

BUDGET



BUDGET OF THE UNITED STATES GOVERNMENT

Fiscal Year 2005

THE BUDGET DOCUMENTS

Budget of the United States Government, Fiscal Year 2005 contains the Budget Message of the President, information on the President's budget and management priorities, and budget overviews organized by agency, including assessments of their performance.

Analytical Perspectives, Budget of the United States Government, Fiscal Year 2005 contains analyses that are designed to highlight specified subject areas or provide other significant presentations of budget data that place the budget in perspective. This volume includes economic and accounting analyses; information on Federal receipts and collections; analyses of Federal spending; detailed information on Federal borrowing and debt; baseline or current services estimates; and other technical presentations.

This year, the *Analytical Perspectives* volume contains a CD-ROM with certain information that was previously published in the budget documents, such as evaluations and analyses of programs and management at Federal departments and agencies, as well as lists of Federal programs by agency and account and by budget function.

Historical Tables, Budget of the United States Government, Fiscal Year 2005 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 2009. To the extent feasible, the data have been adjusted to provide consistency with the 2005 Budget and to provide comparability over time.

Budget of the United States Government, Fiscal Year 2005—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.

AUTOMATED SOURCES OF BUDGET INFORMATION

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

Budget 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. The budget CD-ROM also contains the material on the *Analytical Perspectives* CD-ROM.

Internet. All budget documents, including documents that are released at a future date, will be available for downloading in several formats from the Internet. To access documents through the *World Wide Web*, use the following address:

<http://www.whitehouse.gov/omb/budget>

For more information on access to electronic versions of the budget documents (except CD-ROMs), call (202) 512-1530 in the D.C. area or toll-free (888) 293-6498. To purchase the budget CD-ROM or printed documents call (202) 512-1800.

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.
3. At the time of this writing, 7 of the 13 appropriations bills for 2004 were not enacted, and the programs covered by them were operating under a continuing resolution. For these programs, references to 2004 spending, including current services or baseline estimates, in the text and tables reflect the conference report on H.R. 2673, the Consolidated Appropriations Bill, 2004.

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THE BUDGET MESSAGE OF THE PRESIDENT

The Budget I am proposing for 2005 is a reflection of this Nation's goals and purpose, and advances our three highest priorities. First, America will prevail in the War on Terror by defeating terrorists and their supporters. Second, we will continue to strengthen our homeland defenses. Third, this Nation is building on the economic recovery that began in earnest in 2003 with policies that further promote growth and job creation. In addition, we will continue to strengthen the domestic institutions that best express our values, and serve the basic needs of all: good schools, quality and affordable health care, and programs that promote hope and compassion in our communities. In meeting these priorities, the Government must exercise fiscal responsibility by limiting spending growth, focusing on the results of Government programs, and cutting wasteful spending.

In 2003, America made great progress in the War on Terror. Afghanistan, which once was ruled by the repressive Taliban regime, now has adopted a new constitution, taking a fundamental step on the path to democracy. In Iraq, the remnants of the Ba'athist regime are being systematically rounded up, and Iraqis are assuming responsibility for their own security and future government. Libya has pledged to disclose and dismantle all of the regime's weapons of mass destruction programs.

These victories do not change a fundamental truth: Our Nation remains at war. In this war, which began on September 11, 2001, our citizens are the strategic targets of our enemy. We have responded in two significant ways: First, we have taken the offensive to hunt down the terrorists, deny them easy refuge, identify and seize their secret finances, and hold them and their sponsors to account. Second, we have moved to secure the Nation's homeland. In 2003, the new Department of Homeland Security began operations in the biggest reorganization of the Federal Government in half a century. Over this past year, we have taken steps to reduce the terrorist threat to Americans here at home, and protect American interests overseas. This Nation has committed itself to the long war against terror. And we will see that war to its inevitable conclusion: the destruction of the terrorists.

Our Budget reflects the continuing importance of providing for the defense and security of the American people. We will continue to provide whatever it takes to defend our country by fully supporting our military, which is performing with great skill and honor in our battles overseas. We also are providing the necessary resources to our law enforcement and emergency personnel at home to meet the new threats posed by terrorists.

Just as we have taken much-needed steps to strengthen our national security, we have also pursued an aggressive agenda to promote our economic security. In 2003, we worked with the Congress to accelerate much of the tax relief that had been passed in 2001, so that Americans could keep more of their paychecks and so that businesses would have more incentive to invest in new jobs and new equipment. As a result, our economy is strong, and growing stronger. Economic output in the third quarter rose at its fastest annual pace in nearly 20 years. More manufacturers reported rising factory activity than at any point in the last 20 years. American homeownership reached its highest level ever. Employment is on the rise. By cutting tax rates on investment gains and dividend payments, we promoted saving, capital formation, and investment—and Americans' holdings in the stock market rose by almost \$3 trillion.

There is still more to do, however. We cannot be satisfied until every American looking for work has found a job. We must sustain the momentum of this recovery by making the tax relief passed in 2001 and 2003 permanent. We will continue to open markets abroad for American products. And as the economy improves, we will also confront the challenge faced by workers who must learn new skills to fill new jobs. As a Nation, we must help Americans develop the skills they need to succeed in a highly competitive, highly productive economy. And so this Budget continues to support high standards in our schools and proposes a Jobs for the 21st Century initiative to ensure older students and adults can gain the skills they need to find work now.

Economic growth and good stewardship of taxpayer dollars will help us meet another important priority: cutting the budget deficit brought on by recession and war. We must continue to evaluate each Federal program, to make sure that it meets its goals, and produces the desired results. I propose to hold discretionary spending growth below four percent, less than the average rate of growth of American family incomes. And spending unrelated to defense and homeland security will be held below one percent growth—less than the rate of inflation—while continuing to meet education, health care, and other priorities of this Nation. With this spending restraint and continued pro-growth economic policies, we can cut the deficit in half over the next five years.

Finally, this Budget addresses the needs of a great and compassionate Nation, whose values are strong, and whose institutions of hope are enduring. We are helping communities of faith pull the addicted out of dependency. We are lifting children out of a life of despair by making sure they have mentors, and we will continue to press for improvements in our schools, so that no child is left behind. We are extending hope and healing to millions suffering from the global epidemic of AIDS. We will begin to implement the benefits of our Medicare modernization and reform law, which will bring all our seniors coverage for prescription drugs. And we will make health care more affordable and extend the full benefits of our health care system to more Americans who currently have no health insurance.

Meeting these priorities will require hard work, skill, and the resources of a great Nation. Yet America has always risen to new challenges, and has always set new goals. Challenge and change have revealed the true strengths of this Nation and the enterprise of its people. And as 2004 begins, I am confident those gifts will serve us again, until our work is done.

GEORGE W. BUSH
February 2, 2004

SUMMARY OF ACCOMPLISHMENTS AND FUTURE CHALLENGES

Enhancing the Nation's Security

| A Record of Accomplishment (2004 vs. 2001 levels except as noted) | A Commitment to the Future (2005 proposals vs. 2004 levels except as noted) |
|--|--|
| <ul style="list-style-type: none"> • Responded to the September 11th terrorist attacks with the War on Terror—led a coalition to defeat the terrorist-supporting regimes in Afghanistan and Iraq, liberated 50 million people, and began rebuilding Afghanistan and Iraq. • Began transformation of DOD to face threats of the 21st Century and increased the defense budget 26 percent, the largest increase since the Reagan Administration. • To defend against long range missile threats, doubled investments in missile defense systems and will deploy the first ever land and sea-based system. • Increased military pay by more than 21 percent over three years, expanded use of targeted pay and bonuses, and improved housing. • Secured enactment of the largest Government reorganization in a half-century, merging 22 entities into the Department of Homeland Security. • Protected America by nearly tripling homeland security discretionary funding. • Provided \$4.5 billion to State and local governments and hospitals for Bioterrorism preparedness, and secured \$5.6 billion for the BioShield Initiative. • Provided a total of \$8.8 billion for terrorism-preparedness training and equipment for State and local first responders. • Improved border and transportation security by increased funding of nearly \$9 billion. • Transformed the FBI into an agency whose primary mission is to prevent terrorist attacks and increased its budget by over 40 percent. • Blocked over \$136.8 million in terrorist assets. | <ul style="list-style-type: none"> • Advances ongoing efforts in the War on Terror by providing \$1.2 billion for rebuilding Afghanistan and continues to build a broad coalition to defeat terrorism and spread freedom and democracy worldwide. • Targets over \$5.7 billion in military and economic assistance to front-line states supporting the United States in the War on Terror. • Continues strengthening and transformation of defense capabilities by providing \$402 billion for DOD, a seven-percent increase. • Provides a 3.5-percent pay raise for military personnel and improves housing by privatizing 90,000 units by the end of 2005. • Improves America's security with a 10-percent increase in homeland security discretionary spending. • Provides \$5.3 billion for the Transportation Security Administration (a 20-percent increase) and \$6.2 billion for the Coast Guard (a nine-percent increase). • Doubles the level of first responder preparedness grants targeted to high-threat areas that face greater risk and vulnerability. • Protects our food supply by providing \$553 million (a 180-percent increase) in funds for a new agriculture and food defense initiative and \$274 million for a new biosurveillance initiative. • Provides \$5.1 billion (an 11-percent increase) for the FBI, including a \$357 million increase for counterterrorism activities. |

Strengthening the Economy and Promoting Job Creation

| A Record of Accomplishment (2004 vs. 2001 levels except as noted) | A Commitment to the Future (2005 proposals vs. 2004 levels except as noted) |
|--|--|
| <ul style="list-style-type: none"> • Secured enactment of three major tax relief bills, granting tax relief to all 109 million American income tax payers and removing five million from paying the income tax altogether. • Held total annual discretionary spending to below four percent growth in 2004. • Reduced the growth in non-security related spending from 15 percent in the last budget year of the previous administration to six percent, five percent, and four percent in the succeeding three years. • Saved the taxpayers money by not spending \$5.1 billion inappropriately designated as “emergency” funding in 2002 supplemental appropriations. • Helped families by increasing the child tax credit from \$500 to \$1,000. • Eliminated the marriage penalty for lower and moderate income taxpayers. • Provided 25 million small business owners with tax cuts averaging about \$3,000. • Eliminated the Death Tax. • Reduced taxes on capital gains and dividends and encouraged savings and investment. • Strengthened America’s economy by opening new markets to U.S. goods and services, forging new trade agreements, and enforcing existing trade agreements. • Helped expand homeownership opportunities to achieve record high homeownership rates, with more than one million new minority families purchasing homes since June 2002 and a record 68.4 percent of all Americans owning homes. • Completed (or implementing) nearly 75 percent of the 106 recommendations contained in the President’s comprehensive National Energy Policy, such as filling the Strategic Petroleum Reserve to its capacity of 700 million barrels. • Enacted a new Farm Bill and advanced policies that helped lead to a 10-percent increase in agriculture exports from \$51 billion in 2000 to \$56 billion in 2003. | <ul style="list-style-type: none"> • Holds discretionary spending growth to below four percent, and non-security related spending to 0.5 percent, less than the rate of inflation. • Proposes budget enforcement legislation to restrain the growth in spending and offsets all proposed increases in mandatory spending. • Supports pro-growth economic policies and spending restraint that will cut the projected deficit in half within the next five years, to a size that is less than two percent of GDP. • Fuels America’s economic recovery by making the tax cuts permanent. • Includes new initiatives for tax-favored savings and retirement accounts for all Americans. • Supports finalizing bilateral and regional free trade agreements and enforcing existing trade agreements. • Initiates a comprehensive plan for Jobs for the 21st Century, including: a new \$250 million grant program for our Nation’s community colleges, focused on training for high-demand occupations identified by employers; and \$333 million to help students make the transition from high school to college, including increased college aid for eligible low-income students who complete a demanding high school curriculum. • Proposes a national energy policy to ensure an affordable, reliable energy supply by upgrading the Nation’s electrical grid, promoting energy efficiency, and increasing domestic energy production while protecting the environment. • Spurs job creation by providing more than \$20 billion in small business lending and equity programs. • Promotes responsible corporate governance and the integrity of our financial markets by enhancing enforcement efforts of the SEC, and boosting its funding to \$893 million, a 10-percent increase. |

Strengthening the Economy and Promoting Job Creation—Continued

A Record of Accomplishment (2004 vs. 2001 levels except as noted)

- Announced a 10-point plan for corporate responsibility/governance; signed the Sarbanes-Oxley Act; created a new independent oversight board for the accounting industry; provided the SEC with new powers and responsibilities; and more than doubled the SEC's budget since 2001.
-

A Commitment to the Future (2005 proposals vs. 2004 levels except as noted)

Meeting Other National Priorities

A Record of Accomplishment (2004 vs. 2001 levels except as noted)

Education

- Reformed K–12 education through the enactment of the landmark No Child Left Behind Act that promotes student achievement, accountability, and greater choices for parents.
- To ensure that every child learns to read by third grade, increased funding nearly four-fold for early reading programs.
- Increased funding for Title I grants for schools in low-income communities by \$3.6 billion (41 percent).
- Increased funding for Special Education by \$3.7 billion (59 percent).
- Increased funding for Pell Grants by \$3.3 billion (37 percent) increasing the number of Pell recipients by nearly one million.
- Enabled approximately 10 million students to attend college each year through grants, loans, and work-study by providing record levels of student aid each year.

A Commitment to the Future (2005 proposals vs. 2004 levels except as noted)

Education

- Increases Title I funding by \$1 billion for a total of \$13.3 billion, 52 percent more than in 2001.
 - Provides \$1 billion more for Special Education, for a total of \$11.1 billion, a 75-percent increase since 2001.
 - Increases funding for early reading programs to \$1.3 billion, a 12-percent increase over 2004.
 - Helps almost five million students pursue postsecondary education by providing \$12.9 billion in Pell Grants, an \$856 million increase.
 - Fulfills a promise to increase funding for Historically Black Colleges and Universities and minority-serving institutions by 30 percent to \$394 million by 2005.
 - Provides \$57 billion in direct and guaranteed student loans to post-secondary students and reforms higher education student aid by raising loan limits for first-year students, expanding options to offer courses on-line, and increasing loan forgiveness for those teaching certain subjects in high-poverty schools.
-

Meeting Other National Priorities—Continued

| A Record of Accomplishment (2004 vs. 2001 levels except as noted) | A Commitment to the Future (2005 proposals vs. 2004 levels except as noted) |
|---|--|
| <p>Environment</p> <ul style="list-style-type: none"> Proposed a national energy policy that includes initiatives to develop zero-emissions energy technologies, such as hydrogen fuel cells, clean coal technology, and other sources of clean, affordable energy. Protected the environment by treating 7.7 million acres of at-risk forests and wooded rangeland under the President's Healthy Forests Initiative and increasing funding for cooperative conservation programs to \$507 million, 43 percent above the 2001 level. Proposed Clear Skies legislation to reduce air pollution from power plants by 70 percent over the next 15 years. Signed and implemented historic Brownfields legislation encouraging investment in and redevelopment of urban areas and provided an 85-percent increase in EPA funding (\$92 million in 2001 to \$170 million in 2004). <p>Health Care</p> <ul style="list-style-type: none"> Secured enactment of comprehensive Medicare reforms, including a prescription drug benefit for over 41 million elderly and disabled Americans in 2006; a prescription drug discount card; transitional assistance for low income individuals beginning in 2004; expansion of private plan options; and preventive benefits. Provided access to health care for an additional three million people through 614 new and expanded health center sites funded with an additional \$449 million. Advanced medical research by completing the doubling of National Institutes of Health funding and launched a major new biodefense research initiative. Gave Americans greater access to a more affordable insurance option while saving for future health care expenses by creating tax-free Health Savings Accounts (HSAs). Approved waivers and State amendments, making up to 2.6 million people eligible for Medicaid and SCHIP coverage. | <p>Environment</p> <ul style="list-style-type: none"> Enhances the Nation's supply of clean, affordable energy by increasing funding for clean energy resources, including \$237 million to develop the world's first "zero-emissions" coal-fueled power plant and \$228 million (44-percent increase) for hydrogen and fuel cell R&D. Prevents catastrophic wildfires, saves lives and property, and protects forests by implementing the President's Healthy Forests Initiative, providing a \$58 million increase to remove excess wood and brush that fuel fires. Protects public health and improves air quality by providing \$65 million for an expanded diesel school bus retrofit program to reduce harmful bus emissions. Accelerates the Great Lakes clean-up by providing \$45 million, nearly a five-fold increase over previous levels. Tackles remaining Superfund sites, many of which are the toughest sites on the cleanup list, by increasing Superfund long-term cleanups by \$124 million (nearly a 50-percent increase). <p>Health Care</p> <ul style="list-style-type: none"> Expands health care coverage by making it more affordable for small businesses to purchase coverage for employees through Association Health Plans to provide coverage for up to two million uninsured Americans. Provides millions of uninsured, low-income Americans with access to health insurance through a refundable tax credit. Allows individuals to deduct the premiums associated with HSAs. Implements the prescription drug discount card to give immediate discounts of 10-25 percent to cardholders and provides \$600 annually in immediate assistance to low-income individuals to pay for prescription drugs, until a comprehensive drug benefit is implemented in 2006. |

Meeting Other National Priorities—Continued

A Record of Accomplishment (2004 vs. 2001 levels except as noted)

Faith-Based and Community Initiatives

- Eliminated barriers that have kept faith-based charities from partnering with the Federal Government to help Americans in need.
- Issued an Executive Order in December 2002 to ensure that agencies do not arbitrarily exclude faith-based organizations from access to Federal funding.
- Established the Access to Recovery initiative, which provides vouchers for substance abuse treatment, helping an estimated 50,000 people in 2004.
- Created the Compassion Capital Fund for public/private partnerships to support charitable groups in expanding model social service programs (HHS awarded over \$32 million for 81 new and continuing grants in 2003).
- Established a mentoring program for children of prisoners (HHS awarded \$9 million in grants to 52 organizations in 2003).
- Proposed the highest-ever funding level for the Corporation for National and Community Service; expanded AmeriCorps to support 75,000 members; created USA Freedom Corps to coordinate domestic and international service programs and strengthen America's culture of service.

