003 Budget adds to these resources by proposing $15 million to support the District's role in homeland security.

The budget continues to support the D.C. Resident Tuition Assistance program with $17 million in funding. The program was started in 1999 and allows District residents to attend public colleges nationwide at in-state tuition rates and to receive grants to attend private colleges in the D.C. area. This program is intended to ensure that D.C. residents have the same access to postsecondary education as residents of states. The budget also proposes $1 million for Transportation Systems



Management to implement recommendations in the National Capital Planning Commission's October 2001 report.

DISTRICT OF COLUMBIA COURTS

The District of Columbia Courts receive funding from the federal government under the 1997 National Capital Revitalization and Self-Government Improvement Act. In 2002, a new Family Court of the D.C. Superior Court was created, which provides increased coordination and continuity for child- and family-related cases. The President's Budget provides $191 million to the D.C. Courts, including funding to increase staffing for the Family Court Division. This funding includes $32 million to address long-term capital infrastructure needs associated with the expansion of the Family Court Division and overall deterioration of the D.C. Court facilities.

EQUAL EMPLOYMENT OPPORTUNITY COMMISSION

The Equal Employment Opportunity Commission (EEOC) works to enforce laws that prohibit employment discrimination based on race, sex, religion, national origin, age, or disability. The EEOC sets out to enforce the nation's equal employment laws through selective litigation, mediation, and alternative dispute resolution. Beyond enforcement, EEOC strives to prevent employment discrimination through outreach, training, and technical assistance to promote employer compliance.

The 2003 Budget provides $324 million for EEOC. The budget reflects efficiencies that EEOC expects to realize through workforce restructuring and a reduction of decision-making layers to serve citizens more cost effectively. The budget will enable EEOC to continue to reduce its case backlog. The budget also includes $30 million for state, local, and tribal fair employment and more than $15 million for critical information technology improvements.

EXECUTIVE OFFICE OF THE PRESIDENT

The Executive Office of the President (EOP) encompasses a number of offices, councils, and accounts dedicated to serving the President. As part of the 2003 Budget, the Administration is requesting a consolidation and financial realignment for the EOP. The initiative would consolidate the 12 individual annual appropriations for the salaries and expense accounts for the EOP agencies and fund them with a single appropriation. It would consolidate the resources for common acquisition-related goods and services into the EOP's Office of Administration, including the Vice President's needs.

This proposal would give the President maximum flexibility in allocating resources and staff in support of his office and is intended to: permit a more rapid response to changing needs and priorities; allow the President to address emergent national needs; produce greater economies of scale and other efficiencies in procuring goods and services; and enhance accountability for performance.

This initiative would enable the President to effectively manage and align EOP resources consistent with decision-making in an efficient and straightforward manner, while enhancing the accuracy of the financial systems and significantly reducing the administrative volume and cost of processing transactions through the U.S. Treasury. This initiative is carefully crafted to properly



support the President and the Vice President separately as the two senior constitutional officers of the Executive Branch, while achieving substantial efficiencies.

Resources requested for the EOP in 2003 are $336 million. These resources will support approximately 2,000 personnel, information technology, and other infrastructure needs to serve the President and the Vice President. The EOP budget also includes new funding for the USA Freedom Corps. While the 2003 request is above the 2002 enacted level, the entire increase is due to additional homeland security requirements. These homeland security expenses include the establishment of the Office of Homeland Security and a separate counter-terrorism directorate in the National Security Council, and the costs associated with ensuring the security of the President, the Vice President, and the staff that serve them. If homeland security expenses are excluded, the budget for the EOP grows by less than the rate of inflation.

FEDERAL COMMUNICATIONS COMMISSION

The President's Budget requests an appropriated spending level of $278 million for the Federal Communications Commission (FCC), $248 million of which will be offset by regulatory fees. This funding level supports increased efficiency in the FCC's work processes through information technology investments and the FCC's Excellence in Engineering initiative. The FCC works to encourage a fully competitive marketplace in communications and to promote affordable communications services for all Americans. Through more efficient licensing, the FCC will ensure more rapid introduction of new services and technologies. In 2003, the FCC will complete 95 percent of its licensing activities for communications services within agency-established timeframes for each activity, such as 90 days from license application to issuance for wireless services. Also, 85 percent of all FCC applications will be filed electronically.

In 1993, the President and the Congress gave the FCC authority to assign spectrum licenses through competitive bidding, which has proven to be an efficient and effective way to allocate this finite public resource. Upcoming spectrum auctions are expected to generate more than $25 billion over the next five years.

The Administration will propose legislation to provide more certainty in upcoming auctions. The legislation will establish a framework for the FCC to develop regulations that promote clearing the spectrum in television channels 60–69 (747–762 and 777–792 MHz) for new wireless services in an effective and equitable manner. Such legislation also would shift the statutory deadlines for the auction of channels 60–69 from the elapsed 2000 date to 2004 and for the auction of channels 52–59 (698–746 MHz) from 2002 to 2006. Providing more certainty about how and when the spectrum in channels 60-69 will become available to new entrants and shifting the deadlines for both auctions would increase expected revenues by $6.7 billion.

To facilitate the clearing of analog television broadcast spectrum and provide taxpayers some compensation for use of this scarce resource, the Administration will propose legislation authorizing the FCC to establish an annual lease fee totaling $500 million for the use of analog spectrum by commercial broadcasters beginning in 2007. Upon return of their analog spectrum license to the FCC, individual broadcasters will be exempt from the fee.

FEDERAL DEPOSIT INSURANCE

The purpose of deposit insurance is to maintain stability and public confidence in the nation's financial system. Federal deposit insurance, offered by the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Administration (NCUA), is designed to protect depositors against losses from failures of insured commercial banks, thrifts (savings institutions), and credit unions. Individual deposits up to $100,000 are covered in virtually all U.S. banks, savings associations, and credit unions.

Currently, the federal government insures more than $3 trillion in deposits at more than 20,000 institutions through the FDIC and NCUA. These agencies maintain insurance reserves to use when resolving failed institutions. The FDIC and the NCUA fund these reserves through assessments on insured institutions, recoveries of assets liquidated from failed institutions, and interest earned on these reserves in U.S. Treasury securities.

The Administration is developing proposals to strengthen the deposit insurance system that draws on the framework released by the FDIC under former Chairwoman Donna Tanoue in April 2001.

- The FDIC has been prohibited from charging premiums to "well capitalized" institutions since 1996. Therefore, under the current pricing structure, only seven percent of banks and 11 percent of thrifts pay regular insurance premiums. The framework would have all institutions pay at least a nominal amount for federal deposit insurance and would assess new deposits.
- Under the current system, the FDIC is required to maintain a designated reserve ratio (DRR, the ratio of insurance fund reserves to total insured deposits) of 1.25 percent. If the DRR falls below 1.25 percent, all institutions could be required to pay premiums averaging 23 basis points if the DRR cannot be restored to 1.25 percent within a year. This current structure requires institutions to face a cliff of high premium payments when they are weakest. The FDIC framework would replace the current fixed reserve ratio with a flexible range.

The framework would merge the bank and thrift funds, which offer an identical product. A merged fund would be stronger and better diversified than either fund standing alone. Additionally, given that many institutions currently hold both bank- and thrift-insured deposits, merging the funds would eliminate the need to track bank and thrift deposits separately and would help streamline mergers and acquisitions.

FEDERAL ELECTION COMMISSION

The Federal Election Commission (FEC) has jurisdiction over the financing of election campaigns for the U.S. House of Representatives, the U.S. Senate, the Presidency, and the Vice Presidency. The FEC is composed of six commissioners, appointed by the President and confirmed by the Senate. The FEC discloses campaign finance information, enforces limits and prohibitions on contributions, and oversees the public funding of Presidential elections. The President's Budget includes $47.0 million for 2003, $3.0 million more than 2002, to allow the FEC to meet its increasing workload.

FEDERAL TRADE COMMISSION

The Federal Trade Commission (FTC) enforces various consumer protection and antitrust laws that prohibit business practices that are anticompetitive, deceptive, or unfair to consumers. The FTC also works to promote informed consumer choice and public understanding of the competitive process,

seeking to accomplish this mission without impeding legitimate business activity. The proposed 2003 operating budget of $177 million is more than offset by anticipated fee collections.

In 2003, the FTC will expand its contribution to the Administration's consumer privacy agenda by helping victims of ID theft, increasing enforcement and outreach on children's online privacy, and increasing enforcement against "spam." It will also seek to establish a national "do-not-call" list that would protect consumers from unwanted and intrusive telemarketing calls, and bring nationwide consistency to the current patchwork of lists administered by states and the private sector.

GENERAL SERVICES ADMINISTRATION

The mission of the General Services Administration (GSA) is to help federal agencies better serve the public by offering at best value: quality workplaces, expert solutions, acquisition services, and management policies. For 2003, GSA is proposing six agency-wide strategic goals: 1) provide best value for federal agencies; 2) achieve responsible asset management; 3) operate efficiently and effectively; 4) ensure financial accountability; 5) maintain a world-class workforce and workplace; and 6) help federal agencies comply with their social, environmental, and other administrative responsibilities. GSA has recognized previous shortcomings in its ability to measure the achievement of its strategic goals and has begun to build and implement a new Performance Management Process. This new process will include performance measures beyond the traditional measures of customer satisfaction, such as performance against customer expectations and industry and government benchmarks for quality, timeliness, cost, and return on investment. Data gathering and reporting systems will be improved to present the performance of GSA's business lines and to show its policy role in helping agencies improve the management of administrative activities.