A Commitment to the Future (2005 proposals vs. 2004 levels except as noted)

Faith-Based and Community Initiatives

- Proposes a four-year \$300 million Prisoner Re-Entry initiative to help individuals leaving prison make a successful transition to community life and long-term employment.
 - Increases funding for faith-based initiatives, including doubling the Access to Recovery program to \$200 million, more than doubling resources for the Compassion Capital Fund, (\$100 million), and proposing \$50 million for mentoring children of prisoners.
 - Proposes over \$1 billion for the Corporation for National and Community Service; includes \$442 million to support 75,000 AmeriCorps members; requests \$225 million to expand the National Senior Service Corps to 600,000 volunteers; and engages over one million youth in service-learning activities.
 - To encourage charitable giving, proposes \$1.9 billion in charitable tax incentives.
-

Meeting Other National Priorities—Continued

| A Record of Accomplishment (2004 vs. 2001 levels except as noted) | A Commitment to the Future (2005 proposals vs. 2004 levels except as noted) |
|---|---|
| <p>Other Priorities</p> <p>Veterans Affairs (VA). Implemented changes to ensure that veterans receive timely, quality medical care; more than cut in half processing time for claims; and in 2004 will eliminate waiting lists for medical care from a high of 300,000, and increase funding by 36 percent.</p> <p>HIV/AIDS. Proposed and secured authorization of a bold five-year, \$15 billion initiative to combat global AIDS, the single largest international public health initiative ever attempted to defeat a disease.</p> <p>Millennium Challenge Account. Proposed and secured authorization of the Millennium Challenge Account to provide aid to countries that demonstrate a commitment to ruling justly, investing in their people, and encouraging economic freedom.</p> <p>National Science Foundation (NSF). To attract more highly talented students to science and engineering, increased funding for NSF from 2001 through 2004 by 26 percent, including increasing student stipends from \$18,000 a year to \$30,000 a year.</p> <p>President's Management Agenda:</p> <ul style="list-style-type: none"> • Ensured that government agencies are responsibly accounting for the people's money. • Designed new rules for conducting public-private competitions, creating a more reasoned and responsible process by which agencies can provide commercial services at the best value to the taxpayer. • Designed a modern, flexible, business-like human resources management system that will allow the Department of Homeland Security to place the right people in the right jobs with a clear understanding of what's expected of each of them and proper incentives and supervision to perform so they can best protect the American people. | <p>Other Priorities</p> <p>Veterans Affairs. Increases the VA medical care budget 41 percent above 2001 level—enabling it to treat one million additional patients—and continues to integrate DOD and VA so that there will be a seamless transition to veterans status for military personnel.</p> <p>HIV/AIDS. Provides \$2.8 billion for the President's emergency plan—a \$400 million increase and the 2nd installment of the five-year plan.</p> <p>Millennium Challenge Account. Includes \$2.5 billion for the Millennium Challenge Account, putting the Administration on a path to meet the President's commitment of \$5 billion in 2006.</p> <p>Marriages and Family. To promote marriage and healthy family development (including abstinence by teens), proposes \$3 billion over five years in Federal and State funds. This includes a new matching grant program, funded at \$120 million per year, plus an equivalent State match, to promote effective family formation activities to support healthy marriages. Also, proposes an additional \$23 million for schools that want to use drug testing to save children's lives.</p> <p>NASA. Completes the International Space Station, retires the shuttle by 2010, and focuses on a new space exploration vehicle capable of new space exploration missions to the Moon, Mars, and beyond.</p> <p>President's Management Agenda:</p> <ul style="list-style-type: none"> • Provides additional incentives for government employees by linking their paychecks to performance. • Addresses the causes of wasteful spending with sounder management practices, ensuring that taxpayer dollars are spent for the purpose for which they are intended. • Examines 100 percent of the government's program spending within three years to ensure that programs are achieving the results they are supposed to achieve. |

OVERVIEW OF THE PRESIDENT'S 2005 BUDGET

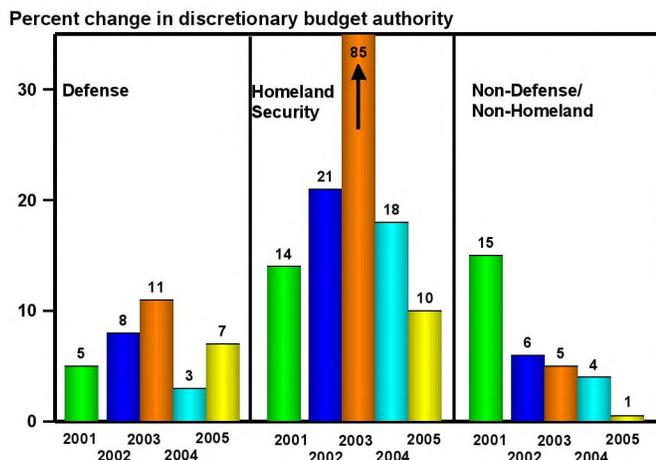
The President's 2005 Budget continues to support and advance three overriding national priorities: winning the war on terror, protecting the homeland, and strengthening the economy.

The President is committed to spending what is necessary to provide for our security—and restraining spending elsewhere. Since September 11, 2001, more than three-quarters of the increase in discretionary spending has been directly related to our response to the attacks, enhanced homeland security, and the War on Terror. The President's 2005 Budget continues this spending trend: significant increases in funding our security programs combined with a dramatic reduction in the growth of discretionary spending unrelated to security.

The President's Budget:

- increases defense spending by 7 percent to support our military around the world, while pursuing the transformation of our military to ensure America has the best trained and best equipped armed forces in the world;
- increases homeland security spending by 10 percent to strengthen capabilities created to prevent future attacks; and
- holds the rest of discretionary spending to 0.5 percent growth, while continuing to increase funding for key priorities such as the President's No Child Left Behind education reforms.

Enhanced Security -- Restraint Elsewhere



Growth rates exclude supplemental appropriations. Supplementals increase defense and homeland security growth rates dramatically (these categories received 90 percent of supplemental funding).

trend and will also provide new budget enforcement mechanisms, establishing statutory controls to restrain the growth in both discretionary and mandatory spending.

The President's Budget builds on the pro-growth economic policies that have laid the foundation for the strong recovery now underway, and for sustained economic growth and job creation in the years ahead.

For the second year in a row, the President's Budget is built on the sensible premise that Government spending should grow no faster than the average increase in American family incomes of approximately four percent. This Budget proposes to hold the growth in total discretionary spending to 3.9 percent and to reduce the growth in non-defense, non-homeland security spending to 0.5 percent, below the rate of inflation. In the last budget year of the previous administration (2001), discretionary spending unrelated to defense or homeland security soared by 15 percent. With the adoption of President Bush's first budget (2002), that growth rate was reduced to six percent; then five percent the following year; and four percent for the current fiscal year. The President's 2005 Budget continues this

The President's tax cuts have been critical to achieving his priority of strengthening the economy and creating jobs. Perhaps the best timed in American history, these tax cuts deserve much credit for today's brightening economic picture, which includes:

- nine consecutive quarters of positive growth through the end of 2003;
- the highest quarterly growth in 20 years—an 8.2 percent annual rate in the third quarter of 2003, which, though unlikely to remain as high, is a harbinger of sustained growth to come;
- extraordinary productivity growth;
- continued strength in housing starts and retail sales; and
- encouraging signs of renewed business investment.

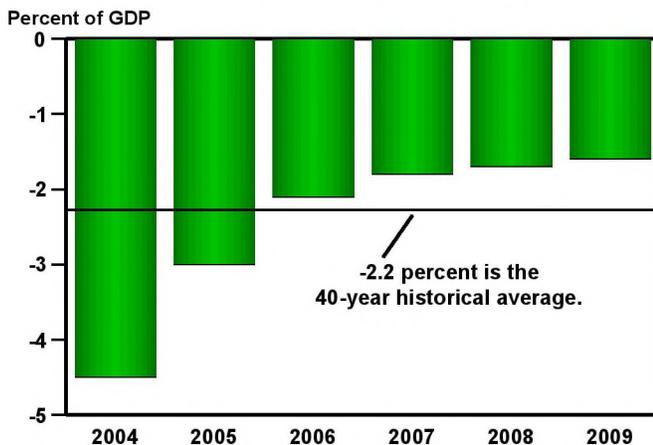
President's Six-Point Economic Growth Plan

1. Making health care costs more affordable and predictable.
2. Reducing the lawsuit burden on the economy.
3. Ensuring an affordable, reliable energy supply.
4. Streamlining regulations and reporting requirements.
5. Opening new markets for American products.
6. Enabling families and businesses to plan for the future with confidence by making the tax cuts permanent.

These indicators suggest that job growth, which typically lags recovery, should continue to strengthen in the months ahead. There is more to do however, and the President has put forward a six-point plan for economic and jobs growth, including making permanent the tax relief that has fueled our economic recovery. The sustained growth that this Budget supports will be good news for our budget picture as well: As the economy improves, Treasury revenues will too.

The Federal budget—like America itself—is in solid shape considering the extraordinary strains placed upon it: a stock market collapse that began in early 2000; a recession that was fully underway by early 2001; revelation of corporate scandals; and, of course, the September 11th attacks and ensuing War on Terror.

Deficits as a Percent of GDP



With continued pro-growth economic policies and spending restraint reflected in the Budget, deficits fall sharply.

With Treasury receipts only beginning to reflect a recovering economy—and major ongoing expenditures in Iraq, Afghanistan, and elsewhere in the War on Terror—we still face a projected \$521 billion deficit for the 2004 fiscal year. Although a legitimate matter of concern, that size deficit, at 4.5 percent of GDP, is not historically out of range. Deficits have been this large or larger in six of the last 25 years, including a peak of 6.0 percent in 1983.

The Administration remains committed to dramatic deficit reduction in the coming years. With continuation of the President's economic growth policies and sound spending restraint as reflected in this Budget, our projections show the deficit will be cut by more than half over the next five years. Indeed, our projections

show the deficit falling from 4.5 percent of GDP in 2004 to 1.6 percent by 2009—which is also well below the 2.2 percent average deficit during the last 40 years.

Since President Bush took office, our Nation has confronted a cascading set of challenges. President Bush and the Congress responded on all fronts, with tax relief to get the economy going, the largest reorganization of the Federal Government in 50 years to create a new Department of Homeland Security, and the largest increases in the defense budget since the Reagan Administration to wage and win the War on Terror. The President's 2005 Budget builds on this record of accomplishment. With renewed economic growth and the Congress' cooperation in restraining spending and focusing it on our most critical priorities, we can accomplish the great goals the President has set for the country, while dramatically improving our budget situation.

WINNING THE WAR ON TERROR

On September the 11th, 2001, enemies of freedom made our country a battleground. Their method is the mass murder of the innocent, and their goal is to make all Americans live in fear. Yet our Nation refuses to live in fear. And the best way to overcome fear and to frustrate the plans of our enemies is to be prepared and resolute at home, and to take the offensive abroad.

President George W. Bush
October 2003



The Pentagon fully restored within one year of the September 11th attacks.

The terrorist attacks of September 11, 2001, signaled a new era of challenges to America's security and a new test of America's resolve. As in the past, the Nation is rising to meet these challenges. We are doing so not only at home, where the terrorists struck, but abroad where the terrorists train, plan, and attack our people and interests around the globe.

President Bush has made it clear to the Nation, to the terrorists who still remain at large, and to the regimes that support the terrorists: we will do what it takes to protect America. And working with friends and allies, we will destroy the terrorist network that threatens freedom-loving people around the world.

The President is also committed to supporting the spread of democracy and liberty. It is with the help of free peoples in free countries that we will rid the world of the terrorist threat and build a community of nations dedicated to peace and democracy.

The frontlines in this new struggle stretch around the globe. They run from the most remote regions of Afghanistan and Iraq to airports across our country. The brave men and women who stand on these frontlines deserve our deepest gratitude and our commitment that they will have the resources they need to accomplish

their mission to protect our Nation. This budget meets that commitment.

TAKING THE FIGHT TO THE TERRORISTS

Putting the Terrorists on the Run

President Bush launched Operation Enduring Freedom on October 7, 2001, to bring justice to al-Qaida and deny them the safe haven provided by the Taliban. With the support of the Afghan people and 70 other nations, U.S. forces liberated Afghanistan, dismantled the Taliban, and destroyed al-Qaida's terrorist training camps.

Through swift military action, increased intelligence activities, and relentless law enforcement work, the United States and over 170 other countries participating in the war on terror have sent al-Qaida on the run, disrupting their networks, and blocking their funds. More than two-thirds of al-Qaida's most senior leaders have been either captured or killed. And thanks to the diligent work of our law enforcement community, terrorists and their supporters have been thwarted in New York, Washington, Oregon, Michigan, North Carolina, and Florida.

Defeating a global terrorist network requires global cooperation, and the United States has sought to collaborate with and assist our allies in the war on terror. Together with our G-8 partners, we have taken action to enhance transportation security and expand counterterrorism training and assistance. The Department of Defense has deployed military personnel, including Special Forces troops, to provide counterterrorism training to military units in the Philippines, the Republic of Georgia, and Yemen.

The budget continues to provide assistance to enable our friends and allies to prevent future attacks, improve counterterrorism capabilities, and tighten border controls. For instance, the President's Budget includes \$693 million to help Pakistan advance security and economic opportunity for its citizens, \$459 million to strengthen Jordan's economy and ability to secure its borders, and \$463 million to assist President Uribe in Colombia's campaign against drugs and terrorism.

Cutting off Terrorists' Financial Lifeblood

The United States has taken the lead in going after terrorist organizations' financial support. Working together with cooperative nations, this international effort has:

- Frozen or seized over 1,400 accounts around the world, blocking access to nearly \$140 million of terrorists' money.
- Ordered the freezing of terrorist assets in more than 170 countries.
- Shut down phony charities that served as fronts for terrorists.
- Provided assistance to countries to help them improve their legal and regulatory systems in order to block terrorists' funds.

Removing the Threat of Saddam Hussein



A press briefing of the capture of Saddam Hussein.

On March 19, 2003, the United States and our coalition partners launched Operation Iraqi Freedom and within one month removed Saddam Hussein's brutal regime from power. The U.S.-led coalition liberated 26 million people from a ruthless dictatorship that had developed and used weapons of mass destruction, cultivated ties to terrorist groups, harbored known terrorists, and defied more than a dozen U.N. Security Council Resolutions demanding that it disarm. Coalition Forces have apprehended or killed 45 of the 55 most wanted members of the Ba'ath regime, including Saddam Hussein and his two sons. We will stay the course in Iraq and finish the mission we set out to accomplish.

Transforming the Department of Defense for the 21st Century

The military's successes in Operation Enduring Freedom and Operation Iraqi Freedom are the result of rigorous training, hard work, and the uncompromising dedication of our men and women in uniform and those who support them. The members of our armed services and their families have made great sacrifices defending our freedom far from home, and the Budget ensures they have the resources they need to successfully execute any mission they undertake.

In an effort to transform our national security apparatus to better counter new threats in the 21st Century, President Bush has secured the largest increase in the Defense budget since the Reagan Administration—an increase of over 35 percent since 2001. The 2005 Budget provides \$401.7 billion for the Department of Defense. Included within this total are:

- Funding to enable the military services and the intelligence agencies to sustain current operations to defend U.S. national interests against terrorist attacks;
- \$69 billion for research and development, helping technological innovations make the transition from the drawing board to the battlefield;
- Support for Network Centric Warfare systems and other advanced communications technologies; and
- \$10.3 billion to provide missile defenses for the Nation, deployed U.S. forces, and our friends.

Since taking office, the President has increased the Department of Defense's research and development accounts by 56 percent, so that our Armed Forces have the tools and technologies they require to fight the battles of tomorrow. Investments in research and development have a history of turning into real advantages on the battlefield. The weaponized Predator Unmanned Aerial Vehicle, for instance, went from testing to combat in Afghanistan in the space of a few months. Even now, new concepts of operations for deploying and fighting are being put to the test as the military strives to become lighter, more agile, and better able to respond to the known and unknown threats this new century will present. And in 2005, the Department will continue to reexamine many of its procurement programs that were transformational at their inception 20 years ago but are now being sustained at the expense of generation-skipping technologies.

The Navy is pursuing transformation through efforts such as its shift to the Fleet Readiness Program, a new operational concept that will provide the Nation with flexible forces that can be rapidly deployed in response to emerging threats. Also in the President's Budget is support for the Army's Future Combat Systems, designed to provide for a highly mobile and lethal land force with the ability to fight on arrival in theater.

The United States owes its freedom to the dedication and sacrifice of the men and women of the Armed Forces, and the President believes military personnel should be treated accordingly. That is why this Administration has raised basic military pay—which has increased on average more than 21 percent since the President took office—and has improved housing and other benefits. The 2005 Budget continues to look after the needs of our military personnel and their families. For example, the Department of Defense will provide medical care to almost nine million members of the Armed Forces, retirees, and their family members, up from just over eight million when President Bush took office.

SPREADING FREEDOM AND DEMOCRACY

Iraqi democracy will succeed—and that success will send forth the news, from Damascus to Tehran—that freedom can be the future of every nation. The establishment of a free Iraq at the heart of the Middle East will be a watershed event in the global democratic revolution.

President George W. Bush

Remarks at the 20th Anniversary of the National Endowment for Democracy

November 2003

Re-building Afghanistan and Iraq

We have made great strides in countering the terrorist threat, and we will advance that endeavor by helping the Iraqi and Afghan people build free and democratic nations. By bringing freedom and hope to a troubled region, America and our allies are undermining a key base of operations for terrorists. We have followed up our military successes in Afghanistan and Iraq with humanitarian and reconstruction assistance. We contributed over 400,000 metric tons of food to Afghanistan through the World Food Program and have provided seed and fertilizer to Afghan farmers, helping to avert a famine in 2001. U.S. assistance has enabled over two million refugees to return home from Pakistan, Iran, and other countries. In addition, we have rehabilitated 205 schools and 140 health clinics. A national highway is being built to promote not only economic growth and regional trade but also national unity, with paving of the crucial Kabul-Kandahar segment completed on schedule in December 2003. And the United States is working with our allies to help Afghans build new security institutions—Ministries of Defense and Interior, national police, and border and highway police. The United States has also trained 13 battalions of the Afghan National Army.

Today, Afghanistan has a new currency, and their International Monetary Fund arrears have been cleared. Thanks in part to this assistance, Afghanistan's Gross Domestic Product grew by 29 percent in 2003 and is anticipated to grow by about 20 percent in 2004.

But our work in Afghanistan is not done. The United States will rehabilitate and construct an additional 275 schools and 150 clinics by June 2004 and will extend the Kabul-Kandahar road to Herat. The President's 2005 Budget provides \$1.2 billion in additional assistance for Afghanistan to build on recent progress in education, health, infrastructure, and security.

After removing a murderous regime in Iraq, the United States is now helping the Iraqi people realize the aspirations of a free nation by providing food, health care, and education aid. We are providing \$21 billion toward reconstruction and humanitarian efforts.

The Coalition Provisional Authority (CPA) is leading U.S. efforts in Iraq in pursuit of five key objectives: to provide a secure environment for political and economic life by defeating the terrorists and Ba'athists; to provide essential services and infrastructure, especially electricity, water, and health care accessible to all citizens; to develop the financial market structures and fiscal and regulatory conditions necessary for sustainable economic growth and job creation; to enable Iraq to have a representative form of government that promotes the rule of law and protects the rights of all; and to assist the Iraqi people, Coalition nations, and the international community in working cooperatively to achieve these objectives.

The United States is not alone in this endeavor. Over 30 nations have provided military and financial support to restore conditions of security and stability to Iraq, and to create conditions in which the Iraqi people can freely determine their own political future. The United Nations Security Council acknowledged the authorities of the Coalition and provided for a role for the UN and other parties to assist in fulfilling these objectives. At the Madrid Donors' Conference in October, 38 countries and international organizations pledged \$32 billion, including the U.S. contribution, over the next four years to support the reconstruction of Iraq.

Supporting Democracy Abroad

America continues to be a champion of freedom and democracy around the world, supporting nations that are struggling to forge a new course and shake off the shackles of tyranny. Where democracy does not flourish, there will be stagnation, resentment, and the potential for violence ready for export.

The United States has worked with the people of Afghanistan to establish democratic practices and institutions now that the Taliban's oppressive reign has ended. The Bonn Agreement brought Afghan political forces together to build first an interim government, then a transitional government, and soon an elected, permanent constitutional government. Afghanistan has elected a transitional President and written a new constitution, and the United States will assist Afghanistan as it prepares to hold elections in June 2004.

We are also working with the Iraqi people as they prepare to assume full sovereignty of their country by June 30. The United States is supporting civic education programs and the development of political parties. The Department of State and the U.S. Agency for International Development (USAID) are working together to create an Iraqi Commission on Public Integrity and to promote voter education.

Afghanistan and Iraq stand as examples of our commitment to destroy terrorism and spread democracy, but our support goes beyond these nations, extending to people all over the world who seek to advance the cause of freedom and democracy.

For there to be security in the long run—both in the Greater Middle East and here at home—we must marshal the energy and ideals upon which our Nation was founded and work to promote democracy in the region. The President's Middle East Partnership Initiative (MEPI) promotes political, economic, and educational reform efforts in the Middle East, especially focused on opportunities for women and youth. MEPI funds grants, partnerships, training, and technical assistance. The President proposes to increase funding for this important initiative in 2005 to \$150 million.

Reconstruction of Iraq

America is committed to the reconstruction of Iraq. As part of that effort, the United States is providing assistance in the following areas:

- The Department of Defense is training and equipping the Iraq Armed Forces and an Iraqi Civil Defense Corps.
- The U.S. Agency for International Development (USAID) is providing assistance to civilians who have suffered losses as a result of military operations.
- The Department of Defense is helping the Iraqi Ministry of Oil to increase oil production.
- The Department of Defense and USAID are assisting the Coalition Provisional Authority (CPA) in purchasing supplies and equipment for irrigation and water supply systems.
- USAID is assisting the CPA with rehabilitating a significant portion of Iraq's education system.

The President also proposes to double funding to \$80 million in 2005 for the National Endowment for Democracy (NED) for a Greater Middle East Leadership and Democracy initiative. The Endowment is a grant-making foundation that distributes funds to private organizations for the purpose of promoting democracy abroad. NED focuses on democracy-building through civic education, developing political parties, encouraging a free press, and promoting human rights.

Waging the War on Terror with Ideas

The Broadcasting Board of Governors (BBG) broadcasts news and information throughout Africa, Asia, the Middle East, Eastern Europe, and to Cuba, and provides information on U.S. policies and activities, as well as cultural and educational programming. Since 2001, BBG has shifted its funding to focus on broadcasting to regions that are the most critical in the War on Terror, including the Middle East, Central and South Asia, and the Pacific. This includes revamping Arabic radio broadcasting to the Middle East and launching a new Arabic satellite TV network. BBG has also revamped Persian radio broadcasting to Iran to appeal to broader audiences.

The 2005 Budget provides \$401 million to the Peace Corps. The Peace Corps has been a successful program for transmitting our values by sending young Americans abroad to live in foreign communities. Volunteers currently work to foster better understanding of American ideals among people in 71 countries. The Peace Corps now has a higher number of volunteers serving abroad than in the past 28 years.

The President's Budget also supports the Department of State's efforts to communicate our values abroad by providing more than \$1.2 billion for public diplomacy programs to inform, engage, and support freedom-loving people around the world. For example, the Department of State will fund annual exchanges of about 35,000 Americans and people from other countries to share perspectives on our policies, people, values, and society. In the past two years, the Department of State has redirected its exchange programs to its Partnerships for Learning and Youth Exchange and Study initiatives, a cooperative effort with other countries to provide hope and opportunity to young people, especially in the Muslim world, through student and teacher exchanges. The effort includes the first U.S. Government-supported high school exchange program with the Muslim world.

Similarly, USAID is augmenting its programs that already operate in over 50 countries or regions to support democracy, civil society and the rule of law; provide technical assistance to local governments; mitigate conflicts; and encourage respect for human rights. USAID democracy projects include support for Afghan elections, assistance to Muslim civil society organizations in Indonesia, and support to civil society and human rights groups in Sudan.

MAKING THE HOMELAND MORE SECURE

Since September 11, 2001, our Nation, from individual citizens to the Federal Government, has united to defend our homeland. This national effort has been focused on preventing terrorist attacks within the United States, reducing America's vulnerability to terrorism, and minimizing damage from attacks that might occur.

Building on the substantial increases of the past three years, the President in 2005 is seeking three times what the Federal Government spent on homeland security prior to September 11, 2001, to support continued priorities and add resources in areas where we must counter threats.

The President's plan to secure the homeland does more than increase funding. The Federal Government has taken a range of unprecedented actions to respond to the threat of terrorism. The President worked with the Congress to create the Department of Homeland Security (DHS), unifying in early 2003 once-fragmented Federal functions into a single agency dedicated to protecting America from terrorism. At the direction of the President, the Federal Bureau of Investigation has been reorganized into a proactive organization with a primary mission of preventing terrorist acts. And the Administration has leveraged expertise from across the Government to aid in securing our homeland in areas as diverse as developing countermeasures for potential biological pathogens, securing nuclear materials, securing our borders and transportation system, and collaborating with the private sector to help protect computer systems from attack.

Homeland security requires a national effort with unprecedented cooperation among all levels of Government, the private sector, and individual citizens. Our efforts to date have supported these partnerships across the spectrum of homeland security programs, from enhancing emergency preparedness to protecting critical infrastructure.

In other areas, the President's Budget continues to build upon and leverage investments in border and aviation security, intelligence and law enforcement, biodefense, critical infrastructure protection, and first responder preparedness. The President will also ask the Congress to invest in several new initiatives to ensure vigorous defenses against potential threats.

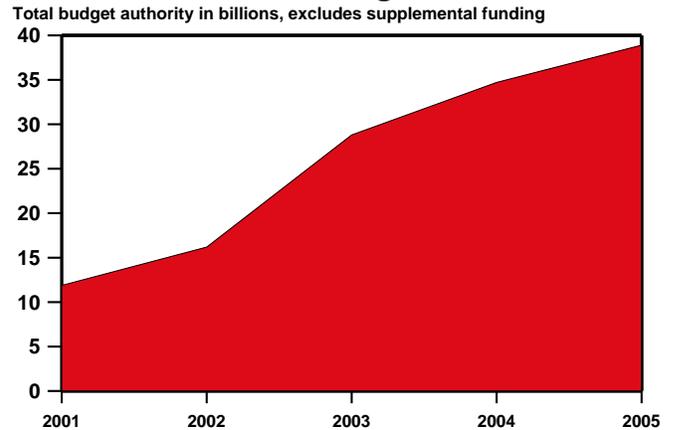
Protecting America's Agriculture and Food System



Increased food and agriculture laboratory capacity will improve our ability to detect and contain intentional and unintentional contamination.

potentially contaminated food. This network of laboratories will be strategically located to respond in the event of a terrorist attack on our food supply and will be equipped with information technology and telecommunications equipment to allow for the sharing of information between labs. HHS

Tripling Non-Defense Homeland Security Funding



The United States must be vigilant in protecting the safety of the Nation's food system from terrorist attacks. Both the U.S. Department of Agriculture (USDA) and the Department of Health and Human Services (HHS) have a long history of success in protecting agriculture and the food supply from naturally-occurring contamination. Now that expertise is being turned toward thwarting deliberate acts of contamination and introduction of disease. To achieve this goal, the Budget increases funding for food and agriculture defense by over \$370 million, almost three times the 2004 level.

With over \$70 million in new funding, the President's Budget supports the establishment of laboratories nationwide to rapidly analyze

and USDA will also support new research to develop innovative strategies to detect and prevent contamination of food, and they will increase efforts to monitor the safety of the food supply to prevent potential outbreaks or attacks.

The President's Budget also builds upon the development of separate animal and plant laboratory networks to rapidly identify disease and pests affecting America's agriculture. USDA will improve preparedness by creating a stockpile of vaccines and therapeutics for significant animal diseases and prepare to rapidly recover from a devastating plant disease. USDA and HHS will also train professionals with the skills to effectively respond to an agrobioterrorism or food-borne bioterrorism event.

Improving Biosurveillance

In the case of bioterrorism, the weapons used against us may be as difficult to detect as they are deadly. Reducing the time it takes to detect an attack can save lives. Rapidly confirming the size and nature of the attack makes it easier to quickly mount the proper response and save lives.

In the absence of clear evidence of an attack—like explosion or fire—we must vigilantly monitor whether weapons have been deployed against us. The most important areas for surveillance and monitoring are human health, animal and plant health, the food supply, and the environment.

Our ability to detect the presence of a dangerous biological or chemical agent in our environment has greatly improved in the last year through the establishment of Project BioWatch, a sensor network strategically based throughout the country. In 2005, the Administration proposes to buttress BioWatch with \$47 million in new investments, bringing total spending for biosurveillance in 2005 to \$118 million. To enhance human health surveillance, the President will build on the Federal Government's capacity to identify trends in areas such as reported illnesses, laboratory results, and over-the-counter pharmacy sales that could indicate an attack has taken place. In the case of agriculture and the food supply, the Food and Drug Administration and the USDA will establish a network of laboratories equipped to analyze rapidly agricultural diseases and potentially contaminated food.

The health, food, and agriculture sectors, along with BioWatch, will continually feed their data into a unified and integrated system. This will ensure that findings from each sector are not considered in isolation, but rather in tandem with surveillance from other sectors and threat intelligence to corroborate the data or put them in context. All of this collaboration serves the ultimate goal of decreasing the gap between the moment an event actually occurs and the time when appropriate Federal, State, and local response protocols are implemented.

Prevention and Response

Federal agencies have taken unprecedented steps to improve the Nation's capability to prevent and respond to terrorism and other major incidents. DHS is leading efforts to strengthen response planning and management at every level of government.

State and Local Assistance

Since September 2001, DHS, HHS, and the Department of Justice have awarded \$13.1 billion in grants for State and local terrorism preparedness needs, as well \$5.9 billion in related public safety programs. These grants have supported unprecedented investments in equipment, technology, training, and planning. Under the auspices of various DHS programs, over 500,000 State and local officials and responders have been trained to respond to a wide range of emergencies, both natural and man-made. Through the USA Freedom Corps, more than 900 communities have formed Citizen Corps Councils, increasing citizen preparedness to prevent and respond to terrorism incidents. In

addition, Community Emergency Response Team training is preparing citizens and communities to respond in the event of an emergency.

In 2005, the President proposes to spend over \$5 billion to continue our State and local capacity-building efforts. The Administration intends to work with the Congress to target these resources more closely to an analysis of the threat and need. To ensure that these new capabilities are deployed effectively, DHS is nearing completion of the National Response Plan, America's blueprint for emergency response, drawing on the expertise throughout the Federal Government. This Plan will incorporate the National Incident Management System, enabling personnel and equipment from Federal, State, or local agencies to be integrated at the scene of an incident.

DHS is also building a National Exercise Program to prepare government officials and first responders to meet new threats and conduct new missions in the wake of September 11th. This effort will ensure unprecedented coordination and cooperation among all levels of government by increasing the frequency and effectiveness of exercises, including major national level exercises such as the TOPOFF (or Top Officials) series. Lessons learned from these exercises will be incorporated into future homeland security policies, operations, and exercises to support the preparedness of the Nation's leaders and first responders at all levels.

A key part of our all-out effort to prepare for the threat of bio-terror is what this Administration has called Project BioShield. I have proposed that our government spend nearly \$6 billion over the next 10 years to speed the research, production and availability of effective vaccines and treatments against smallpox and anthrax, botulin toxin, Ebola, plague, and other possible agents of bioterror.

President George W. Bush
June 2003

Project BioShield

In the 2003 State of the Union, the President announced Project BioShield—a proposal to allow the Federal Government to accelerate the development and availability of critically needed, cutting-edge vaccines and medications for biodefense as soon as experts agree that they are safe and effective enough to be added to the Strategic National Stockpile.

By providing an incentive to the private sector to invest in new vaccines and treatments, BioShield will bring countermeasures that are not currently available on the market into the Stockpile. Administering Project BioShield is a shared responsibility, joining the security capabilities of DHS with the medical expertise of HHS. The Administration is moving forward in purchasing the next generation of countermeasures, including vaccines and treatments for smallpox and anthrax exposure. After the procurement of countermeasures is complete, the products will be added to the Strategic National Stockpile to ensure nationwide availability in the case of an emergency.