Most of GSA's employees provide or procure commercial services for other federal agencies on a reimbursable or fee-for-service basis. Since GSA operates a collection of business-like services, it has significant opportunities to improve its overall performance by subjecting its activities to market-based competition. By the end of 2003, GSA will have conducted such competitions for at least 15 percent of its "commercial activities" workforce.

The 2003 Budget also recognizes GSA as operator of the official federal portal for providing citizens with one-stop access to federal services via the Internet or telephone. This is a key element of the President's vision for expanding electronic government (E-Gov). The E-Gov initiative will improve the value of the federal government to its citizens, just as American industry has learned to use the Internet to improve efficiency and customer service. Full implementation of the President's E-Gov vision will also require cross-agency approaches that permit citizens, businesses, and state and local governments to easily obtain services from and electronically transact business with the federal government. The Administration's interagency Quicksilver E-Gov Task Force identified 23 high priority Internet services for early development.

Though best known for the services it provides other federal agencies, GSA operates two programs, the Federal Consumer Information Center (FCIC) and FirstGov, that provide the public with electronic access to federal and other government information and services. GSA's Office of Government-wide Policy includes several information technology support activities that were part of this E-Gov task force and whose continued involvement is essential to the success of the E-Gov initiatives. The President proposes to consolidate GSA resources involved in implementing the citizen-centered aspects of the President's E-Gov vision into a new Office of Citizen Services.

For 2003, the President also proposes $45 million for an E-Gov Fund to finance interagency E-Gov projects. Although a significant increase over the $20 million requested in 2002, this year's request is supported by specific project plans developed by the Quicksilver Task Force.

In 2003, GSA expects to provide its federal agency customers over $34 billion in office space, supplies and equipment, motor vehicles, telecommunications, information technology, and other administrative services. Agencies will reimburse GSA's revolving funds for $15 billion of this amount and pay the remaining $19 billion directly to vendors under GSA's Multiple Award Schedules contracts. The budget includes $6.9 billion in new obligational authority to provide secure, cost effective workplaces for over 1.1 million federal employees. Of this amount, over $135 million in additional funding is provided for increased guard services, building security equipment, and other security initiatives to ensure the safety of federal employees.

Through its regulations and delegated property management and procurement activities, GSA influences an additional $70 billion in federal spending and the management of assets valued at $450 billion. Although its agency customers reimburse GSA for almost all of its annual expenses, certain expenses are funded by appropriations. In 2003, for example, the Administration proposes $551 million (net discretionary budget authority) for GSA, primarily for the construction and renovation of federal buildings. This amount also funds the Office of Government-wide Policy, the Office of Citizen Services, the Office of the Inspector General, and certain operating expenses related to property disposal, information technology security, and agency-wide management activities.

INSTITUTE OF MUSEUM AND LIBRARY SERVICES

The Administration continues to recognize the important role that libraries and museums play in the nation's education system and communities. The Institute of Museum and Library Services (IMLS) provides state grants and competitive awards to assist the nation's museums and libraries in expanding their services to the public. Evaluations of IMLS's programs have shown them to have a positive effect on the operations of grantees. The budget increases funding for core IMLS programs and administrative support that benefit libraries and museums nationwide from $195 million to $211 million. It does not continue narrow, special-interest projects that were designated by the Congress for funding in 2002.

The President's Budget proposes a $10 million initiative to recruit and train library professionals. In May 2000, Library Journal Magazine reported that 40 percent of librarians indicate they plan to retire in nine years or less. According to the July 2000 Monthly Labor Review, 57 percent of professional librarians were age 45 or older in 1998. To help recruit a new generation of librarians for the 21st Century, this initiative will provide scholarships to graduate students in library and information science, support distance learning technology for training programs in underserved areas, and recruit librarians with diverse language skills.

IMLS's two offices, the Office of Museum Services and the Office of Library Services, receive their funding through two different appropriations bills. Having one agency receive funding from two sources creates inordinate complexity for all parties involved. For simplicity's sake, the Administration recommends that funding for the entire agency come from the Labor/HHS/Education appropriations subcommittee.

In addition to making grants, IMLS also undertakes a number of research and policy development activities. A recent example of its work includes a collaborative effort with the National Science Foundation to share complementary research information in digital library technology. The

Administration believes that the establishment of the Museum and Library Services Act of 1996 has been successful, and recommends continued authorization of these programs.

NATIONAL ARCHIVES AND RECORDS ADMINISTRATION

The National Archives and Records Administration (NARA) safeguards records of all three branches of the federal government and ensures ready access to essential evidence that documents the rights of American citizens, the actions of federal officials, and the national experience. In 2003, the budget proposes $272 million for NARA. Of these resources, $2.3 million will enable NARA to continue leading the Electronic Records Management project. This effort will pilot government-wide procedures and tools for electronic records management and will pave the way toward solving the substantial challenge of preserving and providing access to the government's electronic records. To manage electronic records in the future, NARA also will gradually deploy components of the Electronic Records Archive. Moreover, NARA will complete installation of the *Federal Register's* electronic editing and publishing system. This system will accommodate digital signatures and electronic submission of documents for *Federal Register* publications, as well as real-time revisions of the *Code of Federal Regulations*.

NATIONAL COMMISSION ON LIBRARIES AND INFORMATION SCIENCE

The National Commission on Libraries and Information Science (NCLIS) was established in 1970 as the agency primarily responsible for assessing issues related to library and information services policy. With the creation of the Institute of Museum and Library Services (IMLS) and the growth of the information science industry, issues that used to be the exclusive domain of NCLIS are now part of the mission of many other agencies. As noted earlier in this chapter, IMLS is currently involved in significant research and evaluation concerning museums and libraries. While the Administration supports the nation's libraries, it does not support duplicative or ineffective agencies. NCLIS' products—primarily reports on a wide variety of information issues—have failed to have a significant impact on public policy. NCLIS does not operate programs; 100 percent of its funding has been for salaries, travel, and other expenses for its commissioners and staff.

The Administration believes that other agencies can take on the responsibilities of NCLIS that continue to be necessary, such as compiling basic statistics on libraries. NCLIS' other activities have failed to demonstrate that their results justify their cost. The budget recommends eliminating this agency in 2003, saving taxpayers $1 million.

NATIONAL ENDOWMENT FOR THE ARTS

The National Endowment for the Arts (NEA) supports efforts to enhance the availability and appreciation of the arts. In 2003, NEA will promote hands-on art education programs for children from pre-school through grade 12. At the same time, NEA will support activities designed to foster a variety of arts endeavors, state and regional arts organizations, and efforts to expand the reach of the arts into America's underserved communities. The budget requests $117 million to carry out these activities, a slight increase over 2002.

NATIONAL ENDOWMENT FOR THE HUMANITIES

The National Endowment for the Humanities (NEH) works to support educational and scholarly activities in the humanities, preserve America's cultural and intellectual resources, and provide opportunities for Americans to engage in lifelong learning in the humanities. In 2003, the budget requests $127 million for NEH to continue partnerships with state humanities councils, efforts to preserve brittle books and serials, the strengthening of humanities teaching, learning, and museum exhibitions, documentary media projects, and reading programs that reach popular audiences. NEH also will enhance its efforts to collect, analyze, and disseminate information about the state of the humanities.

NATIONAL LABOR RELATIONS BOARD

The National Labor Relations Board (NLRB) regulates private-sector employer and union relations to minimize interruptions to commerce caused by strikes and worker-management discord. The NLRB supervises elections in which employees determine whether to be represented by a union. It is also authorized to prevent and remedy unlawful acts, called unfair labor practices, by unions or employers. In 2003, the Board expects to receive 30,000 unfair labor practice cases and 6,000 representation cases.

Fair and expeditious case resolution is the NLRB's highest priority. The agency is more effective when it can achieve a voluntary resolution of meritorious cases, thereby reducing the need for time-consuming and costly litigation. The NLRB will continue its goal of settling 95 percent of its unfair labor practice cases before they require a decision by the five-member Board. Through its performance goals, the NLRB will continue to place a high priority on reducing its case backlog, especially on the oldest pending cases.

The 2003 Budget includes $246 million for the NLRB. In particular, the budget provides: $1 million for information technology to strengthen computer security; $1.3 million to finance licensing agreements to support software upgrades that will promote long-term savings; and $1.3 million to support an integrated administrative management system for budget, finance, personnel/payroll, and procurement.

NATIONAL TRANSPORATION SAFETY BOARD

The National Transportation Safety Board (NTSB) is charged with determining the causes of transportation accidents and promoting transportation safety. The Board investigates accidents, conducts safety studies and issues recommendations, and evaluates the effectiveness of other government agencies in preventing transportation accidents. It also coordinates federal assistance to the families of victims of catastrophic domestic transportation accidents.

The 2003 Budget provides $73 million for salaries and expenses for the NTSB to fulfill its role in improving the nation's transportation safety.

NUCLEAR REGULATORY COMMISSION

The Nuclear Regulatory Commission (NRC) regulates nuclear material use in the United States. NRC's actions protect public health and safety, promote common defense and security, and guard the environment.

NRC faces several challenges in the coming year. In light of the September 11th terrorist attacks, the NRC is conducting a top-to-bottom analysis of all aspects of the agency's safeguards and physical security programs. These programs set the standards for security that must be maintained by NRC licensees. The NRC uses such standards to evaluate the security and safeguards of regulated facilities and materials. The NRC must also be prepared to evaluate new reactor designs and to license the possible construction of new nuclear plants. The NRC will continue its preparations to review a potential application to construct a high-level nuclear waste repository at Yucca Mountain, Nevada. The NRC will also review an increasing number of reactor license renewals to extend the useful lives of existing nuclear reactors and power uprate applications to increase the reactors' electrical generating capacity.

To carry out these and other activities of ongoing necessity, the budget proposes $605 million in 2003 for the NRC, a five percent increase over 2002.

OFFICE OF PERSONNEL MANAGEMENT

The Office of Personnel Management (OPM) provides human resource management leadership to the President, federal agencies, and their employees. It oversees the federal civil service merit systems and provides retirement, health benefit, and other insurance services to federal employees, annuitants, beneficiaries, and agencies.

OPM is leading agencies in implementing the President's human capital initiative. This effort is designed to make government more citizen-centered, results-oriented, and market-based. OPM is working closely with agencies to ensure that they strategically use the broad range of existing human resources management tools to recruit, retain, and manage a high-performing workforce. To support this clear customer-focus, OPM itself has embarked on a significant agency restructuring.

Total discretionary funding of $274 million in 2003 is almost evenly divided between OPM's two major missions: 1) managing and overseeing its government-wide human resources and 2) administering the federal employees benefits trust funds (retirement, health insurance, and life insurance). It also includes $60 million for information technology projects and government-wide payroll modernization aimed at increasing efficiency and maximizing citizen service. These initiatives will streamline and automate the exchange of federal personnel information, cut the cost and time to complete security clearances, deliver training services electronically, simplify federal job applications while reducing hiring times, make claims processing faster, cheaper, and more accurate, and modernize federal payroll systems and service delivery.

In addition to the discretionary funding, OPM will pay out employee benefits totaling $79 billion in 2003: $53 billion in annuities to more than 2.4 million retired federal employees, their survivors, and other beneficiaries, $24 billion in health insurance for nine million enrollees and dependents; and $2 billion in life insurance claims. Beginning in 2003, OPM also will make group long-term care insurance products available to approximately 20 million members of the federal civilian and uniformed services, their families, and retirees.

RAILROAD RETIREMENT BOARD

The Railroad Retirement Board administers retirement, survivor, unemployment, and sickness insurance benefits for qualified railroad workers and their families. In 2003, it is estimated that $8.8 billion in retirement-survivor benefits will be paid to some 663,000 individuals, while about $124 million in unemployment and sickness benefits are estimated to be paid to some 37,000 persons.

The railroad retirement system benefits are financed through railroad employer contributions, railroad employee payroll deductions, payments from the Social Security trust funds, and taxpayer subsidies. Unlike other private industry pension plans, the rail industry pension program is the only private industry pension subsidized by federal taxpayers and administered by a federal agency.

The Railroad Retirement and Survivors' Improvement Act increases benefits for railroad workers and their families, reduces employer taxes initially, and establishes a trust to invest the railroad pension fund assets in private equities. Currently, the pension fund confronts an unfunded liability of $39.7 billion, as measured by the Employee Retirement Income Security Act standards. Consequently, the effects of this law will need to be monitored closely to ensure the solvency of the railroad retirement pension fund.

REGIONAL ECONOMIC DEVELOPMENT AGENCIES

The President's Budget requests funding for three regional economic development agencies: 1) the Appalachian Regional Commission ($66 million); 2) the Denali Commission ($41 million); and 3) the Delta Regional Authority ($10 million). These agencies provide grants to communities in designated geographic areas for public infrastructure, business development, education, and job training related to long-term economic development. The budget proposes that funding be focused on distressed communities and be used for projects that provide sustainable increases in employment and economic activity. The Administration is working to develop comparable performance measures for these agencies.

SECURITIES AND EXCHANGE COMMISSION

The Securities and Exchange Commission (SEC) regulates U.S. capital markets and the securities industry. It strives to protect investors by preventing fraud and abuse in U.S. capital markets and ensuring adequate disclosure of information. The SEC conducts compliance inspections and examinations in order to review and monitor the conduct and financial conditions of securities firms and their affiliates.

Today there are over 1,000 investment companies with $6.7 trillion in assets under management, more than double the amount of deposits at commercial banks. At the same time, there are over 7,000 investment advisors registered with the SEC. In 2001, the agency exceeded planned compliance inspections for investment companies. In 2003, the agency also will begin placing greater emphasis on risk-based inspections in order to achieve the goal of conducting at least one examination of every registrant every five years.

The 2003 Budget includes $481 million to carry out mission-critical activities, implement E-Gov initiatives, and respond to changes in the financial markets driven by global competition and technology.

In January 2002, the Investor and Capital Markets Fee Relief Act was signed into law. The legislation reduces the rates of tax-like fees collected by the SEC on certain securities transactions. Enactment of the legislation is consistent with the Administration's efforts to invigorate free markets and reduce costs imposed on those markets by the government, while ensuring that the SEC will have the ability to continue to protect investors and maintain the integrity of the nation's securities markets. Without this legislation, the SEC would be collecting five times its annual budget in fees without any benefit to investors or the markets.

The legislation also authorizes the SEC to provide additional compensation and benefits to employees if the same type of compensation or benefits are then being provided by any federal banking agency. This authority will be carried out by the executive branch in a manner that assists in the performance of the mission of the SEC while minimizing inequities with similarly situated federal employees.

TENNESSEE VALLEY AUTHORITY

Established in 1933 as an experiment to promote economic development and flood control management, the Tennessee Valley Authority (TVA) today is a major U.S. government-owned corporation with two main roles. It is the fifth largest electric utility in the country, generating and selling electric power worth an estimated $7.3 billion in 2003 (about four percent of the nationwide total). It is also a natural resource management agency, with an annual operating budget of more than $50 million, providing navigation, flood control, recreation, water supply and related services throughout Tennessee and in six neighboring states.

During 2003, TVA estimates it will spend $5.6 billion to produce power at its 11 coal-fired power plants, five nuclear units, and 30 hydropower facilities. TVA forecasts it will use $1.4 billion in 2003 to upgrade the agency's power plants and expand its 17,000-mile high-voltage transmission system. The remaining $300 million TVA will use to reduce its outstanding debt, which stood at $25.4 billion at the end of 2001.

Over the next five years, TVA estimates it will reduce its debt by $2.4 billion. TVA is reducing its debt to prepare the agency for the major changes now occurring in the electric power industry, where competition and restructured transmission systems are replacing integrated monopolies in existence since the 1930s.

TVA will work with the 158 municipal utilities and cooperatives that distribute TVA power to renegotiate current sales contracts and end its exclusive supply relationship with those entities. TVA will also work with the Federal Energy Regulatory Commission, the Department of Energy, and other utilities to improve the nation's transmission system. The effort will include forming regional transmission organizations to reduce the cost and increase the reliability of the region's and the nation's power supply. TVA will continue to work with independent power producers to enable them to tie into TVA's transmission network.

As a result, increased regional power supplies and enhanced competition will soon give TVA's distributors more power sources to choose from. TVA will also work with the municipal utilities and cooperatives that distribute its power to design and implement power-pricing policies, such as time-of-day pricing systems, that encourage cost-effective energy conservation.

SUMMARY TABLES

This set of Summary Tables corrects the omission of minus signs in this section of the *Budget*. It replaces the entire Summary Tables section (pp. 393–417).

Table S–1. Budget Totals

	2002	2003	2004	2005	2006	2007
In billions of dollars:						
Outlays	2,052	2,128	2,189	2,277	2,369	2,468
Receipts	1,946	2,048	2,175	2,338	2,455	2,572
Deficit/surplus	–106	–80	–14	61	86	104
Debt held by the public	3,477	3,570	3,600	3,548	3,470	3,379
As a percent of GDP:						
Outlays	19.8	19.5	19.0	18.7	18.5	18.3
Receipts	18.8	18.8	18.9	19.2	19.2	19.1
Deficit/surplus	–1.0	–0.7	–0.1	0.5	0.7	0.8
Debt held by the public	33.6	32.7	31.2	29.2	27.1	25.1

Table S–2. Budget Summary by Category

(In billions of dollars)

	2002	2003	2004	2005	2006	2007	Total	
							2003–2007	2003–2012
Outlays:								
Discretionary:								
Defense	336	368	390	412	428	442	2,041	4,531
Non-defense	382	405	418	423	429	437	2,112	4,454
Subtotal, discretionary	718	773	808	835	857	880	4,153	8,984
Emergency Response Fund	22	16	7	3	1	*	27	27
Mandatory:								
Social Security	456	472	491	515	542	571	2,591	6,001
Medicare	223	231	241	257	278	302	1,308	3,141
Medicaid	145	159	170	184	200	217	930	2,315
Other mandatory	310	297	283	291	303	313	1,488	3,243
Subtotal, mandatory	1,133	1,159	1,185	1,248	1,323	1,402	6,318	14,700
Net interest	178	181	189	190	188	185	933	1,767
Total Outlays	2,052	2,128	2,189	2,277	2,369	2,468	11,431	25,478
Receipts	1,946	2,048	2,175	2,338	2,455	2,572	11,588	26,481
Unified Surplus	–106	–80	–14	61	86	104	157	1,002
On-budget surplus	–262	–259	–208	–156	–142	–139	–904	–1,464
Off-budget surplus	155	179	195	217	228	243	1,061	2,466