Sharing Intelligence

Intelligence sharing between our law enforcement and intelligence agencies has already grown to an unprecedented level since the September 11th attacks, contributing to America's better security through enhanced cooperation of our intelligence and law enforcement forces. To further this coordination, the President announced in the 2003 State of the Union the creation of a multi-agency

Terrorist Threat Integration Center (TTIC). TTIC serves as the focal point for integrating and assessing terrorist threat information, collected domestically and abroad, available to the intelligence, law enforcement, and homeland security communities. On a daily basis, its inter-agency staff sifts through all-source reporting to identify terrorist plans of tactical concern as well as broader threat themes, which together help guide efforts to disrupt terrorist activities and enhance our Nation's security. TTIC also plays a key role in establishing a common threat picture by preparing daily threat assessments and updates for the President and the Departments of Defense, State, and Homeland Security, as well as the broader Intelligence Community, and by creating a consolidated website for the counterterrorism community. The center will be co-located with counterterrorism elements from the Central Intelligence Agency and Federal Bureau of Investigation (FBI), further enhancing our coordination efforts.

To complement the TTIC, the Administration recently established the Terrorist Screening Center (TSC)—a multi-agency entity administered by the Department of Justice in partnership with the Departments of Homeland Security and State, and the Intelligence Community. The TSC is consolidating terrorist watch list information to support appropriate screening processes—for example, issuing visas, determining admissibility into the United States, or granting permission to board a commercial aircraft—to better protect the American people.

Providing Law Enforcement the Tools It Needs

Federal Bureau of Investigation

Since September 11, 2001, Director Mueller has transformed the FBI into an organization dedicated to making the prevention of terrorist attacks its first priority. The President's Budget provides \$5.1 billion for the FBI, a 60-percent increase over 2001. Among other increases, the 2005 Budget for the FBI increases funding over 2004 for counterterrorism investigations by \$60 million and provides \$357 million for counterterrorism enhancements. There are now 84 Joint Terrorism Task Forces, which coordinate efforts between FBI field offices and their counterparts in Federal, State, and local law enforcement to prevent terrorist attacks.



President Bush signs the USA PATRIOT Act.

USA PATRIOT Act

To deal with the deadly threat of future attacks like the ones suffered on September 11th, U.S. intelligence and law enforcement agencies needed additional authorities and capabilities. In recognition of this need, the Administration and the Congress worked together to enact the USA PATRIOT Act, which President Bush signed into law on October 26, 2001. The Act provided a new arsenal of weapons in fighting terrorists, such as enhanced ability for intelligence and law enforcement agents to share information on terrorist threats, expanded authorities to ensure that communications surveillance

keeps pace with technological changes, and better tools to fight terrorist financing activities. Many of these tools have long been available against drug kingpins and organized criminals.

The Act has already paid significant dividends, leading to the arrest and prosecution of individuals engaged in terrorist activities. The Lackawanna case in Buffalo, New York illustrated the benefits of allowing criminal and intelligence investigators to work together, helping to bring to justice a group of men who traveled to Afghanistan for terrorist training. Six of the men have been convicted of providing material support to terrorists and have been sentenced to prison terms ranging from seven to ten years.

The USA PATRIOT Act has been an essential tool in our efforts to prevent new terrorist incidents against Americans. However, the War on Terror is ongoing, and more can be done to support our law enforcement efforts. The Administration has proposed additional counterterrorism authorities, and will be working with the Congress to secure passage of those proposals, as well as to ensure that the critical authorities of the USA PATRIOT Act do not expire in 2005.

Ensuring Border and Transportation Security

Due to the President's initiatives, America's borders are more secure now than at any time in our history. The creation of DHS unified Federal responsibility for border security—merging the separate agencies responsible for protecting our borders into a single entity.

Since its creation, DHS has taken concrete steps to protect our borders from terrorist infiltration. In September 2003, DHS launched the One Face at the Border initiative. This initiative created a single U.S. Customs and Border Protection (CBP) inspection officer, combining into a single job responsibility the functions previously performed by officials from three different agencies. The new CBP officers perform inspections previously done by immigration inspectors, customs inspectors, and agricultural inspectors. By unifying the skills of three organizations into one, DHS can maximize efficiency and focus on protection.

One of the best ways to ensure increased security at our borders is to check people and products before they enter the United States. To check people, DHS launched the U.S. Visitor and Immigrant Status Indicator Technology (US VISIT)—a program to collect and match information on selected visitors to our country. Initial deployment of US VISIT will be focused on air and sea ports of entries. In addition to US VISIT, DHS implemented the Student and Exchange Visitor Program. This program was established to provide information in determining visa eligibility for thousands of foreign nonimmigrant students and exchange visitors. Operating 24 hours a day, seven days a week at the National Records Center, DHS has been successful in making sure legitimate students are allowed into the country while guarding against those who would use our schools as a cover to gain entry for illicit purposes.

CBP also initiated the Container Security Initiative (CSI) in 2002. CSI begins the targeting and inspection process for cargo containers overseas long before they reach the United States. The 2005 Budget includes an additional \$25 million to support continued expansion of this effective program.

Aviation Security

Aviation was both the target of and method for conducting the September 11th attacks, and remains a focus of global terrorist organizations today. Over the last three years, the Federal Government has devoted nearly \$15 billion to strengthen the aviation security system, from deploying a professional screener workforce at every airport, to reinforcing cockpit doors, to installing the latest screening technology. We have also worked to reduce the threat of surface-to-air missiles to civil aviation. For 2005, the President seeks more than nearly \$5.3 billion for the Transportation Security Administration, an increase of 20 percent. Funding is provided to increase screener training, enabling security managers to improve screener performance, and to enhance air cargo security.

Other Transportation Security Efforts

Port security is another top priority of the Federal Government. To this end, we are working with partners and allies to create an international maritime security regime. The Coast Guard led the international community to adopt a new maritime security standard requiring all nations to develop port and ship security plans. At home, DHS is implementing the new Maritime Transportation Security Act, enacted in November 2002. The U.S. Coast Guard is ensuring that certain vessels, marine transportation, coastal facilities, and critical infrastructure platforms have plans to protect against terrorist attacks. The 2005 Budget provides nearly \$2 billion for DHS to ensure the security of our Nation's ports, including \$1.7 billion for the Coast Guard to lead these efforts.



Members of a Coast Guard Maritime Safety and Security Team patrol the Nation's waterways.

Establishing U.S. Northern Command

To strengthen U.S. military forces engaged in homeland security, the President authorized the establishment of U.S. Northern Command (USNORTHCOM), which became fully operational in October 2003. USNORTHCOM eliminates gaps among different military organizations that currently have homeland defense responsibilities and strengthens military support to civilian agencies.

In the two years since September 11, 2001, more than 31,000 sorties—including fighters, tankers, and airborne radar—have been flown by North American Aerospace Defense Command in defense of America.



An F-16 flies over Washington, D.C. as part of Operation Noble Eagle for NORAD.

Protecting Critical Infrastructure

The Nation relies upon a series of critical infrastructure and key assets that if attacked by terrorists could result in catastrophic health effects comparable to those from the use of a weapon of mass destruction. Identifying, prioritizing, and protecting these assets from terrorist attack remains an important component of ensuring our security. Since the September 11th attacks, the Federal Government has: unified infrastructure protection within DHS; identified vulnerabilities and begun security modifications at the highest-priority dams; worked with the U.S. chemical industry to enhance the security of its facilities and prevent intentional and accidental releases; and issued Federal regulations to improve security of key critical facilities within America's 361 ports. In addition, DHS established a National Cyber Security Division to reduce the risk of cyber attacks. The President's 2005 Budget provides \$864 million to support DHS efforts to coordinate our national infrastructure protection activities.

CONCLUSION

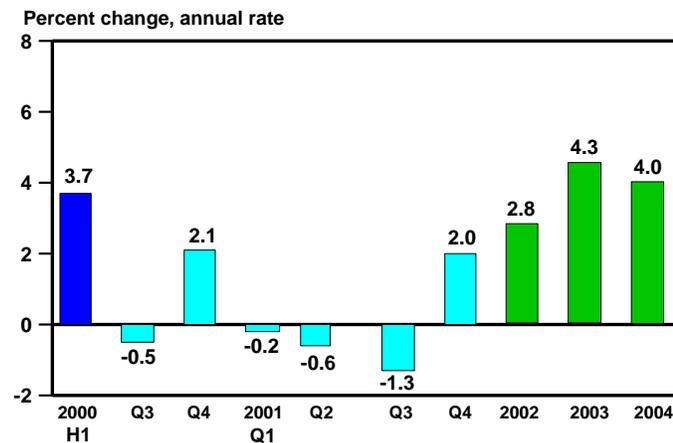
President Bush is steadfastly pursuing a comprehensive approach to winning the War on Terror. By pursuing the terrorists wherever they may hide, by transforming our Armed Forces and homeland defenses, and by promoting democracy and freedom in troubled regions around the world, we are succeeding in defeating the terrorist threat.

PROMOTING PROSPERITY, EXPANDING OPPORTUNITY

From the outset of his Administration, President Bush has promoted economic and job growth, just as he has acted to secure our national defense and protect the homeland. We are now seeing the fruits of these economic policies in strong output and income growth, in a rising stock market, and more recently, in resumed job growth.

As is now well established, the economy was entering a recession as President Bush took office. Industrial production peaked months before, as did the various stock market indices. Economic activity actually contracted in the summer of 2000 at a 0.5 percent annual rate, rose again in the fourth quarter, and by March of 2001 was shrinking steadily.

Real GDP Growth



Following a recession and slow recovery, the economy takes off again.

in unwanted inventories that typically accompanies and exacerbates a recession. By continuing to provide tax relief, this legislation extends important support for families, consumption, and the economy in 2004 and beyond.

The President's 2001 tax relief program of tax rate reductions, an increase in the child tax credit, and a reduction in the marriage tax penalty, among other provisions, proved to be extraordinarily well-timed to address an economy already in trouble when the President took office. In early summer 2001, the Congress passed and the President signed the bipartisan Economic Growth and Tax Relief Reconciliation Act, providing much needed tax relief for millions of families and small businesses. The family tax relief in particular, distributed in part through checks mailed in July, August, and September, helped families meet their needs, kept cash registers ringing, and allowed merchants to avoid the buildup

INITIAL RECOVERY, CONTINUED SHOCKS

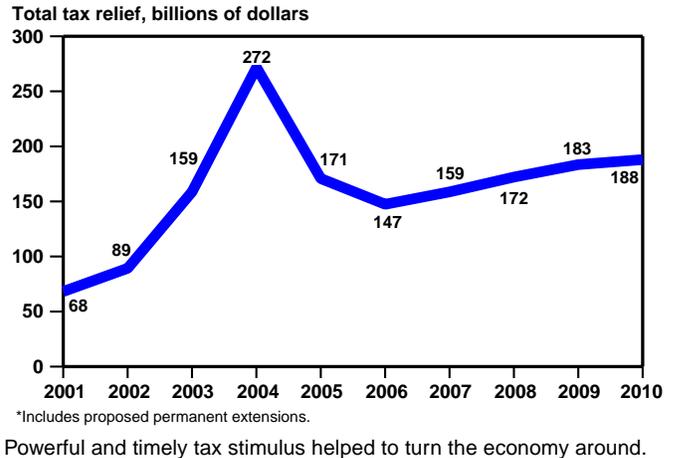
Just as the President's tax relief plan began to take effect, terrorists attacked on September 11, 2001. The President responded quickly to the new terrorist threat to our economy by proposing another stimulus bill directed at sustaining business investment and reinvigorating manufacturing and other capital-intensive sectors of the economy. The centerpiece proposal was to allow businesses to deduct more of their investment sooner, thereby reducing the tax burden on new investments.

The overall economy was expanding again in the fourth quarter, yet employment and industrial production continued to decline and international terrorism raised new uncertainties about the future. Congress responded to the President’s call for action by enacting the Job Creation and Worker Assistance Act in March 2002. This legislation provided stimulus precisely where the economy needed it most—by encouraging business investments to spur job creation.

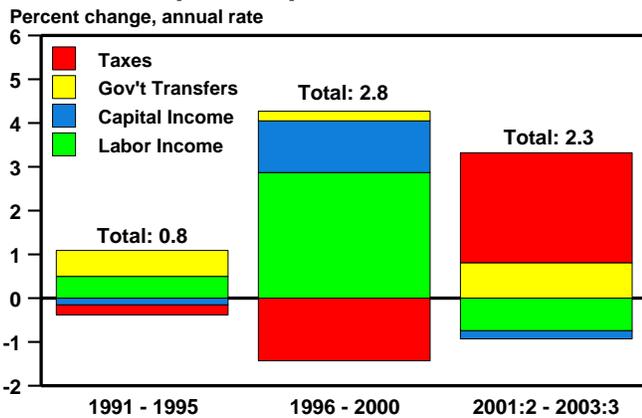
Tax relief combined with a stimulative monetary policy helped give the economy impetus to grow in 2002, but two additional obstacles emerged to slow the recovery’s progress. First, America’s confidence in the business sector suffered yet another setback when substantial corporate fraud—dating in most cases from years before—was uncovered. Second, the prospect of military operations to liberate Iraq, though essential to our national security and the prosecution of the War on Terror, injected further uncertainty into the economy.

Faced with continued weakness in the economy and especially a lagging recovery in employment, in January 2003 the President proposed a third set of tax relief measures. These included the acceleration of some elements from the 2001 tax cut and a new initiative to spur investment further through a reduction in the tax on corporate dividends. Five months later the Congress enacted the Jobs and Growth Tax Relief Reconciliation Act of 2003.

Combined Effects of Three Tax Bills Passed Since 2001*



Contributions to Growth in Real Per Capita Disposable Income



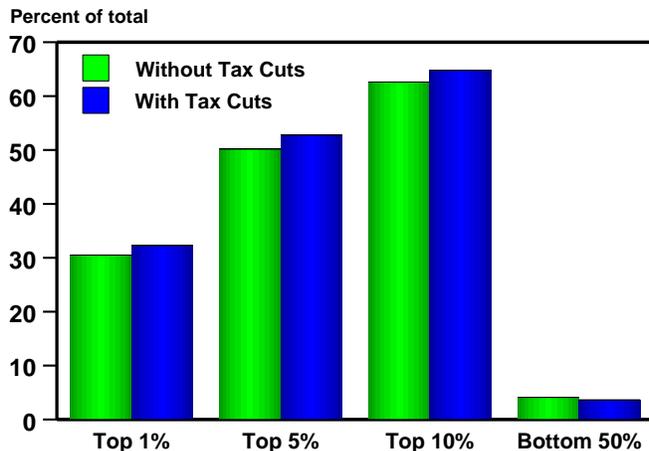
Taxes went from an extra drag on the economy to a powerful stimulus through the President’s program.

have accumulated, business activity and employment would have fallen further, and the recession would have certainly been much longer and much deeper. According to the Council of Economic Advisers, the combined effects of the President’s three tax measures helped preserve over two million jobs by the end of 2003.

Consumers have sustained the economy through the recent period, and tax cuts have been the key to maintaining consumer purchases. Taxes ate away almost half of the growth in real per capita disposable income in the late 1990s, but provided nearly all of the growth in disposable income since 2001. (Real per capita disposable income is a measure of the net income individuals have available for consumption or saving, after taxes, and adjusted for inflation to allow for comparisons across different time periods. When taxes rise, real disposable income falls; and when taxes fall, income rises.) Had the tax cuts not been enacted, real per capita disposable income would have stagnated, personal consumption would have been much lower, inventories would

The Tax Burden: Upper Income Pay a Greater Share With Tax Cuts than Without

Share of Individual Income Taxes in 2004



Upper income taxpayers pay most, and now pay even a larger share of the tax burden.

the \$1,000 child credit and marriage penalty relief are greatest for middle- and lower-income taxpayers.

The individual income tax accounts for nearly half of all Federal receipts each year. (Most of the remainder comes from payroll taxes that finance the Medicare and Social Security programs.) The overwhelming share of the individual income tax burden is paid by upper-income taxpayers.

The President's tax cuts have raised upper-income taxpayers' share of the tax burden even higher. For example, the Department of Treasury estimates that as a result of the President's 2001 and 2003 tax cuts, the top five percent of filers will see their share of the tax burden rise to 52.8 percent with the tax cuts versus 50.3 percent without the tax cuts. The President's tax policy has delivered tax relief for all income tax payers through reductions in the tax rates, but the benefits of

As important as the tax cuts have been in stimulating and sustaining the economy through three difficult years, the powerful impetus they will provide for job growth and international competitiveness will continue into the future. By reducing tax rates, improving incentives to save, phasing out the estate tax, and reducing taxes on investment income, their combined effect will be to reduce dramatically the distortions imposed on our economy by the Federal income tax. Our manufacturing sector and other capital-intensive businesses, for example, will find it less expensive to raise the equity capital they need to finance research and development and new plant and equipment. Corporations will rebalance their financing to put more emphasis on equity over debt. Entrepreneurs with the energy and ideas to start new businesses will find it much easier to raise venture capital to bring those ideas to the marketplace. In short, the tax cuts have materially improved prospects for sustained, strong growth in jobs and wages long after our economy has fully recovered from the recent recession.