* $500 million or less

Table S–3. Impact of Budget Policy on the Surplus

(In billions of dollars)

	2003	2004	2005	Total 2003–2007
Current baseline surplus	51	109	169	764
Budget proposals:				
Defense and homeland security	–31	–38	–45	–224
Strengthening Medicare	–2	–3	–5	–50
Farm bill reauthorization	–7	–7	–7	–34
Provide incentives for charitable giving	–2	–2	–3	–15
Health tax credits	–1	–7	–9	–36
Reform unemployment	–1	–1	–3	–18
Extend expiring tax provisions	–3	–3	–5	–26
Other proposals	–6	1	–4	–20
Related debt service	–1	–4	–7	–43
Subtotal, budget proposals	–54	–65	–88	–466
Budget surplus/deficit, pre-economic security plan	–3	43	81	298
Bipartisan economic security plan	–77	–57	–20	–141
Budget surplus/deficit, including economic security plan	–80	–14	61	157

Table S–4. Discretionary Totals

(Budget authority; dollar amounts in billions)

	2001	2002	2003	Change 2002–2003	
				Delta	Percent
Discretionary budget authority:					
Homeland security	10	12	25	13	111
Department of Defense	303	328	366	38	12
Other operations of government	330	348	355	7	2
Total, discretionary budget authority [1]	**643**	**688 [2]**	**746**	**59**	**9**
Adjustments, contingent upon adoption of proposal:					
Full funding of federal employee retirement costs	8	9	9		
Total, including contingent adjustments	651	696	755		
Emergency Response Fund:					
War on terrorism	13	3	10		
Homeland security	3	8	—		
Other September 11th response	5	9	—		
Total, Emergency Response Fund	**20**	**20**	**10**		

[1] Excludes budget authority associated with the mass transit budget category.

[2] Includes a $1.7 billion upward adjustment, from the 2002 appropriated level, for discretionary spending offset by mandatory savings enacted in appropriations bills.

Table S–5. Homeland Security

(Budget authority in billions of dollars)

	2001	2002	2003
Total, Homeland Security	**16.0**	**19.5**	**37.7**
Supporting first responders	0.3	0.3	3.5
Defending against biological terrorism	1.4	1.4	5.9
Securing our borders	7.6	8.8	10.6
Sharing information and using information technology to secure the homeland	0.1	0.2	0.7
Aviation security	0.4	1.5	4.8
Other homeland security	6.3	7.4	12.2
Defense and mandatory/fee funded programs included above:			
Department of Defense (DoD)	–4.0	–4.7	–7.8
Mandatory/fee funded	–1.5	–2.9	–4.7
Total, Homeland Security, non-DoD discretionary	**10.5**	**11.9**	**25.2**
Emergency Response Fund	2.5	8.1	—

Table S–6. Year-to-Year Percentage Growth in Discretionary Budget Authority

Agency	1998 to 1999	1999 to 2000	2000 to 2001	2001 to 2002	2002 to 2003	Average Growth 1998–2003
Agriculture	4	4	13	*	*	4
Commerce [1]	29	61	–41	2	*	4
Defense	6	5	5	8	12	7
Education [2]	–3	2	37	24	1	11
Energy	7	–1	13	4	5	5
Health and Human Services	12	9	19	10	9	12
Housing and Urban Development [3]	12	–6	34	4	7	9
Interior	–1	6	21	*	*	5
State and International Assistance Programs [4]	23	2	–4	7	4	6
Justice	5	2	13	1	–1	4
Labor	3	–20	36	2	–7	1
Transportation	–14	13	28	–7	19	6
Treasury	12	–2	16	5	5	7
Veterans Affairs	2	9	7	6	7	6
Corps of Engineers	–2	1	14	–4	–10	–1
Environmental Protection Agency Operating Program	5	1	9	1	2	4
Federal Emergency Management Agency	18	37	–38	26	114	22
National Aeronautics and Space Administration	*	*	5	4	1	2
National Science Foundation	7	6	13	8	5	8
Small Business Administration	16	7	1	–15	2	2
Social Security Administration	*	2	8	6	5	4
Smithsonian Institution	2	6	4	9	6	6
Total (excludes full funding of federal employee retirement costs and Emergency Response Fund)	6	4	10	7	9	7

*0.5 percent or less

[1] 2000 Commerce data includes funding for Census 2000.

[2] 2002 funding includes a $1.3 billion supplemental proposal for Pell Grants.

[3] 1998 and 1999 have been adjusted for reclassification of Federal Housing Administration receipts.

[4] International Affairs Program totals do not include P.L. 480 Title II food aid, which is included in the totals for Agriculture; 1999 data is also adjusted to remove $18.2 billion in one-time funding for the International Monetary Fund.

Table S–7. Discretionary Budget Authority by Agency

(In billions of dollars)

Agency	2001 Actual	Estimates		Change:
		2002	2003	2002–2003
Legislative Branch	2.9	3.1	3.5	0.4
Judicial Branch	4.1	4.4	5.1	0.6
Agriculture	19.8	19.8	19.8	–*
Commerce	5.2	5.3	5.3	*
Defense-Military	305.6	330.8	369.3	38.4
Education	40.1	49.8 [1]	50.3	0.5
Energy	20.2	21.0	21.9	1.0
Health and Human Services	54.5	59.8	65.3	5.5
Housing and Urban Development	28.4	29.5	31.5	2.0
Interior	10.5	10.5	10.5	*
Justice	21.6	21.9	21.8	–0.1
Labor	12.0	12.3	11.4	–0.9
State	7.8	8.9	9.2	0.4
Transportation	18.0	16.6	19.8	3.2
Treasury	15.1	15.8	16.6	0.8
Veterans Affairs	23.2	24.7	26.4	1.8
Corps of Engineers	4.8	4.6	4.1	–0.5
Other Defense Civil Programs	0.1	0.2	0.2	–*
Environmental Protection Agency	7.9	8.0	7.7	–0.3
Operating program	(3.9)	(3.9)	(4.0)	(0.1)
Executive Office of the President	0.3	0.3	0.3	0.1
Federal Emergency Management Agency	2.4	3.1	6.6	3.5
General Services Administration	0.5	0.6	0.6	–*
International Assistance Programs	12.6	13.1	13.9	0.7
National Aeronautics and Space Administration	14.4	14.9	15.1	0.2
National Science Foundation	4.4	4.8	5.0	0.2
Office of Personnel Management	0.2	0.2	0.3	*
Small Business Administration	0.9	0.8	0.8	*
Social Security Administration	6.3	6.7	7.0	0.3
Other Independent Agencies	6.8	6.3	6.3	*
Allowances	—	–1.3	–0.4	0.9
Subtotal	**650.7**	**696.5**	**755.4**	**59.0**
Remove contingent adjustment for full funding of federal employee retirement costs	–8.1	–8.5	–9.0	–0.4
Total	**642.6**	**687.9** [2]	**746.5**	**58.5**
Emergency Response Fund	20.0	20.0	10.0	–10.0

* $50 million or less

[1] Includes a $1.3 billion supplemental proposal for Pell Grants.

[2] Includes a $1.7 billion upward adjustment, from the 2002 appropriated level, for discretionary spending offset by mandatory savings enacted in appropriations bills.

Table S–8. Discretionary Proposals By Appropriations Subcommittee

(Budget authority in billions of dollars)

Appropriations Subcommittee	2001 Actual	2002 Estimate	2003 Proposed	Change: 2002–2003
Agriculture and Rural Development	16.7	16.9	17.2	0.3
Commerce, Justice, State, and the Judiciary	39.7	40.5	41.2	0.7
Defense	296.6	320.5	360.4	40.0
District of Columbia	0.5	0.4	0.4	*
Energy and Water Development	24.4	24.8	25.3	0.5
Foreign Operations	14.6	15.5	16.1	0.7
Interior and Related Agencies	19.5	19.6	19.5	–0.1
Labor, Health and Human Services, and Education	110.5	124.6	131.2	6.6
Legislative	2.8	3.1	3.5	0.4
Military Construction	9.1	10.5	9.0	–1.6
Transportation and Related Agencies	17.8	16.4	19.7	3.3
Treasury and General Government	16.7	17.9	18.7	0.9
Veterans Affairs, Housing and Urban Development	81.7	85.8	93.5	7.7
Allowances	—	—	–0.4	–0.4
Total with full funding of federal employee retirement costs	650.7	696.5	755.4	59.0
Remove full funding of federal employee retirement costs	–8.1	–8.5	–9.0	–0.4
Total	642.6	687.9 [1]	746.5	58.5
Emergency Response Fund	20.0	20.0	10.0	–10.0

*$50 million or less

[1] Includes a $1.7 billion upward adjustment, from the 2002 appropriated level, for discretionary spending offset by mandatory savings enacted in appropriations bills.