THE FULL SCOPE OF A PRO-GROWTH PROGRAM

Tax relief has been at the center of the President's economic program, yet it is just one element in a comprehensive set of pro-growth policies that he has advocated over the past three years. The President has been active on many other fronts to strengthen the economy, create jobs, and raise wages.

The President has led on free trade, obtaining from the Congress for the first time since 1994 the trade promotion authority necessary to negotiate market-opening trade agreements, and then launching a multi-pronged effort to bring down trade barriers through multilateral, regional, and bilateral trade agreements. American companies and workers can compete effectively in the global marketplace, but will do so with much greater success if they have increased access to foreign markets. The bilateral efforts have begun to show results, for example, through trade agreements with

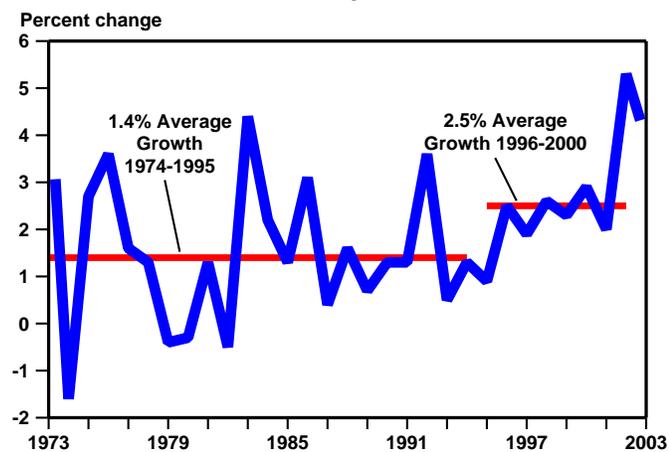
Singapore and Chile; regional talks have begun to bear fruit as evidenced by the agreement between the United States and four Central American nations announced on December 17th of last year; and multilateral talks also continue to make progress.

To respond to revelations of corporate malfeasance, in many cases stretching back many years, President Bush called for reforms in corporate governance to protect the rights of investors and to ensure the proper functioning of our capital markets. The Congress passed and the President signed the Sarbanes-Oxley corporate governance reform bill, the most far-reaching reform of American business practices since the 1930s. The President has also called for the vigorous prosecution of those who broke the law, and to this end in July 2002 he established by Executive Order the multi-agency Corporate Fraud Task Force. The Task Force obtained over 250 corporate fraud convictions in its first year. To strengthen the government's enforcement efforts, the budget of the Securities and Exchange Commission has more than doubled since passage of the Sarbanes-Oxley legislation, providing funding for almost 1,000 additional accountants, attorneys, and examiners. The Securities and Exchange Commission, the Department of Justice, and local law enforcement authorities have responded with a wide-ranging and on-going effort to detect and prosecute these crimes. These actions have provided investors the basis for renewed confidence in the quality of the information available to them, as well as reassurance that the Administration will act quickly and effectively as needed to address future problems of corporate malfeasance.

Finally, the War on Terror itself is an integral component of a sound national economic policy. The economic damage done on September 11th was obvious in New York City, and it was manifest in a number of industries across America including tourism, airlines, and the travel industry generally. But the specter of terrorism also had a profound effect on consumer and business confidence. Winning the War on Terror is vital to national security, and it is essential economic policy that will strengthen the confidence Americans have in their future.

FIRST FRUITS OF SOUND POLICIES

Productivity Growth



Strong productivity growth means more competitive companies and higher paid workers.

Thanks to the President's leadership, the Congress' support, and the fundamental strengths of our economic institutions, the economy is now showing signs of a strong and sustained, job-creating expansion. Economic output as measured by Gross Domestic Product grew at an 8.2 percent annual rate in the third quarter of 2003, the eighth consecutive quarterly increase and the fastest rate of growth in almost 20 years. The Administration is currently forecasting 4.4 percent real growth in 2004, in line with private sector forecasts such as the Blue Chip Consensus.

Productivity growth has been remarkable in recent years. After growing at just 1.4 percent a year from 1974 to 1995, productivity accelerated to 2.5 percent in the latter half of the 1990s, and has grown at a 4.4 percent rate since the fourth quarter of 2000. This extraordinary productivity growth has meant that many companies were able to ride out the economic downturn

with a healthy cash flow, but it also meant businesses have increased their output without increasing employment. As job growth recovers and labor markets strengthen, the stronger underlying productivity growth should lead to strong growth of wages and salaries.

The strengthening economy is also apparent in the equity markets. As seen in the accompanying chart, each of the major stock market indices is up sharply from its trough, indicating that investors have renewed confidence in the future. Increases in the equity markets have added almost \$3 trillion to household wealth since March. Combined with the gains from the growth in housing values, households' wealth has risen by \$4 trillion since the third quarter of 2001. These gains have further supported consumer spending, and they have also helped to replenish households' pool of saving for retirement.

Labor markets have also shown clear signs of strengthening since the summer of 2003. Initial unemployment claims have fallen, as has the unemployment rate. The economy created over 250,000 new jobs from August through December, and most forecasters agree with the Administration that job growth should accelerate into 2004. Consistent with most other forecasters, the Administration's economic forecast reflects the expectation that the unemployment rate will drop from 5.7 percent at the end of 2003 to 5.5 percent by the end of 2004, and to 5.3 percent by the end of 2005.

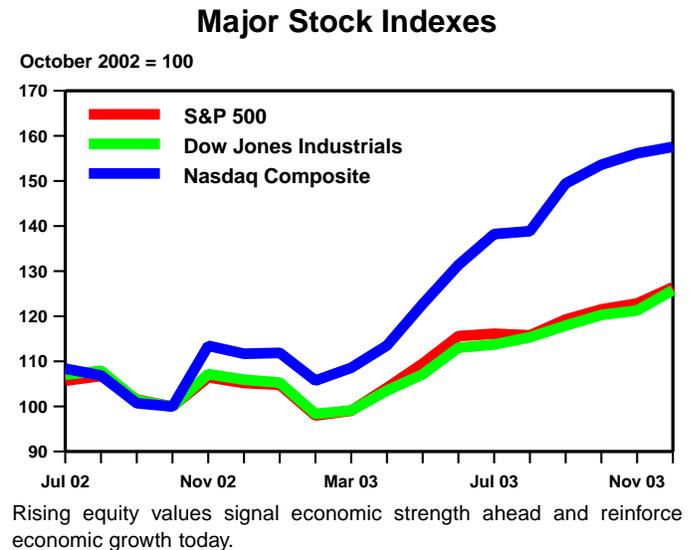
ENSURING GOOD HARVESTS TO COME

Despite a recession, revelations of corporate scandals, the September 11th terrorist attacks, and the inevitable strains created by the War on Terror, America has demonstrated tremendous resolve to recover and grow stronger.

The President recognizes much remains to be done to ensure a strong and competitive economy, and he continues to push aggressively for policies to strengthen job and wage growth. To this end, the President has called for a dramatic slowdown in non-security related Federal spending. The times require significant increases in defense and homeland security spending, and there have been especially large temporary increases in spending associated with the September 11th attacks, homeland defense, and the War on Terror. The President has also worked to increase spending in the highest priority domestic programs, for example in the education area with core No Child Left Behind programs and Pell Grants. For the rest of Government, he has reduced dramatically the growth in annual discretionary spending, as discussed in detail in the Ensuring Fiscal Responsibility chapter.

There is much more that Government can do to improve economic performance. The President has identified six specific initiatives that will improve job and economic growth for years to come.

Making Health Care Costs More Affordable and Predictable. Health insurance costs for employers have been rising 10 percent per year since 2000, causing businesses to hire fewer workers and families to go without insurance. The recently enacted Medicare reform bill created new Health Savings Accounts (HSA) that allow individuals to buy less expensive high-deductible health plans and to save pre-tax dollars for out-of-pocket medical expenses. By shifting individuals' health care buying incentives, HSAs will provide an important market-based constraint on rising health care costs. HSAs are

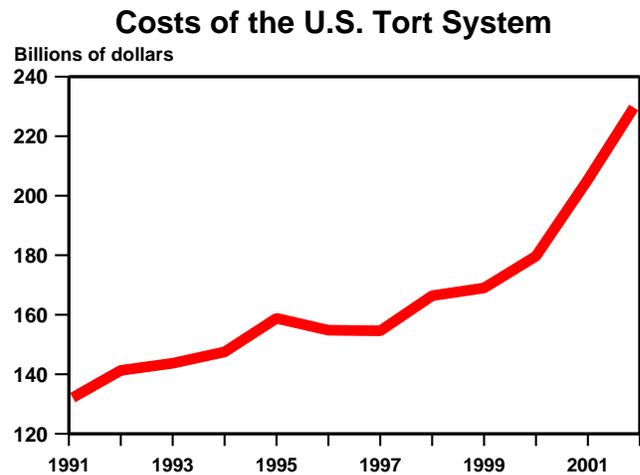


just one of several proposals the President has put forward to address rising health care costs. For example, President Bush also proposes to allow small business to pool together to purchase health coverage for workers at lower rates; to create a refundable tax credit for the purchase of health insurance to ease the financial burden and improve the incentives for uninsured low-income individuals and families to buy health insurance; to allow individuals with HSAs and high-deductible policies to take an above-the-line deduction for their health insurance premiums; and to reduce frivolous lawsuits and time-consuming legal proceedings against doctors and hospitals that drive up health care costs for all.

Ensuring an Affordable, Reliable Energy Supply. Businesses depend on affordable and reliable energy supplies. Energy shortages, price spikes, and blackouts disrupt the economy and discourage businesses from investing and adding new workers. President Bush has proposed a comprehensive national energy plan to upgrade the Nation's electrical grid, the need for which was made all too clear during last summer's blackout in the Northeast. The President's plan also would promote energy efficiency, increase domestic energy production, and provide enhanced energy security, all while protecting the environment. The Congress has made great strides toward enacting an energy bill that meets the President's goals. It is time for Congress to finish its work and pass legislation based on the President's energy plan.

Reducing the Lawsuit Burden on Our Economy. The direct costs of our tort law system have skyrocketed in recent years as shown in the accompanying chart, affecting health care costs and the manufacturing sector in particular, but also touching most other sectors of our economy. When the tort system functions properly, these lawsuits play a vital role in our economy by allowing individuals and businesses to enforce property rights and to discipline inappropriate actions. The system today, however, is clearly out of control, and it is costing American jobs. President Bush has proposed, and the House of Representatives has approved, measures that would move more class action and mass tort lawsuits into Federal courts—so that lawyers will have a harder time shopping for a favorable court. The President's proposed reforms would also ensure that in a class action lawsuit most of the benefits of a settlement will actually go to the people who were injured. These reforms will help those who have been injured while allowing businesses to focus on creating jobs and becoming more competitive, rather than fighting junk lawsuits and outrageous judgments. The President has called on the Senate to join the House in enacting these reforms as quickly as possible.

Streamlining Regulations and Reporting Requirements. Government regulations and reporting requirements, although in many cases providing important public benefits, also impose enormous costs on the economy. To an extent, those costs are unavoidable, but they cost jobs as well as money, and so Government has a responsibility to ensure that its regulatory actions are reasonable and affordable. Too often, government regulations and compliance burdens unnecessarily discourage, rather than promote, job creation. The Administration will continue to work to simplify and streamline regulations, along with ensuring that well-intentioned compliance requirements do not have the unintended effect of eliminating jobs. For example, the Administration streamlined tax reporting requirements for small businesses, helping 2.6 million small businesses save an estimated 61 million hours of unproductive work.



Source: Tillinghast-Towers Perrin.

Soaring tort costs primarily benefit a small group of lawyers at the expense of consumers, workers, and investors.

Opening New Markets for American Products. American workers can compete with anyone in the world when given a chance to compete on a level playing field. Foreign taxes and tariffs drive up the costs of American products in too many countries, making our products less competitive than those produced elsewhere. History has shown that countries engaging in free and fair trade prosper most. President Bush will continue to work hard to open foreign markets to American products.

Enabling Families and Businesses to Plan for the Future with Confidence. America's families and businesses need certainty to plan effectively for the future. And while the future holds many uncertainties, Government policies should not needlessly add to them. Right now, key elements of the tax relief passed by the Congress and signed into law by President Bush—including the increase in the child tax credit, the marriage penalty relief, and the increased incentives for small business investing—will expire in a few years. For example, a married couple with two children and an annual income of \$40,000 would face a \$922 tax increase in 2005 if the provisions of the Jobs and Growth Act are not made permanent. This family needs to know today that it will have that \$922 in 2005 for its own needs, not the Government's. President Bush urges the Congress to make these vital tax reductions permanent.

Increasing Private Saving

In addition to the President's six-point program to strengthen our economy and improve job creation, the President has four specific proposals to increase private saving, thereby expanding the amount of investment owned by Americans and building the pool of savings Americans will need as they retire. First, the President has proposed Retirement Savings Accounts that would greatly simplify the tax treatment of individual tax-preferred savings opportunities. Recognizing the importance of retirement saving, the Congress has enacted a bewildering array of savings alternatives. Retirement Savings Accounts cut through the complexity to create a simplified, generous option for individuals to save.

Second, the President has proposed consolidating the various employer-based defined-contribution saving plans into one simple plan called Employer Retirement Savings Accounts. The tax code contains a great many employer-based saving options including 401(k) plans, Simple 401(k) plans, 403(b) plans, Thrift plans, and many more. The resulting complexity discourages companies from offering these saving opportunities to their employees, and discourages employees from signing up when their employer does offer. The President's proposal vastly simplifies the landscape of employer-based defined-contribution savings options and thereby encourages more employers, and employees, to participate.

Third, to help all taxpayers save for emergencies and large purchases, the President has proposed Lifetime Savings Accounts, which allow an individual to earn a tax-free return on deposit amounts and withdraw the funds as needed without paying further taxes and without facing a withdrawal penalty. Individuals need to save for retirement, but they also need to save for other needs, such as emergencies and unexpected expenses, as well as large, expected purchases like a home, a car, or a child's education. Lifetime Savings Accounts are a new concept that will give individuals a whole new opportunity for tax-deferred saving.

Finally, to help low-income taxpayers build a financial cushion, the President has proposed Individual Development Accounts which use tax credits to leverage amounts saved by low-income taxpayers. Low-income taxpayers, in particular, often face real hardship because they have little financial cushion with which to save for a child's college education or to build up a downpayment on a house. Individual Development Accounts create an extra opportunity for low-income individuals to take the first steps in accumulating wealth. Taken together, these four saving proposals will simplify the tax code while significantly reducing the existing tax disincentives to saving.

The economy has faced a series of challenges over the past three years, but the President's policies are now taking full effect, the economy is again growing at a strong pace, and job growth has resumed. These policies will continue to strengthen the economy in the months and years ahead, but much remains to be done to ensure that every American who wants a job can find a job, and to ensure that economic opportunity expands to every corner of our society. Holding the line on non-security related spending, implementing the President's six-point plan for economic growth, and improving savings incentives are the right policies for the economy and for the Nation.

ENSURING FISCAL RESPONSIBILITY

Since President Bush took office in January 2001, the Nation has faced an unprecedented combination of challenges. These challenges began with a stock market collapse that had started the previous spring, continued with a recession that took hold as the President entered office, and built with the revelation of corporate scandals later that year. The challenges grew exponentially with the terrorist attacks of September 11, 2001, and the loss of thousands of lives on American soil, followed by uncertainty about the potential for further terrorist attacks. The combination of these events posed perhaps the most serious test of America's resolve since the attack on Pearl Harbor and the country's entry into World War II.

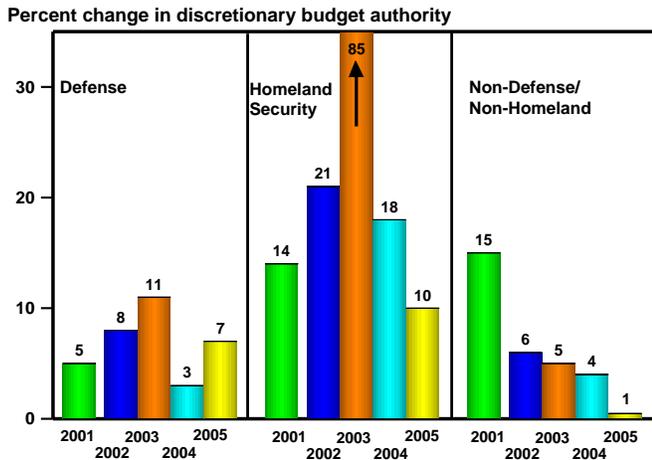
President Bush has acted decisively to meet these challenges. He has championed three overriding priorities—winning the War on Terror, protecting the homeland, and restoring strong economic growth—and his budgets have met those priorities.

The War on Terror. Within days of the September 11th attacks, the President called for, and the Congress enacted, an unprecedented \$40 billion in emergency appropriations for recovery and rebuilding from the terrorist attacks, and to finance retaliation against the al-Qaida terrorists in their bases in Afghanistan. After successful action in Afghanistan, the President made the difficult decision to lead a coalition against the gathering threat of Saddam Hussein's regime in Iraq. The Congress enacted further supplemental appropriations in April and September of 2003 to finance continuing operations in Afghanistan and the war and subsequent rebuilding effort in Iraq.

Homeland Security. More than \$10 billion of the \$40 billion in emergency appropriations enacted after September 11th was devoted to protecting the homeland from future terrorist attacks. This funding helped to increase the number of sky marshals flying on commercial airlines, screen baggage at the Nation's airports, protect the approaches to our harbors, and acquire medicines to protect against anthrax and other biological agents. Annual appropriations since 2001 have more than tripled the resources devoted to homeland security, from a net discretionary base of about \$10 billion in 2001 to over \$30 billion proposed in this Budget for 2005. The adoption of the President's proposal to create the new Department of Homeland Security from 22 separate agencies in January 2003 is bringing a coordinated, comprehensive strategy to secure the Nation from terrorist attacks.

Promoting Economic Recovery and Growth. Confronting an economy entering recession when he took office, the President has acted decisively to create jobs and lay the foundations for healthy economic growth. The President's 2001 tax cut passed in May 2001 was perfectly timed to provide stimulus to an economy in the middle of recession, and subsequently battered by the September 11th terrorist attacks. At the President's request, the Congress delivered further incentives for business investment and relief for the unemployed in the March 2002 tax bill. Last year, not satisfied with the slow pace of the economic recovery and especially job creation, the President called for, and Congress enacted, further tax relief to promote economic growth and boost employment.

Enhanced Security -- Restraint Elsewhere



Growth rates exclude supplemental appropriations. Supplementals increase defense and homeland security growth rates dramatically (these categories received 90 percent of supplemental funding).

Today's budget deficits are the unavoidable product of the revenue erosion from the stock market collapse that began in early 2000, an economy recovering from recession, and a Nation confronting serious national security threats. We can put the budget on the right path if we continue pro-growth economic policies and exercise responsible spending restraint. The Administration has insisted on fiscal discipline by restraining spending outside the critical areas of defense and homeland security. As shown in the accompanying chart, while spending on defense and homeland security has increased sharply, the Administration has held spending outside these critical priorities to smaller, and diminishing, rates of growth.

Recession and Collapse of Revenue Surge Bring Back Deficits

At the beginning of 2001, the budget was beginning a fourth straight year of surplus, on the strength of a massive revenue surge due primarily to increased capital gains realizations from a booming stock market, growth in stock options, and bonus income to high-income taxpayers. From January 1995 to the market peak in March 2000, the S&P 500 equity index more than tripled and the technology-oriented NASDAQ composite stock index rose an astonishing six-fold, far outpacing the 32-percent growth in the overall economy during the period. At the height of the market-induced revenue "bubble" in 2000, receipts rose to 20.9 percent of Gross Domestic Product (GDP), matching the all-time peak reached during World War II. Receipts in 2000 were nearly \$300 billion above long-term historical trends, more than accounting for the \$236 billion surplus in that year.

In its first budget forecast, the Administration, along with the Congressional Budget Office and other budget forecasters, projected that recent high rates of revenue growth would gradually abate, but that the period of surpluses would continue. These forecasts reflected the best judgment of professional forecasters, but they could not anticipate the sudden combination of collapse in the stock market, the recession, the revelation of corporate scandals, the September 11th terrorist attacks, the subsequent War on Terror, or the spending and tax changes necessary to respond to these and other unanticipated events.

With the collapse in the stock market and the onset of recession, the revenue surge was dramatically reversed. Federal receipts actually declined for three years in a row, something the Federal Treasury has not experienced since 1923. Even with a small rebound in receipts now projected from 2003 to 2004, receipts are still estimated to be 11 percent below their peak in 2000.

Had there not been one dime of tax relief under President Bush, we would have still run substantial budget deficits. Even if one assumes no tax relief, no additional defense and homeland security spending, no unemployment assistance extensions to respond to the recession, and no other additional enacted spending, we would still have had a deficit in 2002, 2003, and 2004.

Putting Recent Deficits in Perspective

As a result of the funding requirements for the War on Terror, the lingering effects of the recession and the ensuing slow recovery, the deficit for 2004 is estimated at \$521 billion. This deficit is an

increase from the \$375 billion imbalance in 2003. While receipts are projected to increase in 2004 by \$16 billion—the first increase in receipts in four years—outlays are projected to increase by an even larger \$161 billion. Beginning with this Budget, the deficit is then projected to begin to decline, falling to \$364 billion in 2005—although this projection does not include expected but undetermined additional costs arising from ongoing military operations in Iraq, extending beyond 2004.

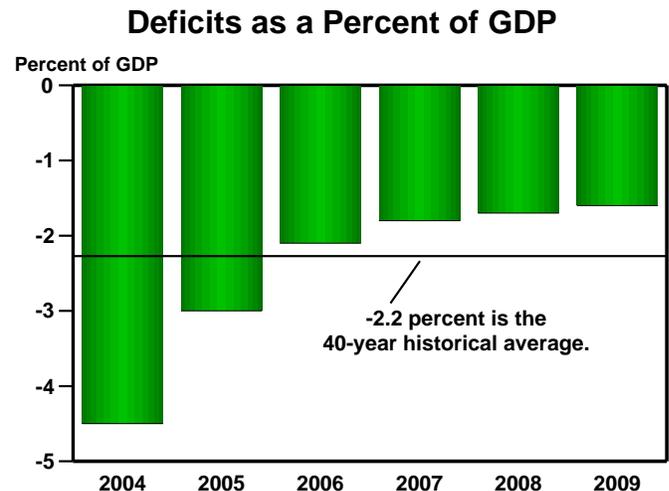
A deficit of \$521 billion is a legitimate subject of concern. Yet, even a deficit of this size should be kept in perspective. The potential impact of the deficit on credit markets and the overall economy is more appropriately measured by expressing it relative to the size of the Nation's GDP. A 2004 deficit of \$521 billion represents 4.5 percent of GDP forecasted to be \$11.5 trillion. This ratio of deficit to GDP is as low as or lower than the deficits in six of the previous 25 years and well below the 1983 peak of 6.0 percent.

Recent deficits should also be assessed by their actual effects on the economy. With demand subdued by the slow recovery from recession and terrorist attacks, the tax cuts and spending increases since 2001 have had an important stimulative effect on the economy. Moreover, these deficits have had no discernible effect on interest rates. Short-term interest rates remain at the lowest levels in more than four decades, influenced by the Federal Reserve Board's accommodative monetary policy. Long-term interest rates, which are less influenced by the Federal Reserve Board's actions, also reached historic lows last June, and are up only modestly since then—despite clear signs of economic strengthening.

Cutting the Deficit in Half

More important than the deficit projected for any one year is the expected path of the deficit over a period of years and its relationship to the economy. This Budget estimates that the deficit will decline sharply from its 2004 peak of \$521 billion to \$237 billion in 2009. As a share of GDP, the economically relevant measure, the projected deficit falls to 1.6 percent in 2009, less than half of its estimated 2004 peak of 4.5 percent. The projected 2009 deficit is lower than the average deficit over the last four decades of 2.2 percent of GDP, including in periods of healthy economic expansion during the latter half of the 1980s and during most of the 1990s. Furthermore, the estimates in this Budget are based on a cautious economic forecast; if productivity continues to increase at its recent rapid pace, for example, the deficit could fall even more rapidly.

The decline in the ratio of deficit to GDP can also be understood by looking at the path of projected receipts and outlays. Receipts have declined dramatically as a share of GDP since their peak in 2000, as a result of weak income growth due to the recession and a collapse in capital gains and bonus income due to the stock market downturn. Receipts are projected to reach a low of 15.7 percent of GDP in 2004 and then to rise, climbing to 17.8 percent of GDP in 2009, almost exactly matching their post-World War II average. While receipts are rising over the next few years, outlays are projected to decline slightly as a share of GDP reaching 19.4 percent of GDP in 2009. The rise in receipts as a share of GDP, coupled with a roughly flat ratio of outlays to GDP, produces the declining ratio of the deficit to GDP projected in the Budget.



With continued pro-growth economic policies and spending restraint reflected in the Budget, deficits fall sharply.

This progress in reducing the deficit requires maintaining the fundamentals for strong economic growth, together with determined spending restraint. The Administration's tax cuts, while providing critical stimulus to the economy to jumpstart the current recovery, will also provide the underpinnings for strong growth for years to come. Business investment is recovering, fueled in part by the temporary bonus depreciation provisions in the 2002 and 2003 tax acts. Incentives for small businesses and entrepreneurs are healthy, thanks to cuts in marginal tax rates, increased expensing for small business, and reductions in and the eventual repeal of the punitive estate tax. The reduced tax rate on dividends and capital gains encourages sound investment and promotes the access of business to the capital needed for expansion. The President's six-point plan for economic growth and international competitiveness will reinforce the fundamentals for growth. It will make health care more affordable, reduce the burden of costly frivolous tort lawsuits, ensure a reliable energy supply, streamline regulations, open new markets, and enable families and businesses to plan for the future by making the tax cuts permanent.

Spending discipline is also critical to keeping the deficit on a declining path. Even as the Administration has increased funding in the critical areas of defense and homeland security, it has sought to ensure that spending outside these key areas is held to minimal growth. In 2001, the last budget year of the previous Administration, domestic spending unrelated to defense or homeland security grew by 15 percent. With the adoption of President Bush's first budget, for 2002, that number was reduced to six percent and has declined steadily thereafter, as the accompanying chart illustrates. This Budget continues the trend of increasing restraint on non-security related spending.

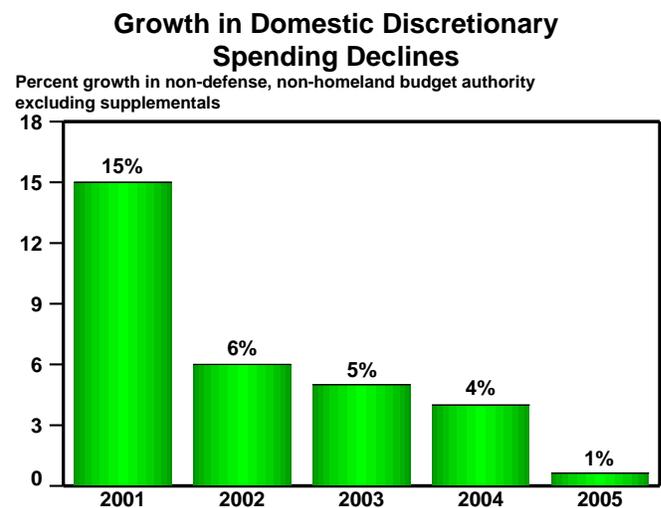
The current Budget proposes a 3.9-percent increase in overall discretionary spending for 2005, less than the average rate of growth in American family income and in keeping with the need to exercise responsible spending restraint. This includes a 7.1-percent increase in spending authority for defense, 9.7 percent for homeland security, and 0.5 percent—or below the rate of inflation—outside these areas.

This policy of spending restraint, reinforced by the budget enforcement measures described later in this chapter, is designed to ensure immediate and continuing progress in reducing the deficit from current levels.

Fiscal Responsibility in the Long Term: Addressing the Real Fiscal Danger

Social Security and Medicare are critical programs for ensuring the financial security and health of elderly Americans, and President Bush is committed to ensuring that these programs continue to deliver benefits both for today's beneficiaries and for future generations of retirees. Unless these programs are reformed however, over the long run they will overwhelm the rest of the budget and place an unsustainable burden on future generations.

While the outlook for the budget improves considerably over the next five years, looking at the budget over a much longer term yields a less encouraging picture. Although projections of the budget



Budget Authority and Outlays: Decisions versus Disbursements

Budget authority and outlays are both important measures in the budget process. However, when measuring an Administration's and Congress' action on a budget, budget authority is the appropriate measure because it reflects legal authority the Congress and the President grant agencies to spend money. Outlays (actual expenditures) are the result of budget authority. The growth rates set forth in the text refer to budget authority.

The difference between the two boils down to budget decisions versus cash disbursements. At the time the Congress passes an appropriations bill and the President signs it into law, the law provides appropriations or budget authority, not outlays.

Outlays, on the other hand, are recorded at the time that cash for goods and services purchased by the Government is disbursed from the Treasury. The budget deficit is equal to the amount total outlays exceed total revenues for a particular fiscal year. Outlays lag budget authority, frequently by years for procurement and grant programs. As a result, outlays in a fiscal year come from both new appropriations and appropriations made in previous years. (The *Analytical Perspectives* volume provides a more detailed discussion of the relationship of budget authority to outlays.) The Congress and the President can only control outlays by changing budget authority levels.

The Consolidated Appropriations Act of 2001 as an example. On December 21, 2000, President Clinton signed the Consolidated Appropriations Act of Fiscal Year 2001, which provided funding for the remaining three regular appropriations bills (Labor, Health and Human Services and Education; Treasury and General Government; and the Legislative Branch). This omnibus appropriations bill provided \$126.6 billion in discretionary budget authority for fiscal year 2001, which was already in progress at the time. The bill was estimated by OMB to result in only \$62.5 billion in outlays in 2001, the last budget year of the Clinton Administration. While this bill was signed into law by President Clinton, the \$64.1 billion balance in outlays, more than half of the funding provided in this law, was estimated to be spent after 2001, and is still being spent today, all during budget years covered by the Bush Administration.

over the next few decades and beyond are subject to enormous uncertainty, fundamental forces are at work that will create serious fiscal problems if left unaddressed.

The main source of the long-run fiscal problem is demographics. As Americans live longer and the birth rate falls, the ratio of workers to retirees is decreasing. In the 1960s, there were five workers for every retiree, and in recent years this ratio has remained around 3.3. According to the Social Security actuaries, the ratio will begin to decline around 2007, reaching 2.9 in 2015 and 2.2 in 2030. The change is especially rapid during the years when the large baby boom generation born between 1946 and 1964 reaches retirement age; but even after the post baby boom generation begins to retire, the ratio will continue to fall, reaching 1.8 in 2080, the last year of the actuaries' projections.

Because the Nation's two largest entitlement programs, Social Security and Medicare, are based in large part on the principle that current workers pay the benefits of retirees, these programs are heavily influenced by this decline in the ratio of workers to retirees. So far, the effects of this shift on the budget have been muted, because today's retirees are from the relatively small pre-baby boom generation, while the baby boomers are still active in the labor force. In the next several decades, however, the impact of lower birth rates and longer life expectancy will begin to take a visible toll on both Social Security and Medicare.

The result of this demographic shift is a steady worsening of the finances of the Social Security and Medicare programs. Today, Social Security's dedicated revenues, boosted by the payroll taxes of the large baby boom generation, are more than sufficient to finance the benefits paid to the relatively small generation of retirees born before the boomers. In only about a decade, however, the balance begins to turn unfavorable as the boomers enter retirement and leave a relatively smaller generation

of younger workers. According to the Social Security actuaries, the current surplus of dedicated revenues over benefit payments of 0.7 percent of GDP will begin to shrink once the baby boomers begin to retire, turning into a small deficit starting in 2018. By 2030, with the entire baby boom generation in retirement, the program will face a gap of 1.4 percent of GDP. The actuaries estimate that the gap will grow to 2.3 percent of GDP in 2080, at which point Social Security's dedicated revenues would only be sufficient to cover two-thirds of benefit payments under current law.

Medicare faces the same demographic pressures as Social Security, exacerbated in this case by continued high rates of growth in health care costs. Over the last two decades, Medicare's spending per beneficiary has grown 1.6 percentage points faster than GDP per capita. Due to the combined effects of growth in Medicare enrollment and continued excess growth in health costs, the worsening of Medicare's finances is expected to be even more severe than that of Social Security. Medicare's two programs, Hospital Insurance and Supplementary Medical Insurance, already face a gap between dedicated tax revenues and benefits of 0.8 percent of GDP. (This gap is covered by a transfer of general revenues from the general fund to the Medicare trust funds.) The 2003 Medicare trustees' report projected that this gap would grow dramatically in the next few decades, reaching 1.1 percent of GDP in 2015 and 2.6 percent of GDP in 2030. By 2075, the gap would be 6.5 percent of GDP, with dedicated revenues covering only 28 percent of benefits.

A different way of understanding the size of the imbalance facing Social Security and Medicare is to compute today's equivalent of the cumulative financing shortfall in these two programs for some future period, traditionally over the next 75 years. For Social Security, the 75-year gap between dedicated revenues and benefit payments totals \$4.9 trillion. For Medicare, the combined shortfalls of the Hospital Insurance and the Supplementary Medical Insurance programs in the 2003 trustees' report totaled \$15.8 trillion. The cumulative shortfall for Social Security alone exceeds the present level of debt held by the public; together with Medicare, the financing shortfall is more than five times the level of the current debt.

Even a 75-year time frame for analyzing Social Security and Medicare can be misleading because it does not take into account the degree of the financing shortfall beyond the 75-year period. For example, the Social Security actuaries estimate that a flat 1.92-percent increase in the payroll tax would be sufficient to put Social Security in actuarial balance over 75 years, leaving the trust fund with a small balance at the end of the period. The trust fund would be exhausted immediately thereafter, however, because of the continuing gap between benefit payments and the program's dedicated income. An alternative approach looks at the program going out into the indefinite future. Considered in this framework, estimates of Social Security's unfunded obligations jump to \$11.9 trillion, or more than double the number produced by the 75-year calculation.