Table S–9. Mandatory Proposals

(In millions of dollars)

	2002	2003	2004	2005	2006	2007	Total	
							2003–2007	2003–2012
Strengthening Medicare	—	1,680	3,375	5,068	17,485	22,497	50,105	190,159
Farm Bill [1]	4,200	7,271	7,019	6,688	6,727	6,774	34,479	67,576
Bipartisan Economic Security Plan [2]	27,000	8,000	1,500	—	—	—	9,500	9,500
Medicaid/SCHIP:								
Medicaid/SCHIP reform	—	348	125	309	144	161	1,087	1,781
Rationalizing prescription drug payments	—	–290	–650	–1,090	–1,620	–1,800	–5,450	–17,640
Welfare reform:								
TANF reauthorization	—	46	314	270	340	387	1,358	3,069
Food Stamps reauthorization	—	29	148	262	329	355	1,123	4,191
Child support enforcement:								
Federal collections and payments to States	—	–66	–53	60	116	119	176	798
Food Stamps savings	—	—	—	–37	–47	–49	–133	–402
Medicaid savings	—	—	—	–5	–15	–20	–40	–210
Subtotal, child support enforcement	—	–66	–53	18	54	50	3	186
Supplemental Security Income	—	—	–2	–7	–13	–19	–41	–262
Medicaid savings	—	—	–3	–11	–25	–43	–82	–641
Subtotal, SSI	—	—	–5	–18	–38	–62	–123	–903
Subtotal, excluding Food Stamps reauthorization	—	–20	256	270	356	375	1,238	2,352
Total, welfare reform	—	9	404	532	685	730	2,361	6,543
Other Proposals:								
Agriculture:								
Increase timber competition (use of sealed bids)	—	—	–5	–10	–14	–15	–44	–139
Non-timber interests bidding	—	—	–5	–5	–10	–10	–30	–80
Collect fair market value from ski resorts	—	—	–3	–10	–14	–15	–42	–117
Accelerate repayment to reforestation trust fund and payments from special use permits to enhance environmental protection for lands used by ski resorts	—	—	13	25	38	40	116	336
Provide permanent recreation fee authority	—	—	—	–10	1	1	–8	–3

Table S–9. Mandatory Proposals—Continued

(In millions of dollars)

	2002	2003	2004	2005	2006	2007	Total	
							2003–2007	2003–2012
Education:								
Teacher loan forgiveness	—	45	14	17	18	18	112	211
Energy:								
Power marketing associations to directly fund Corps of Engineers' operations and maintenance expenses	—	149	149	150	150	150	748	1,498
Increase BPA's borrowing authority	—	—	113	498	89	—	700	700
ANWR, lease bonuses	—	—	–1,200	—	—	—	–1,200	–1,200
Health and Human Services:								
Abstinence education	—	14	37	42	47	50	190	440
Interior:								
ANWR, lease bonuses:								
State of Alaska's share:								
Receipts	—	—	–1,201	–1	–101	–1	–1,304	–1,587
Expenditure	—	—	1,201	1	101	1	1,304	1,587
Federal share	—	—	–1	–1	–101	–1	–104	–387
Provide permanent recreation fee authority	—	—	—	–17	7	48	38	490
Correct trust accounting deficiencies in individual Indian money investments	—	7	—	—	—	—	7	7
Labor:								
Reform Unemployment Insurance	—	—	—	319	1,929	3,072	5,320	21,812
Refinance Black Lung Disability Trust Fund debt:								
Black Lung Disability Trust Fund	—	1,606	–446	–435	–430	–427	–132	–2,184
Treasury's interest receipts	—	–1,606	446	435	430	427	132	2,184
Propose reforms of FECA for future beneficiaries	—	–3	–4	–6	–5	–5	–23	–46
Redirect H-1B training	—	80	–15	–48	–17	—	—	—
Treasury:								
Outlay effect of refundable tax credits	—	832	5,634	6,991	7,535	7,654	28,646	74,300

Table S–9. Mandatory Proposals—Continued

(In millions of dollars)

	2002	2003	2004	2005	2006	2007	Total	
							2003–2007	2003–2012
Veterans Affairs:								
IRS income verification on means tested veterans and survivors benefits	—	—	–6	–6	–6	–6	–24	–54
Army Corps of Engineers:								
Recreation user fee increase	—	–6	–1	–1	–1	4	–5	15
FCC:								
Shift spectrum auction deadlines:								
Spectrum receipts	—	4,000	–3,300	–2,700	–4,700	—	–6,700	–6,700
Spectrum relocation	—	50	–50	—	—	—	—	—
Impose annual analog fees after 2006	—	—	—	—	—	–500	–500	–2,680
FEMA: Reform National Flood Insurance	—	–43	–75	–115	–165	–227	–625	–2,080
OPM:								
Simplify computation of annuities under the CSRS for individuals with part-time service	—	3	8	14	20	27	72	313
Multi-Agency:								
Authorize spending of reimbursements for spectrum relocating costs	—	100	50	100	165	100	515	715
Indirect impact of other proposals (third scorecard):								
Enact FECA surcharge	—	—	–1	–5	–7	–7	–20	–50
Impact of accrual accounting	—	–34	–23	198	420	618	1,179	7,686
Total, mandatory proposals	31,200	22,213	13,102	16,927	28,800	39,358	120,400	352,906

[1] Excludes Food Stamps reauthorization of $4,191 million over 10 years shown under the welfare reform and the receipt effect of FFARRM account tax incentives of $1,233 million over 10 years shown in Table S–10.

[2] Affects both receipts and outlays. Only the outlay effect is shown here. The receipt effect is –$62,000 million for 2002, –$65,000 million for 2003, –$47,000 million for 2004, –$9,500 million for 2005, $17,000 million for 2006, $18,000 million for 2007, –$87,000 million for 2003–2007, and –$43,500 million for 2003–2012.

S–10. Effect of Proposals on Receipts

(In millions of dollars)

	2002	2003	2004	2005	2006	2007	Total 2003–2007	Total 2003–2012
Bipartisan Economic Security Plan [1]	–62,000	–65,000	–47,500	–9,500	17,000	18,000	–87,000	–43,500
Tax Incentives:								
Provide incentives for charitable giving:								
Provide charitable contribution deduction for nonitemizers	–570	–1,429	–1,437	–2,288	–3,567	–3,591	–12,312	–32,636
Permit tax-free withdrawals from IRAs for charitable contributions	–93	–192	–205	–219	–230	–238	–1,084	–2,632
Raise the cap on corporate charitable contributions	–24	–169	–121	–127	–139	–156	–712	–1,730
Expand and increase the enhanced charitable deduction for contributions of food inventory	–10	–49	–54	–59	–66	–72	–300	–789
Reform excise tax based on investment income of private foundations	–122	–177	–181	–189	–198	–205	–950	–2,101
Modify tax on unrelated business taxable income of charitable remainder trusts	–1	–3	–3	–4	–4	–4	–18	–48
Modify basis adjustment to stock of S corporations contributing appreciated property	–8	–11	–13	–17	–21	–25	–87	–282
Allow expedited consideration of applications for exempt status [2]	—	—	—	—	—	—	—	—
Strengthen and reform education:								
Provide refundable tax credit for certain costs of attending a different school for pupils assigned to failing public schools [3]	—	–10	–24	–38	–52	–62	–186	–219
Allow teachers to deduct out-of-pocket classroom expenses	—	—	–16	–163	–191	–207	–577	–1,718
Invest in health care:								
Provide refundable tax credit for the purchase of health insurance [4]	—	–245	–1,689	–2,811	–2,774	–2,951	–10,470	–29,116
Provide an above-the-line deduction for long-term care insurance premiums	—	–328	–406	–605	–1,222	–2,158	–4,719	–20,730

S–10. Effect of Proposals on Receipts—Continued

(In millions of dollars)

	2002	2003	2004	2005	2006	2007	Total 2003–2007	Total 2003–2012
Allow up to $500 in unused benefits in a health flexible spending arrangement to be carried forward to the next year	—	—	–441	–723	–782	–830	–2,776	–7,819
Provide additional choice with regard to unused benefits in a health flexible spending arrangement	—	—	–23	–39	–45	–52	–159	–566
Permanently extend and reform Archer MSAs	—	—	–43	–468	–530	–607	–1,648	–5,691
Provide an additional personal exemption to home caretakers of family members	—	–314	–383	–362	–345	–348	–1,752	–3,957
Assist Americans with disabilities:								
Exclude from income the value of employer-provided computers, software and peripherals	—	—	–2	–6	–6	–6	–20	–52
Help farmers and fishermen manage economic downturns:								
Establish FFARRM savings accounts	—	—	–133	–350	–244	–171	–898	–1,233
Increase housing opportunities:								
Provide tax credit for developers of affordable single-family housing	—	–7	–76	–302	–715	–1,252	–2,352	–15,257
Encourage saving:								
Establish Individual Development Accounts (IDAs)	—	–124	–267	–319	–300	–255	–1,265	–1,722
Protect the environment:								
Permanently extend expensing of brownfields remediation costs	—	—	–193	–306	–299	–289	–1,087	–2,390
Exclude 50 percent of gains from the sale of property for conservation purposes	—	–2	–44	–90	–94	–98	–328	–918
Increase energy production and promote energy conservation:								
Extend and modify tax credit for producing electricity from certain sources	–92	–227	–303	–212	–143	–146	–1,031	–1,779

S–10. Effect of Proposals on Receipts—Continued

(In millions of dollars)