The Effects of Economic Growth. Stronger economic growth is crucial to improving the budget picture in the short term, and it will have long-term benefits as well. The acceleration in the rate of growth in labor productivity is certainly encouraging, and may continue indefinitely. Stronger economic growth alone, however, will not resolve the long-run imbalance in Social Security and Medicare.

Social Security benefits are financed by payroll taxes. As worker productivity rises, real wages tend to follow. This means that an acceleration of economic growth today should increase the amount of payroll tax income flowing into the Social Security trust fund. However, future Social Security benefits are linked to current wages, so as wages and payroll taxes rise, future benefits increase roughly in proportion, and the actuarial imbalance in Social Security is reduced only slightly.

The Medicare program is financed by a combination of premiums, payroll taxes, and general revenues, so that if the economy continues to exhibit strong growth, it will see an increase in proceeds in the same way that Social Security would. Unlike Social Security, however, Medicare benefits are not determined by wage levels, but by health care costs. Thus, a stronger economy can increase the

flows of revenues into Medicare without automatically increasing future benefits, thereby reducing Medicare's actuarial imbalance.

Social Security Modernization. Shortly after taking office, the President established the bipartisan President's Commission to Save Social Security. The charge of the Commission was to present options to modernize and restore solvency to Social Security through the addition of voluntary personal retirement accounts, while preserving current benefits to those already in or near retirement. In its final report, the Commission outlined three models for reform, all of which would provide substantially higher expected benefits than those payable under current-law Social Security revenues. The President remains committed to strengthening Social Security through the establishment of voluntary personal accounts in which workers would be permitted to save and invest a portion of their payroll tax contributions. These accounts would provide individuals with more choices, increase total expected Social Security benefits, permit individual participants to bequeath unused assets to their heirs, advance-fund a portion of future program obligations, and reduce the long-term imbalance between costs and revenues.

Medicare Modernization. From the beginning of the Administration, the President has been committed to fulfilling Medicare's promise of health care security for America's seniors and those with disabilities. The President has vigorously pursued modernizing Medicare's outdated benefit package to include prescription drug coverage, provide more reliable choices of health care coverage, and offer better coverage of preventive services. The President has also insisted that any Medicare modernization effort address the program's long-term financing shortfall so that Medicare can continue to honor its promises to future generations.

Passage of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 fulfills the President's commitment to modernize Medicare. Seniors and the disabled will now have access to prescription drugs and other health care innovations. Moreover, the legislation lays the foundation for addressing Medicare's long-term financing challenge by dramatically increasing beneficiary choices and market-based competition, which are the essential ingredients for improved quality and lower cost growth.

During the development of this landmark legislation, the Administration recognized that this enhanced benefit package, while a vital addition to the Medicare program, would put additional pressure on the long-term growth in program costs. The Administration therefore insisted that the legislation require a comprehensive analysis of Medicare's financial position and new fiscal safeguards to alert the President and the Congress when Medicare's dedicated revenues are projected to fall below levels adequate to sustain the program.

The full impact of Medicare's financial shortfall has been obscured because traditional financial measures of Medicare focus on only half the program—the outlook for the Hospital Insurance trust fund, which covers hospital expenses. These measures do not consider Medicare's other trust fund, the Supplementary Medical Insurance (SMI) trust fund, which pays for doctor and outpatient services and now the new prescription drug benefit. The SMI trust fund is partially financed by beneficiary premiums, but the remainder is paid for by an unlimited tap on general revenues, the ultimate source of which is the Federal taxpayer.

The new legislation requires the Medicare Trustees to analyze the Medicare trust funds on a combined basis. This comprehensive view of the program is necessary to provide a clear assessment of Medicare's true fiscal status. The legislation also requires an analysis of the program's reliance on general revenues to make up the gap between expenditures and dedicated revenues. The trustees must issue a warning if Medicare's reliance on general revenues is projected to exceed 45 percent of total Medicare expenditures at any point during the following six years. Current projections indicate that Medicare will rely on general revenues for 31 percent of funding this year, and that the level of

general revenue funding may reach 45 percent by 2014. If the Trustees issue warnings in two consecutive years, the bill provides special legislative procedures to allow the President and the Congress to address the shortfall in advance of financial crisis in the Medicare trust funds.

Budget Enforcement: Slowing the Growth in Spending

Through pursuit of the President's pro-growth economic policies and responsible restraint in Federal spending, the President's Budget puts the deficit on a responsible downward path. Since the Congress has the power of the purse, the President cannot reduce spending on his own. In order to ensure restraint in the growth of Federal spending, the President's Budget proposes a comprehensive framework to establish spending controls in law binding both the Congress and the Executive Branch.

The Administration's proposal is largely based on the Budget Enforcement Act (BEA). From 1991 to 2002, the BEA set statutory budget authority and outlay limits on discretionary spending and a pay-as-you-go requirement for all other legislation that were enforced by across-the-board spending reductions. Until budget surpluses surfaced in 1998, the BEA proved to be an effective brake on the growth in spending.

Currently, there is insufficient focus on how individual spending bills affect total spending. Whether it is an appropriations bill or a proposal to increase mandatory spending, there is enormous pressure to add spending. Legislation tends to be considered in isolation and not in the context of the entire budget. In isolation, these spending items may appear to have sufficient merit, particularly when there is no overall accounting of the effect of enacting an increase in spending. However, when added to the \$2 trillion in current spending and the growth in Federal spending under current law, they can pose a significant threat to deficit reduction efforts.

The President's Budget enforcement proposal is based on the premise that any increase in spending should be offset by a reduction in other spending. If a new spending proposal is of sufficiently high merit, there should be some item in the \$2 trillion of existing spending that is a lesser priority.

More specifically, the Administration will transmit a legislative proposal to establish discretionary spending limits, mandatory spending controls, and a new mechanism to measure the Federal Government's long-term unfunded obligations and to prohibit a net increase in these obligations. (Chapter 14 of the *Analytical Perspectives* volume provides an overview of the Administration's proposals for BEA extension and other budget reforms.)

Discretionary Spending Limits. The President proposes annual statutory limits on discretionary spending through 2009 that would be adhered to throughout the budget process. The President's proposal would require a three-fifths vote of the Senate for an appropriations bill that caused these limits to be exceeded. If an appropriations bill was enacted that caused these limits to be exceeded, OMB would be required to make across-the-board cuts to eliminate the excess spending.

Mandatory Spending Controls. Mandatory spending constitutes spending that is not thought of as under the discretion of Congress in the annual appropriations process and is frequently referred to as being on "automatic pilot." When President Kennedy was in office, mandatory spending represented one-third of the budget. There has been an explosion in mandatory spending since the early 1960s and today it amounts to nearly two-thirds of the budget.

In order to control mandatory spending, the President proposes to require legislative proposals that increase mandatory spending to be offset by reductions in other mandatory spending. Like his discretionary spending enforcement mechanism, this proposal would require a three-fifths vote of the Senate for legislation that violated this requirement. If legislation was enacted that caused a net increase in mandatory spending, OMB would be required to make across-the-board reductions in non-exempt programs. The President's proposal would modify the pay-as-you-go mechanism that

was in existence from 1991–2002 to set a requirement that mandatory spending legislation could not cause a net increase in spending.

In the case of the President's proposed health care credit, the Budget includes contingent offsets that would cover the estimated increases in mandatory spending that would result from this proposal. When the Congress moves legislation to implement the President's health care credit proposal, the Administration will work with the Congress to offset this additional spending.

Long-term Unfunded Obligations. As discussed earlier, the real fiscal danger is posed by the long-term unfunded obligations of the Social Security, Medicare, and other entitlement programs. Spending decisions on entitlements often have ramifications on the budget outlook far beyond the conventional 10-year window used to score changes in policy. Enforcement mechanisms are needed to address the long-term impact of entitlement spending expansions.

The Congress has already acted to require a more comprehensive review of the Medicare program's finances and to require the Medicare trustees to issue a warning when the program's reliance on general revenues is projected to exceed 45 percent of Medicare's total expenditures. The President proposes to build on this reform by establishing a new enforcement measure to analyze the long-term impact of legislation on the unfunded obligations of major entitlement programs and to avoid enactment of such legislation if it would expand the unfunded obligations of these programs over the long run. These measures will highlight the long-term financial challenges facing the Nation and prevent enactment of policy changes that appear to cost little in the short run but result in massive increases in the spending burdens passed on to future generations.

The number of people of retirement age is projected to surge by about 80 percent over the next 30 years, raising costs for federal health and retirement programs. Meanwhile, the number of workers whose taxes help pay for those benefits is expected to grow by only 15 percent. In addition to that demographic situation, costs per enrollee in federal health care programs are likely to grow much faster than inflation. As a result, spending on Medicare, Medicaid, and Social Security as a share of GDP will rise sharply. In the absence of changes to federal programs, that rise could lead to unsustainable levels of debt.

CBO, *The Budget and Economic Outlook: An Update*
August 2003

Tax rate increases of sufficient dimension to deal with our looming fiscal problems arguably pose significant risks to economic growth and the revenue base. The exact magnitude of such risks are very difficult to estimate, but they are of enough concern, in my judgment, to warrant aiming to close the fiscal gap primarily, if not wholly, from outlay restraint. At the same time, the dimension of the challenge, especially in later years, cannot be underestimated.

Alan Greenspan, Chairman of the Federal Reserve
Remarks at the Securities Industry Association Meeting in Florida
November 2003

While the President's proposed budget enforcement proposals can be effective tools in implementing responsible spending restraint, these tools will only succeed if implemented and followed by both the Congress and the Administration. The President and the Congress have made great strides in reducing the growth in non-security related spending during a particularly challenging period of America's history. These new tools will enable us to continue and expand on this progress this year and in the years ahead.

MANAGING FOR RESULTS

Fiscal responsibility requires sound stewardship of taxpayer dollars. This means that once the Congress and the President decide on overall spending levels, taxpayer dollars should be managed to maximize results. The President's Management Agenda (PMA) is creating a results-oriented Government where each agency and program is managed professionally and efficiently and achieves the results expected by the Congress and the American people.

The PMA, launched with the broad goal of making the Government more results-oriented, focuses on achievement and accountability. Areas of emphasis, or sub-components, were identified for the Agenda, as well as expected levels of achievement, or Standards for Success. Implementation of the PMA has brought focus and attention to how the Government operates, and identified ways that it can be more effective. Agencies are improving—managing for and achieving better results. With increasing frequency and skill Government managers are asking the tough questions. For example:

- *Are programs working and efficient? If not, what can we do about it?*

The Department of Energy (DOE) has assessed 67 percent of its spending using the Program Assessment Rating Tool (PART), an instrument that helps to evaluate the performance of individual programs. DOE is using the information from these assessments to make day-to-day management decisions, inform the development of its budget, and direct improvements of program performance.

- *Are we making payments to the right people in the right amounts? If not, what can we do about it?*

By holding States accountable for their disbursement of food stamp benefits, the Department of Agriculture in 2002 prevented approximately \$70 million in erroneous Food Stamp payments.

- *What does it cost us to perform a particular function and how can we optimize performance while controlling costs?*

The Social Security Administration (SSA) has timely data that allows the agency to decide how and when to process cases based on the cost of processing different categories of cases, what part of its workforce can process the cases most effectively, and where those cases are in the backlog. This allows SSA to provide better service to beneficiaries by processing cases more quickly.

Explanation of Status Scores

Green—Agency meets all the Standards for Success.

Yellow—Agency has achieved intermediate levels of performance in all of the criteria.

Red—Agency has any one of a number of serious flaws.

Explanation of Progress Scores

Green—Implementation is proceeding according to plans agreed upon with agencies.

Yellow—Slippage in implementation schedule, quality of deliverables, or other issues requiring adjustment by agency in order to achieve initiative on a timely basis.

Red—Initiative in serious jeopardy. It is unlikely to realize objectives absent significant management intervention.

- *Are our information technology (IT) systems secure and well managed? How can they help us enhance service delivery?*

The National Science Foundation (NSF) has 100 percent of their systems secure, furthering agency mission to support research and education. An interactive, real-time, web-based system used by over 200,000 scientists, educators, technology experts and administrators allows NSF to conduct business in a secure environment over the Internet. And thanks to the Free File program, most Americans can now file their taxes over the Internet for free.

- *Do we have the proper number and quality of skilled people we need today and tomorrow? If not, what can we do about it?*

The Small Business Administration (SBA) has developed and is now implementing career development plans for employees who need specific skills to better accomplish their occupational goals.

The five Government-wide Management Agenda initiatives are discussed below.

STRATEGIC MANAGEMENT OF HUMAN CAPITAL

The focus of the Strategic Management of Human Capital Initiative is to help the Government maximize the value of its most important resource, its workforce. Agencies are now establishing and implementing practices to manage their personnel to better achieve their missions.

SSA, for instance, assesses whether it has enough workers in various field locations at a given time to ensure the timeliness of case processing. If not, SSA shifts work to ensure that cases are handled quickly. To minimize service impacts, SSA also focuses on replacement hiring in advance of losses, so that experienced employees, before they retire, train and mentor new employees. These human capital management strategies are additional steps SSA takes to provide better service to SSA's customers.

Agencies are making sure their employees understand how their work contributes to the achievement of the agency's mission and what is expected of them. Appraisal systems are making clear how employees will be evaluated and distinguishing between high and low performers. Proper implementation of strong performance appraisal systems will provide the necessary foundation for establishing pay for performance systems where an individual's pay is more directly linked to his or her performance and achievements instead of longevity. Agencies like the Departments of Transportation, Health and Human Services, and Labor are among those agencies using accountability contracts. These contracts are results-based management plans that provide clear, specific, and understandable expectations to link the performance and accountability of leaders to the agency's strategic plan.

In order to meet current and future leadership needs, agencies are making certain they have sufficient talent pools to meet those needs. Over the past year, several agencies have established programs to strengthen their management and Senior Executive Service leadership ranks. These programs aim not only to ensure that potential future managers are waiting in the wings, but that those individuals have the proper skills to work in today's changing work environment. Several agencies have established management development programs to build a new cadre of potential leaders. For instance, this summer the Department of Health and Human Services hired 63 highly skilled professionals from a pool of 2,000 applicants into the second class of its Emerging Leaders Program. In addition, SSA has developed leadership training programs targeted at employees in different GS levels.

The Administration sought and the Congress recently provided some Government-wide flexibilities that will enhance the Administration's ability to manage its human capital. For instance, changes to the pay system for the Senior Executive Service will allow agencies to link performance more directly to pay in ways that will drive and reward better performance. The Administration is again proposing

funding for a Human Capital Performance Fund so agencies can reward top employees and those with unusually important skills.

In addition, the Congress recently granted the Departments of Homeland Security (DHS) and Defense (DOD) unprecedented flexibility in the area of personnel management. By demonstrating that increased flexibility can lead to better management, we hope to use the DHS and DOD experiences to explore the potential for Government-wide flexibilities.

A number of agencies are closing their critical skill gaps, ensuring a pipeline of quality leaders into the future, and increasing the capacity and commitment of employees to do their very best. Next year, most agencies will be doing these things, thereby maximizing the value of their human resources and providing better value to the taxpayers.

COMPETITIVE SOURCING

The Competitive Sourcing Initiative has seen the greatest improvements over the past several months. Before this initiative was launched, too few agencies regularly assessed the efficiency and effectiveness of the commercial activities they performed. Today, by contrast, a steadily increasing number of agencies are looking aggressively to competition to help lower their costs and improve overall customer satisfaction.

Agencies are establishing the infrastructure necessary to conduct public-private competitions, identifying those positions that are suitable for competition, and conducting competitions. They are finding the most effective and efficient way for their employees to perform commercial activities and comparing this to private sector solutions to determine which sector can provide the greatest results at the best value to the taxpayer.

Through public-private competition, agencies are able to lower the cost and increase the value of the commercial activities they need to carry out their missions. For example:

- The Office of Personnel Management expects to realize cost savings of roughly \$9 million over a five year period for a nationwide test administration by relying on a reorganized in-house provider that has proved to be more competitive than private sector bidders.
- Employees will continue to provide services at the National Park Service's (NPS') Southeastern Archeological Center, but at significantly reduced costs, thanks to the steps they took to win a competition with the private sector. NPS estimates savings of around \$4.2 million in personnel costs over five years, a cost savings of approximately 40 percent.
- The Small Business Administration (SBA) has turned to a contractor for administrative services to support its disaster loan program after a competition revealed that the contractor could provide these services more cost-effectively than SBA. For similar reasons, the Treasury Department's Bureau of Engraving and Printing will rely on the private sector, rather than its in-house staff, to handle various tour operations.

Through public-private competition, agencies are performing commercial activities at a lower cost and greater value to the taxpayer.