	2002	2003	2004	2005	2006	2007	Total 2003–2007	Total 2003–2012
Provide tax credit for residential solar energy systems	–3	–6	–7	–8	–17	–24	–62	–72
Modify treatment of nuclear decommissioning funds	–89	–156	–168	–178	–188	–199	–889	–2,042
Provide tax credit for purchase of certain hybrid and fuel cell vehicles	–21	–80	–181	–349	–530	–763	–1,903	–3,027
Provide tax credit for energy produced from landfill gas	–12	–34	–59	–86	–120	–140	–439	–1,130
Provide tax credit for combined heat and power property	–97	–208	–235	–238	–296	–139	–1,116	–1,091
Provide excise tax exemption (credit) for ethanol [2]	—	—	—	—	—	—	—	—
Promote trade:								
Extend and expand Andean trade preferences [5]	–130	–192	–213	–226	–58	—	–689	–689
Initiate a new trade preference program for Southeast Europe [5]	—	–19	–23	–25	–7	—	–74	–74
Implement free trade agreements with Chile and Singapore [5]	—	–21	–86	–109	–131	–155	–502	–1,560
Improve tax administration:								
Implement IRS administrative reforms	—	60	49	50	52	54	265	559
Reform unemployment insurance:								
Reform unemployment insurance administrative financing [5]	—	–1,002	–1,451	–2,902	–2,982	–4,429	–12,766	–6,924
Expiring Provisions:								
Extend provisions that expired in 2001 for two years:								
Work opportunity tax credit	–43	–153	–200	–127	–60	–29	–569	–576
Welfare-to-work tax credit	–9	–37	–57	–48	–32	–22	–196	–209
Minimum tax relief for individuals	–122	–353	–256	—	—	—	–609	–609

S–10. Effect of Proposals on Receipts—Continued

(In millions of dollars)

	2002	2003	2004	2005	2006	2007	Total 2003–2007	Total 2003–2012
Exceptions provided under subpart F for certain active financing income	–864	–1,502	–630	—	—	—	–2,132	–2,132
Suspension of net income limitation on percentage depletion from marginal oil and gas wells	–25	–44	–18	—	—	—	–62	–62
Generalized System of Preferences (GSP) [5]	–370	–415	—	—	—	—	–415	–415
Authority to issue qualified zone academy bonds	–4	–13	–25	–35	–37	–37	–147	–332
Permanently extend expiring provisions:								
Provisions expiring in 2010:								
Marginal individual income tax rate reductions	—	—	—	—	—	—	—	–183,769
Child tax credit [6]	—	—	—	—	—	—	—	–31,697
Marriage penalty relief [7]	—	—	—	—	—	—	—	–12,976
Education incentives	–1	–5	–10	–15	–20	–26	–76	–2,810
Repeal of estate and generation-skipping transfer taxes, and modification of gift taxes	178	–550	–1,097	–1,485	–1,987	–2,178	–7,297	–103,659
Modifications of IRAs and pension plans	—	—	—	—	—	—	—	–6,490
Other incentives for families and children	—	—	—	—	—	—	—	–1,298
Research & Experimentation (R&E) tax credit	—	—	–906	–2,949	–4,654	–5,623	–14,132	–51,051
Total budget proposals	–64,532	–73,017	–59,130	–27,927	–6,034	–9,433	–175,541	–591,020

[1] Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is $27,000 million for 2002, $8,000 million for 2003, $1,500 million for 2004, $9,500 million for 2003-2007, and $9,500 million for 2003-2012.

[2] Policy proposal with a receipt effect of zero.

[3] Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is $165 million for 2003, $449 million for 2004, $699 million for 2005, $975 million for 2006, $1,213 million for 2007, $3,501 million for 2003-2007, and $4,155 million for 2003-2012.

[4] Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is $677 million for 2003, $5,185 million for 2004, $6,292 million for 2005, $6,560 million for 2006, $6,441 million for 2007, $25,145 million for 2003-2007, and $59,873 million for 2003-2012.

[5] Net of income offsets.

[6] Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is $8,745 million for 2003-2012.

[7] Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is $1,527 million for 2003-2012.

Table S–11. Receipts by Source - Summary

(In billions of dollars)

Source	2001 Actual	Estimates					
		2002	2003	2004	2005	2006	2007
Individual income taxes	994.3	949.2	1,006.4	1,058.6	1,112.0	1,157.3	1,221.7
Corporation income taxes	151.1	201.4	205.5	212.0	237.1	241.4	250.6
Social insurance and retirement receipts	694.0	708.0	749.2	789.8	835.2	868.7	908.3
On-budget	(186.4)	(190.8)	(203.9)	(216.3)	(227.0)	(235.1)	(243.0)
Off-budget	(507.5)	(517.2)	(545.3)	(573.5)	(608.2)	(633.7)	(665.3)
Excise taxes	66.1	66.9	69.0	71.2	73.6	75.3	77.5
Estate and gift taxes	28.4	27.5	23.0	26.6	23.4	26.4	23.2
Customs duties	19.4	18.7	19.8	21.9	23.0	24.7	26.2
Miscellaneous receipts	37.8	36.4	40.2	42.8	43.2	44.4	46.2
Bipartisan economic security plan	—	–62.0	–65.0	–47.5	–9.5	17.0	18.0
Total receipts	**1,991.0**	**1,946.1**	**2,048.1**	**2,175.4**	**2,338.0**	**2,455.3**	**2,571.7**
On-budget	(1,483.5)	(1,428.9)	(1,502.7)	(1,601.9)	(1,729.8)	(1,821.6)	(1,906.4)
Off-budget	(507.5)	(517.2)	(545.3)	(573.5)	(608.2)	(633.7)	(665.3)

Table S–12. Budget Authority Totals by Function

(In billions of dollars)

Function	2001 Actual	Estimates					
		2002	2003	2004	2005	2006	2007
National defense	329.0	350.7	396.8	405.6	426.6	447.7	469.8
International affairs	18.7	22.3	23.9	24.8	25.6	26.3	27.2
General science, space, and technology	21.1	22.2	22.7	23.3	23.8	24.4	25.0
Energy	0.2	0.6	0.5	0.4	0.9	0.7	0.7
Natural resources and environment	29.8	30.9	30.0	31.3	32.3	31.7	32.3
Agriculture	29.2	29.0	23.8	23.0	21.3	20.4	20.3
Commerce and housing credit	12.4	10.7	14.1	9.8	9.4	8.5	10.7
On-budget	(8.4)	(7.8)	(8.9)	(9.4)	(8.9)	(8.1)	(9.5)
Off-budget	(4.1)	(2.8)	(5.2)	(0.4)	(0.5)	(0.4)	(1.2)
Transportation	67.6	66.1	63.7	58.4	64.6	65.9	67.2
Community and regional development	13.9	18.5	14.7	15.4	15.5	15.9	16.2
Education, training, employment, and social services	63.7	79.6	80.9	81.8	84.0	85.9	87.9
Health	182.1	201.0	234.3	259.0	278.4	298.0	319.9
Medicare	217.2	230.3	234.5	244.1	261.4	282.0	305.5
Income security	273.4	306.2	319.3	326.6	336.3	347.5	356.7
Social Security	440.5	461.3	476.9	497.6	521.8	548.5	577.8
On-budget	(11.7)	(13.9)	(14.3)	(15.2)	(16.1)	(16.9)	(18.0)
Off-budget	(428.8)	(447.4)	(462.6)	(482.5)	(505.8)	(531.6)	(559.8)
Veterans benefits and services	48.4	51.8	56.6	58.8	60.9	63.1	65.2
Administration of justice	45.0	37.3	38.2	41.0	38.9	39.8	40.7
General government	16.6	17.7	17.8	19.5	18.7	19.2	19.4
Net interest	206.2	178.4	180.7	188.8	190.2	188.3	185.3
On-budget	(275.0)	(255.2)	(264.5)	(280.9)	(291.2)	(299.3)	(307.4)
Off-budget	(-68.8)	(-76.8)	(-83.8)	(-92.0)	(-101.0)	(-111.0)	(-122.1)
Allowances	—	25.7	7.6	1.1	–0.4	–0.4	–0.4
Undistributed offsetting receipts	–55.2	–55.2	–74.1	–100.2	–100.4	–98.6	–98.4
On-budget	(-47.3)	(-45.9)	(-64.6)	(-89.9)	(-89.4)	(-86.8)	(-86.0)
Off-budget	(-7.9)	(-9.2)	(-9.6)	(-10.2)	(-11.0)	(-11.7)	(-12.4)
Total	**1,959.7**	**2,085.0**	**2,162.9**	**2,210.2**	**2,309.7**	**2,414.7**	**2,529.0**
On-budget	(1,603.6)	(1,720.9)	(1,788.5)	(1,829.6)	(1,915.5)	(2,005.4)	(2,102.6)
Off-budget	(356.2)	(364.2)	(374.4)	(380.6)	(394.2)	(409.3)	(426.4)

Table S–13. Outlay Totals by Function

(In billions of dollars)

Function	2001 Actual	Estimates					
		2002	2003	2004	2005	2006	2007
National defense	308.5	348.0	379.0	393.8	413.5	428.5	442.5
International affairs	16.6	23.5	22.5	22.8	23.3	23.9	24.6
General science, space, and technology	19.9	21.8	22.2	22.8	23.5	24.0	24.6
Energy	0.1	0.6	0.6	0.3	0.8	0.7	0.7
Natural resources and environment	26.3	30.2	30.6	31.1	31.7	32.4	32.8
Agriculture	26.6	28.8	24.2	22.8	21.3	20.4	20.3
Commerce and housing credit	6.0	3.8	3.7	5.1	3.1	1.2	1.7
On-budget	(3.7)	(1.7)	(5.1)	(4.4)	(3.3)	(2.1)	(2.5)
Off-budget	(2.3)	(2.0)	(-1.4)	(0.7)	(-0.2)	(-0.9)	(-0.8)
Transportation	55.2	62.1	59.4	56.3	56.0	56.9	58.6
Community and regional development	12.0	15.4	17.4	18.0	17.4	15.6	15.4
Education, training, employment, and social services	57.3	71.7	79.0	81.0	82.7	84.2	86.1
Health	172.6	195.2	231.9	258.8	277.8	297.0	318.3
Medicare	217.5	226.4	234.4	244.3	261.3	281.8	305.8
Income security	269.8	310.7	319.7	325.0	334.3	345.2	352.7
Social Security	433.1	459.7	475.9	495.7	519.7	546.2	575.3
On-budget	(11.7)	(13.9)	(14.3)	(15.2)	(16.1)	(16.9)	(18.0)
Off-budget	(421.4)	(445.7)	(461.6)	(480.5)	(503.6)	(529.3)	(557.3)
Veterans benefits and services	45.8	51.5	56.6	58.6	63.2	62.9	62.3
Administration of justice	30.4	34.4	40.6	43.5	39.5	39.7	40.4
General government	15.2	18.3	17.6	19.6	18.6	19.0	19.2
Net interest	206.2	178.4	180.7	188.8	190.2	188.3	185.3
On-budget	(275.0)	(255.2)	(264.5)	(280.9)	(291.2)	(299.3)	(307.4)
Off-budget	(-68.8)	(-76.8)	(-83.8)	(-92.0)	(-101.0)	(-111.0)	(-122.1)
Allowances	—	27.0	6.4	0.8	–0.5	–0.3	–0.4
Undistributed offsetting receipts	–55.2	–55.2	–74.1	–100.2	–100.4	–98.6	–98.4
On-budget	(-47.3)	(-45.9)	(-64.6)	(-89.9)	(-89.4)	(-86.8)	(-86.0)
Off-budget	(-7.9)	(-9.2)	(-9.6)	(-10.2)	(-11.0)	(-11.7)	(-12.4)
Total	**1,863.9**	**2,052.3**	**2,128.2**	**2,189.1**	**2,276.9**	**2,369.1**	**2,467.7**
On-budget	(1,516.9)	(1,690.6)	(1,761.5)	(1,810.1)	(1,885.5)	(1,963.4)	(2,045.8)
Off-budget	(347.0)	(361.7)	(366.8)	(379.0)	(391.4)	(405.7)	(421.9)

Table S–14. Comparison of Economic Assumptions

(Calendar years)

	Projections											Average
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2002–2012
Real GDP (billions of 1996 dollars):												
CBO January	9,398	9,782	10,146	10,471	10,804	11,145	11,493	11,850	12,216	12,590	12,972	
Blue Chip Consensus January [2]	9,410	9,742	10,069	10,401	10,738	11,075	11,425	11,791	12,168	12,557	12,959	
2003 Budget	9,382	9,739	10,101	10,462	10,802	11,136	11,482	11,838	12,204	12,583	12,973	
Real GDP (chain-weighted): [1]												
CBO January	0.8	4.1	3.7	3.2	3.2	3.2	3.1	3.1	3.1	3.1	3.0	3.1
Blue Chip Consensus January [2]	1.0	3.4	3.4	3.3	3.2	3.1	3.2	3.2	3.2	3.2	3.2	3.1
2003 Budget	0.7	3.8	3.7	3.6	3.2	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Chain-weighted GDP Price Index: [1]												
CBO January	1.4	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	1.9
Blue Chip Consensus January [2]	1.6	1.9	2.1	2.1	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.1
2003 Budget	2.0	1.8	1.7	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Consumer Price Index (all-urban): [1]												
CBO January	1.8	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.4
Blue Chip Consensus January [2]	1.7	2.4	2.6	2.7	2.7	2.7	2.6	2.6	2.6	2.6	2.6	2.5
2003 Budget	1.8	2.2	2.3	2.4	2.4	2.4	2.4	2.4	2.3	2.3	2.3	2.3
Unemployment rate: [3]												
CBO January	6.1	5.9	5.4	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.4
Blue Chip Consensus January [2]	6.1	5.7	4.9	4.9	4.8	4.9	4.9	4.9	4.9	4.9	4.9	5.1
2003 Budget	5.9	5.5	5.2	5.0	4.9	4.9	4.9	4.9	4.9	4.9	4.9	5.1
Interest Rates: [3]												
91-day Treasury bills:												
CBO January	2.2	4.5	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.6
Blue Chip Consensus January [2]	2.1	3.4	4.5	4.7	4.8	4.8	4.7	4.7	4.7	4.7	4.7	4.3
2003 Budget	2.2	3.5	4.0	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.0
10-year Treasury notes: [3]												
CBO January	5.0	5.5	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.7
Blue Chip Consensus January [2]	5.1	5.6	5.7	5.7	5.7	5.8	5.8	5.8	5.8	5.8	5.8	5.7
2003 Budget	5.1	5.1	5.1	5.1	5.2	5.2	5.2	5.2	5.3	5.3	5.3	5.2

Source: Congressional Budget Office; Aspen Publishers, Inc., Blue Chip Economic Indicators.

[1] Year over year percent change.

[2] January 2002 Blue Chip Consensus forecast for 2002 and 2003; Blue Chip October 2001 long run extension for 2004–2012.

[3] Annual averages, percent.

Table S–15. Baseline Category Totals

(In billions of dollars)

	2002	2003	2004	2005	2006	2007	Total 2003–2007
Outlays:							
Discretionary:							
Defense	336	347	359	371	377	383	1,836
Non-defense	382	402	413	420	429	439	2,103
Subtotal, discretionary	718	749	772	791	806	822	3,939
Emergency Response Fund	22	9	5	2	1	*	17
Mandatory:							
Social Security	456	472	491	515	542	571	2,591
Medicare	223	229	237	252	260	279	1,258
Medicaid	145	159	171	185	202	219	936
Other mandatory	279	277	272	278	290	294	1,412
Subtotal, mandatory	1,102	1,136	1,172	1,231	1,294	1,363	6,197
Net interest	177	175	177	172	165	156	846
Total Outlays	2,020	2,070	2,126	2,197	2,266	2,341	11,000
Receipts	2,011	2,121	2,234	2,366	2,461	2,581	11,764
Unified Surplus	–9	51	109	169	196	240	764
On-budget surplus	–165	–127	–86	–48	–33	–4	–298
Off-budget surplus	155	179	195	217	228	244	1,063

* $500 million or less

Table S–16. Budget Surplus Reestimates

(In billions of dollars)

	2002	2003	Total 2002–2011
April pre-policy baseline	283	334	5,637
Economic downturn	–197	–138	–1,345
Enacted policy:			
Tax relief	–40	–94	–1,478
Other enacted legislation	–54	–51	–591
Current baseline	–9	51	2,222
Budget proposals	–7	–54	–1,325
Budget outlook, pre-economic security plan	–16	–3	896
Bipartisan economic security plan	–90	–77	–231
Budget outlook, including economic security plan	–106	–80	665

Table S–17. Federal Government Financing and Debt

(In billions of dollars)

	Actual 2001	Estimate					
		2002	2003	2004	2005	2006	2007
Financing:							
Unified budget surplus (+)/ deficit (–)	127	–106	–80	–14	61	86	104
Financing other than the change in debt held by the public:							
Premiums paid (–) on buybacks of Treasury securities [1]	–11	–3	—	—	—	—	—
Net purchases (–) of non-Federal securities by the National Railroad Retirement Investment Trust	—	–15	–1	–*	*	*	*
Changes in: [2]							
Treasury operating cash balance	8	–16	—	–5	—	—	–5
Checks outstanding, deposit funds, etc. [3]	–13	–1	–*	—	—	—	—
Seigniorage on coins	1	1	1	1	1	1	1
Less: Net financing disbursements:							
Direct loan financing accounts	–19	–15	–15	–15	–15	–15	–15
Guaranteed loan financing accounts	–4	–2	3	3	4	5	5
Total, financing other than the change in debt held by the public	–37	–51	–13	–16	–9	–9	–13
Total, amount available to repay debt held by the public	90	–157	–93	–29	52	78	91
Change in debt held by the public	–90	157	93	29	–52	–78	–91
Debt Subject to Statutory Limitation, End of Year:							
Debt issued by Treasury	5,743	6,110	6,499	6,867	7,182	7,482	7,780
Adjustment for Treasury debt not subject to limitation and agency debt subject to limitation [4]	–15	–15	–15	–15	–15	–15	–15
Adjustment for discount and premium [5]	5	5	5	5	5	5	5
Total, debt subject to statutory limitation [6]	5,733	6,099	6,489	6,856	7,172	7,472	7,770

Table S–17. Federal Government Financing and Debt—Continued

(In billions of dollars)

	Actual 2001	Estimate					
		2002	2003	2004	2005	2006	2007
Debt Outstanding, End of Year:							
Gross Federal debt [7]:							
Debt issued by Treasury	5,743	6,110	6,499	6,867	7,182	7,482	7,780
Debt issued by other agencies	27	27	26	26	25	24	23
Total, gross Federal debt	5,770	6,137	6,526	6,892	7,207	7,506	7,803
Held by:							
Debt securities held by Government accounts	2,450	2,660	2,956	3,293	3,659	4,036	4,424
Debt securities held by the public [8]	3,320	3,477	3,570	3,600	3,548	3,470	3,379

* $500 million or less

[1] Includes only premiums paid on buybacks through December 2001. Estimates are not made for subsequent buybacks.

[2] A decrease in the Treasury operating cash balance (which is an asset) would be a means of financing a deficit and therefore has a positive sign. An increase in checks outstanding or deposit fund balances (which are liabilities) would also be a means of financing a deficit and therefore would also have a positive sign.

[3] Besides checks outstanding and deposit funds, includes accrued interest payable on Treasury debt, miscellaneous liability accounts, allocations of special drawing rights, and, as an offset, cash and monetary assets other than the Treasury operating cash balance, miscellaneous asset accounts, and profit on sale of gold.

[4] Consists primarily of Federal Financing Bank debt.

[5] Consists of unamortized discount (less premium) on public issues of Treasury notes and bonds (other than zero-coupon bonds) and unrealized discount on Government account series securities.

[6] The statutory debt limit is $5,950 billion.

[7] Treasury securities held by the public and zero-coupon bonds held by government accounts are almost all measured at sales price plus amortized discount or less amortized premium. Agency debt securities are almost all measured at face value. Treasury securities in the government account series are measured at face value less unrealized discount (if any).

[8] At the end of 2001, the Federal Reserve Banks held $534.1 billion of federal securities and the rest of the public held $2,785.9 billion. Debt held by the Federal Reserve Banks is not estimated for future years.

GLOSSARY

Accrual Method of Measuring Cost

Records cost when the liability is incurred. As applied to retirement benefits, cost is recorded when the benefits are earned rather than when they are paid or at some other time.

Authorization

An authorization is an act of Congress that establishes or continues a federal program or agency, and sets forth the guidelines to which it must adhere.

Balanced Budget

A balanced budget occurs when total receipts equal total outlays for a fiscal year.

Budget Authority (BA)

Budget authority is the authority provided by law to incur financial obligations that will result in outlays.

Budget Enforcement Act (BEA) of 1990

The BEA is the law that was designed to limit discretionary spending while ensuring that any new entitlement program or tax cuts did not increase deficits. It set annual limits on total discretionary spending and created pay-as-you-go rules for changes in entitlements and taxes. See *Pay-As-You-Go* and *Cap*.

Budget Resolution

The budget resolution is the annual framework that Congress uses to set targets for total spending, total revenues, and the deficit, as well as allocations, within the spending target, for discretionary and mandatory spending. A budget resolution does not become law and is not binding on the Executive Branch.

Cap

A "cap" is a legal limit on annual discretionary spending. See *Discretionary Spending*.

Capital Planning and Investment Control

A decision-making process for ensuring that information technology (IT) investments integrate strategic planning, budgeting, procurement, and the management of IT in support of agency missions and business needs.

Clinger-Cohen Act

The Clinger-Cohen Act is also known as the Information Technology Management Reform Act of 1996. The act supplements the Paperwork Reduction Act of 1980 by establishing a comprehensive approach for executive agencies to improve the acquisition and management of their information resources.

Competitive Sourcing

Competitive sourcing is a management initiative to make government more market-based, allowing the public sector to embrace the principles of competition, innovation, and choice. It determines the most effective method of obtaining services available in the commercial marketplace. One commonly used process is found in OMB Circular A–76 and may result in a public-private competition or the conversion of in-house work to the private sector.

Deficit

A deficit is the amount by which outlays exceed receipts in a fiscal year.

Discretionary Spending

Discretionary spending is what the President and Congress decide to spend through the 13 annual appropriations bills. Examples include money for such activities as the FBI and the Coast Guard, housing and education, space exploration and highway construction, and defense and foreign aid. See *Mandatory Spending*.

E-Government

E-Government refers to the federal government's use of information technologies (such as Wide Area Networks, the Internet, and mobile computing) to exchange information and services with citizens, businesses, and other arms of government.

Enterprise Architecture

Enterprise architecture is an agency-wide framework for incorporating business processes, information flows, applications, and infrastructure to support agency goals.

Entitlement

An entitlement program is one in which the federal government is legally obligated to make payments or provide aid to any person who meets the legal criteria for eligibility. Examples include Social Security, Medicare, Medicaid, and Food Stamps.

FAIR Act

The Federal Activities Inventory Reform (FAIR) Act of 1998 requires federal agencies to submit annually to OMB an inventory of all activities performed by federal employees that are not inherently governmental in nature (i.e., that can be performed by the private sector). After OMB review, the agency must send a copy of the inventory to Congress and also make it available to the public.

Federal Debt

Debt Held by the Public—The cumulative amount of money the federal government has borrowed from the public and not repaid.

Debt Held by Government Accounts—The debt Treasury owes to other accounts within the federal government. Most of it results from the surpluses of the Social Security and other trust funds, which are required by law to be invested in federal securities.

Debt Limit—The maximum amount of federal securities debt that may legally be outstanding at any time. It includes both the debt held by the public and the debt held by government accounts. When the debt limit is reached, the government cannot borrow more money until the Congress has enacted a law to increase the limit.

Fiscal Year

The fiscal year is the federal government's accounting period. It begins on October 1 and ends on September 30. For example, fiscal year 2003 begins on October 1, 2002 and ends on September 30, 2003.

Full-time Equivalents (FTEs)

Civilian employment in the Executive Branch is measured on the basis of full-time equivalents. One FTE is equal to one work year or 2,080 non-overtime hours. For example, one full-time employee counts as one FTE, and two half-time employees also count as one FTE.

Gross Domestic Product (GDP)

GDP is the standard measure of the size of the economy. It is the total production of goods and services within the United States.

Human Capital

Human capital refers to the education, knowledge, skills, and competencies of the personnel of an agency.

Mandatory Spending

Mandatory spending is authorized by permanent law rather than annual appropriations. An example is Social Security. The President and the Congress can change the law to change the eligibility criteria and thus the level of spending on mandatory programs, but they don't have to take annual action to ensure the continuation of spending. See *Discretionary Spending*.

Offsetting Collections and Offsetting Receipts

Offsetting collections and offsetting receipts are monies that are deducted from outlays, rather than counted on the receipts side of the budget. They are often paid in return for providing goods or services. For example, payments the Postal Service receives for stamps are offsetting collections.

Off-Budget

By law certain programs, such as Social Security and the Postal Services, are accounted for separately from all other programs in government and are accorded this separate treatment.

On-Budget

Those programs not legally designated as off-budget.

Outlays

Outlays are the amount of money the government actually spends in a given fiscal year.

Pay-As-You-Go

Created by the Budget Enforcement Act (BEA), pay-as-you-go refers to requirements that new mandatory spending proposals or tax reductions must be offset by cuts in other mandatory spending or by tax increases, to ensure that the deficit does not rise or the surplus does not fall. See *Budget Enforcement Act*.

Performance-based Budgeting

Performance-based budgeting separates programs that work from those that do not. It allocates budgetary and human capital resources by comparing historical and expected future performance levels with the full cost of producing desired program outcomes as defined in the agency's strategic goals and objectives.

Receipts

Receipts are the collections of money that result from taxes and other government activity. Examples of receipts include income taxes, excise taxes, and customs duties. They do not include collections from the federal government's business-like activities, such as the entrance fees at national parks. Business-like collections are subtracted from total spending to calculate outlays for the year.

Surplus

A surplus is the amount by which receipts exceed outlays in a fiscal year.

Trust Funds

Trust funds are federal government accounts set up by law to record receipts and spend them for specified purposes.

Unified Budget

The unified budget includes receipts from all sources and outlays for all programs of the federal government. It is the most comprehensive display of the government's finances.

OMB CONTRIBUTORS TO THE 2003 BUDGET

The following personnel contributed to the preparation of this publication. Hundreds, perhaps thousands, of others throughout the government also deserve credit for their valuable contributions.

A

Rein Abel
Claudia Magdalena Abendroth
Andrew Abrams
Marsha D. Adams
Sharon Adams
Brenda Aguilar
Ricardo Aguilera
Michele Ahern
David Aidekman
Steven D. Aitken
Susan Alesi
Richard M. Allen
Victoria Allred
Lois E. Altoft
Robert B. Anderson
Donald R. Arbuckle
Sherry Armstead
Renee Austin
Patrick Aylward

B

Paul W. Baker
Francisco Balicao
Pamela S. Barr
Mary C. Barth
John Bartrum
Juliana Basile
Amy Bassano
Christina Battisti
Anthony Baumann
Richard B. Bavier
Jean D. Baxter
Jennifer Wagner Bell
Deborah L. Benoit
Meredith Benson
Shalini Benson
Rodney G. Bent
Melissa N. Benton
Lauren Berk
Michael K. Berkholtz
Elizabeth Bernhard
Evett Best
Pamela L. Beverly
Rebecca A. Beynon
Scott W. Bias
Lloyd A. Blanchard
Karen N. Blank
Lauren E. Bloomquist
Mathew C. Blum
James Boden
Lisa D. Bollinger
Debra J. Bond
Evangelia Bouzis
Constance J. Bowers
Yvonne T. Bowlding
James Bradford, Jr.
Betty I. Bradshaw
Denise M. Bray
Jonathan D. Breul
Anna M. Briatico
Manuel Briskin
Dustin Brown
James A. Brown
Lucinda Brown
Thomas M. Brown
Paul Bugg
Benjamin Burnett
John D. Burnim
Robert Burton

C

Kathleen Cahill
Steven E. Cahill
Philip T. Calbos
Amy Call
James C. Capretta
Kevin Carroll
Karyn Carson
Michael Casella
Mary I. Cassell
Michael J. Cassidy
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