IMPROVED FINANCIAL PERFORMANCE

As recently as 1996, not only were just six agencies able to issue clean financial statements, but most agencies took at least five months to issue them. Before the launch of the Improved Financial Performance Initiative in August 2001, 18 of 24 of the Government's major agencies received clean opinions on their audited financial reports, but still took five months to prepare their statements.

Today, most major agencies are getting clean audit opinions and issuing them in a condensed period of time.

With a clean audit opinion, agencies can ensure they are responsibly accounting for the people's money. If it takes them five months to issue audited financial statements, however, it is a good indication they do not have timely and accurate financial information available to them on a regular basis. That is why the Administration is working with all agencies to close their books more quickly. Eight agencies have already issued audited financial reports in only 45 days, meeting the Government-wide requirement to issue financial statements earlier. One particular agency of note is U.S. Agency for International Development, which not only accelerated the reporting of its financial statement, but also received a clean opinion for the first time in its history. Additionally, agencies are now preparing quarterly financial statements rather than waiting until the end of the year.

Four agencies—the Department of Education, Environmental Protection Agency (EPA), NSF, and SSA—have demonstrated their ability to use timely and accurate financial information to make decisions about program management. For example, the Department of Education uses up-to-the-minute financial data to track whether schools are receiving the appropriate amount of Federal funds. Similarly, EPA's Leaking Underground Storage Tank program negotiates performance commitments with grantees and provides resources based on those commitments. If a grantee is not meeting its commitments, EPA may withhold some resources from the non-performers and redirect those resources to grantees that are meeting their commitments.

The PMA also focuses on reducing erroneous payments. Agencies are taking important steps to measure their erroneous payments, which are those payments made in an incorrect amount and/or to an ineligible recipient. Information we have today tells us that for programs that make almost \$1 trillion in payments annually, erroneous payments exceed \$35 billion annually. With the enactment of the Improper Payments Information Act, agencies are now developing and implementing improper payment plans that will eventually lead to the review of every dollar the Government spends. The Administration is determined to provide agencies with the tools they need to accomplish that goal. For instance, the Administration has worked for the enactment of authority for the Department of Housing and Urban Development (HUD) to gain access to information to verify the eligibility of recipients of housing assistance. Once implemented, this authority will enable HUD to reduce erroneous housing subsidy payments substantially.

By increasing the number of clean audit opinions in a shorter period of time, by using timely financial information for decision-making and program management, and by reducing erroneous payments, agencies are taking steps toward improving their financial performance and the overall management of Federal dollars.

EXPANDED ELECTRONIC GOVERNMENT

The Expanded Electronic Government initiative focuses on two key areas—strengthening agencies' management of their information technology (IT) resources and using the Internet to simplify and enhance service delivery. The Government must get the most out of its \$60 billion annual investment in IT.

Most agencies have made significant improvements in IT management over the last year. For instance, of the Federal Government's major agencies:

- Over 97 percent of major systems include measurable program objectives in their justifications;
- 61 percent have IT systems that are secure, versus 47 percent two years ago; and
- 62 percent have modernization blueprints in place to ensure that their IT investments support overall agency goals and are not redundant of Government-wide IT investments.

These improvements have resulted in a more thoughtful, productive approach to IT investment across agencies.

Specific improvements in service delivery are already being achieved through the E-Gov Initiatives. For instance, Grants.gov makes it easier for potential recipients to obtain information about Federal grants by creating a single, online site for all Federal grants. Because of e-Travel, the new web-based, consolidated Federal travel management system, the Government expects to spend nearly \$300 million less over the next 10 years on travel-related activities.

The Government is investing significant resources in IT to assist it in achieving its mission and better serving the American taxpayer. Agencies are making sure these investments are well managed, more secure, and providing services to the American people more efficiently and effectively.

BUDGET AND PERFORMANCE INTEGRATION

Many agencies are now using meaningful program performance information to inform their budget and management decisions. In particular, a third of the Government's major agencies meet regularly to use performance information to make program management decisions. Agencies are using the information gleaned from the PART to identify programs' strengths and weaknesses and take appropriate action. PART assessments have improved program results.

Agencies have now assessed the performance of approximately 400 Federal programs, representing more than one trillion dollars in Federal spending. In 2004, agencies will complete PART ratings for an additional 20 percent of Government spending. Summaries of PART findings for each program assessed, as well as the detailed PART analyses for those programs, can be found at the OMB website. Analysis of PART findings can also be found in the *Analytical Perspectives* volume.

These ratings are causing us to ask whether programs are working and, if not, how we can make them work. For instance,

- Last year, the Administration on Aging, which provides services and benefits to the elderly so they can remain in their homes and communities, could not measure its impact. This year, the program was able to show it was moderately effective after demonstrating that its services enable the elderly to remain in their homes and communities and setting goals for increasing the number of people served per each million dollars spent.
- The Broadcasting Board of Governors' efforts to broadcast to Near East Asia and South Asia could not demonstrate that they were achieving results last year. But following the recommendations in last year's PART, the program this year set goals for weekly audience, program quality, signal strength, and cost-per-listener. The program dramatically increased its reach to Arab-speaking countries to an estimated 10.5 million listeners each week, up from just 3.9 million in 2002.

PART assessments show that 152 of the rated programs can not demonstrate that they are achieving results. To first demonstrate and then improve results, agencies are working to adopt clear measures of performance for those programs and/or implement recommendations to improve program performance. For instance, the Davis-Bacon Wage Determination Program, which determines prevailing wage rates for construction-related occupations throughout the United States, cannot demonstrate that it is achieving results. In addition to identifying quantifiable measures of its performance, the program will implement a multi-year effort to reform the wage determination process and subject itself to an independent review of its performance. We will continually assess program performance to ensure that the remedies put in place are working to produce the intended improvement in results.

The Administration is also using the PART to compare the performance and management of similar programs across Government so that lessons about how to improve program performance can be shared among those programs. These analyses will tell us what steps we need to take to improve program performance for similar programs across Government.

The PART is a vehicle for improving program performance. As more and more program assessments are conducted, the vast majority of budget and management decisions will be significantly influenced by information about how programs are performing. Agencies will be better able to describe to the taxpayer what his or her funding is purchasing and will be managing so that each year improvements in efficiency and service delivery can be documented.

EXECUTIVE BRANCH MANAGEMENT SCORECARD

As a result of the PMA, the Federal Government is better managed and achieving greater results. It is managing its finances and investments more professionally and efficiently. It is providing better service to the American people. The Government is getting the people it needs to accomplish its mission at the best value to the taxpayer. Most important, it is evaluating its performance; asking what works, what does not, and what to do about it. This discipline is a necessary part of the President's call for greater fiscal discipline.

The PMA measures the Government's progress toward these goals through the use of the Executive Branch Management Scorecard. As mentioned earlier, this Scorecard is used to assess both agencies' overall status in achieving the long-term PMA goals, as well as their quarterly efforts in working toward those goals. A copy of the Scorecard follows this chapter and more detailed discussion of the performance of specific agencies, as well as program specific initiatives, is included in the agency chapters. The Standards for Success and the scorecard ratings for each quarter are also available at *Results.gov*.

Executive Branch Management Scorecard

| | Current Status as of December 31, 2003 | | | | | Progress in Implementing President's Management Agenda | | | | |
|--------------------|---|------------------------------|--------------------|-------|---------------------------------|---|------------------------------|--------------------|-------|---------------------------------|
| | Human Capital | Com- petitive Sourcing | Financial Perf. | E-Gov | Budget/ Perf. Integration | Human Capital | Com- petitive Sourcing | Financial Perf. | E-Gov | Budget/ Perf. Integration |
| AGRICULTURE | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| COMMERCE | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| DEFENSE | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| EDUCATION | ● | ● | ●↑↑ | ● | ● | ● | ● | ● | ● | ● |
| ENERGY | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| EPA | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| HHS | ●↑ | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| HOMELAND | ● | ●↑ | ● | ● | ● | ● | ● | ● | ● | ● |
| HUD | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| INTERIOR | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| JUSTICE | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| LABOR | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| STATE | ● | ● | ●↑ | ● | ●↑ | ● | ● | ● | ● | ● |
| DOT | ● | ● | ● | ●↑ | ● | ● | ● | ● | ● | ● |
| TREASURY | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| VA | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| AID | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| CORPS OF ENGINEERS | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| GSA | ●↑ | ● | ●↓ | ● | ● | ● | ● | ● | ● | ● |
| NASA | ●↑ | ●↑ | ● | ●↑ | ●↑ | ● | ● | ● | ● | ● |
| NSF | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| OMB | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| OPM | ● | ● | ● | ●↑ | ●↑ | ● | ● | ● | ● | ● |
| SBA | ● | ●↑ | ● | ● | ● | ● | ● | ● | ● | ● |
| SMITHSONIAN | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| SSA | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |

Arrows indicate change in status since baseline evaluation on September 30, 2003.

Program Initiative Scorecard

| Initiative | Status | Progress |
|---|---|---|
| Faith-Based and Community Initiative: | | |
| Agriculture |  |  |
| Education |  |  |
| HHS |  |  |
| HUD |  |  |
| Justice |  |  |
| Labor |  |  |
| AID |  |  |
| Privatization of Military Housing |  |  |
| Better R&D Investment Criteria |  |  |
| Elimination of Fraud and Error in Student Aid Programs and Deficiencies in Financial Management |  |  |
| Housing and Urban Development Management and Performance |  |  |
| Broadening Health Insurance Coverage Through State Initiatives |  |  |
| A "Right-Sized" Overseas Presence |  |  |
| Coordination of VA and DOD Programs and Systems |  |  |

UPHOLDING AMERICA'S VALUES

Americans are generous and strong and decent, not because we believe in ourselves, but because we hold beliefs beyond ourselves. When this spirit of citizenship is missing, no government program can replace it. When this spirit is present, no wrong can stand against it.

President George W. Bush
Inaugural Address, January 2001

When President Bush took office in 2001, he put forward an aggressive agenda to address the challenges to those values that help define us as a Nation. Too many children were not getting the quality education they deserved. Too many seniors were without a means of receiving the prescription drugs they needed. The Nation's environmental efforts frequently resulted in lawsuits instead of common-sense solutions. And in the face of so many unmet challenges, some of America's most capable social service providers were being systematically excluded from working with the Federal Government to help our neediest citizens.

From the beginning, this Administration has pursued a new approach to America's challenges. This approach focuses on achieving results for all Americans. Those Government programs that work well will be supported, and those that need strengthening will be reformed.



Caring for our seniors. President Bush meets with 94 year old Anna Tovcimak after a roundtable discussion on Medicare Liability Reform in Scranton, Pennsylvania.

NO CHILD LEFT BEHIND

In an increasingly complex and competitive world, the education of our children has never been more important. And yet when President Bush entered office, two-thirds of all low-income fourth graders could not read at grade level, and the achievement gap between rich and poor students was growing. Since the President signed into law the No Child Left Behind (NCLB) Act in January 2002, parents, teachers, and principals have begun to see the first signs of progress that come from insisting on results. The Act raised standards for students and put the focus on achievement. By 2003, all 50 States, the District of Columbia, and Puerto Rico had put into place plans to ensure that all students become proficient at reading and math and that schools close the achievement gap between students of different socio-economic backgrounds.

By increasing flexibility and local control, and providing parents more choices, NCLB gives every school in every community the chance and the funds to improve. Schools struggling to meet high

standards are getting help, but they are also being held accountable for increasing the achievement levels of their students. Under NCLB, States and school districts are publishing report cards that show how well students in each socio-economic group are achieving. Furthermore, NCLB provides funds for tutoring, so that parents of students in schools needing improvement can select from over 1,600 supplemental service providers approved by the State and find a program that is directed at the specific needs of their child.



Ready to read. President Bush helps a child with a reading assignment at Sullivant Elementary School in Columbus, Ohio.

The President has also worked to secure the funding necessary to implement these critical improvements in our education system. With the increases proposed in this year's Budget, the Administration will have increased funding for Title I grants for low-income students by \$4.6 billion, or 52 percent, since 2001. Over the same time frame, Special Education funding will have increased by \$4.7 billion—75 percent higher than in 2001. We have also helped nearly 10 million students each year fulfill their dream of attending college by annually providing more than \$60 billion in student aid through grants, loans, and work-study support.

Central to the President's education agenda is the belief that all children can and must be taught to read. In 2005, the President will continue this commitment by providing over \$1.2 billion for reading programs—an increase of \$138 million—for a total that is over four times the amount spent in 2001. Under this Administration, all 50 States have received grants, totaling \$1.8 billion, to improve reading instruction and ensure all students are reading at grade level by the third grade. Last year, the Department of Education awarded a \$37 million contract to establish the National Center for Reading First Technical Assistance. The Center will provide ongoing, high-quality

Spreading the Word on “What Works” in Education

It is no coincidence that the No Child Left Behind Act uses the phrase “scientifically-based research” over 110 times. Evidence-based research is critical to ensuring that parents, teachers, schools, and States have the necessary information to raise student achievement.

Early in his administration, the President pledged to reform Federal education research so that practitioners and policymakers have quality, evidence-based research to help guide their decision-making. Through passage of the Education Sciences Reform Act, the President met his pledge and created the Institute of Education Sciences (IES), a new office dedicated to improving research standards and the dissemination of results to parents and teachers.

IES is committed to the President's vision for research, and is helping to fill critical gaps in research knowledge on subjects like math education while finding new ways to help teachers apply findings to classroom instruction. Through programs like the What Works Clearinghouse, which distills research knowledge into a usable format, IES is transforming education research into an evidence-based field—one which promises to help leave no child behind. To ensure that IES has the necessary resources to make these efforts a success, the President's Budget provides a 12-percent increase for core Education Department research activities.

technical assistance to States, districts, and schools for the implementation of scientifically-based reading instruction.

By insisting on results and holding schools accountable, we are making significant progress in upholding our Nation's commitment to educating all children. The President's 2005 Budget builds on recent accomplishments by targeting resources to education programs that are most effective in educating our children.

MEDICARE PRESCRIPTION DRUGS: FULFILLING A COMMITMENT TO OUR NATION'S SENIORS

Our nation has the best health care system in the world. And we want our seniors to share in the benefits of that system. Our nation has made a promise, a solemn promise to America's seniors. We have pledged to help our citizens find affordable medical care in the later years of life. Lyndon Johnson established that commitment by signing the Medicare Act of 1965. And today, by reforming and modernizing this vital program, we are honoring the commitments of Medicare to all our seniors.

President George W. Bush
December 2003

The Congress has been debating a Medicare prescription drug benefit for a decade. In 2003, the President and the Congress were finally able to break the logjam that had blocked this benefit for America's seniors and secure the passage of a bipartisan solution that will allow seniors to share fully in the benefits of the best health care system in the world.

For the first time, all 40 million seniors and disabled Americans in Medicare will have the option of prescription drug coverage. Beginning in 2004, seniors will be able to save 10 to 25 percent off the retail price of most medicines through a Medicare-approved drug discount card. In 2006, seniors who want prescription drug coverage will have the choice of remaining in the traditional Medicare system and joining a prescription drug plan, or enrolling in a Medicare-approved plan. For beneficiaries who currently do not have any prescription drug coverage, this could cut their annual drug costs roughly in half, in exchange for a modest monthly premium. Low-income seniors will receive additional help paying for their medicines. And seniors enrolled in private or employer-sponsored coverage will be allowed to stay in their current plan if they so choose.

Private plans will also be encouraged to compete for seniors' business. Not only will seniors benefit from this competition through greater flexibility and innovation in coverage, but Medicare, seniors, and the Government will also benefit from more efficiency and potentially lower-cost health services.

Medicare is being strengthened in other ways. In 2005, seniors will receive a "welcome to Medicare" physical that will include screening for cancer, diabetes, and heart disease, as well as immunizations



Listen first, then act. President Bush takes a private moment to discuss Medicare. In December 2003 the President signed into law the first major improvement in Medicare since 1965.

Prescription Drug Assistance

President Bush has visited with seniors around the country and heard many of their stories. With the enactment of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, those seniors finally have the prescription drug benefit they need.

One senior, from Midlothian, Virginia, has a modest income and drug bills of nearly \$500 a month. Things became so difficult that she had to use the same needles two or three times for her insulin shots. With the new Medicare law, she will not have to go to such extremes. In exchange for a monthly premium of about \$35 in 2006, this senior will save nearly \$2,700 in annual prescription drug spending.

Another senior, in Culpeper, Virginia, takes 15 medications costing him at least \$700 a month. To afford all those medications he has to keep working. Thanks to the new Medicare law, once this senior has the drug benefit, he will be able to cut back his work hours and enjoy his retirement more because he will have coverage that saves him about \$4,700 a year.

against pneumonia and the flu. A Medicare ombudsman will assist beneficiaries who have complaints or need information on Medicare providers and program rules. And new fiscal safeguards will give Medicare a stronger financial footing by alerting the Congress and the President when Medicare's revenues fall below adequate levels.

HEALTHY FORESTS AND CLEAR SKIES: BEYOND THE ADVERSARIAL APPROACH

America's air and water are cleaner than they were 30 years ago. But more work needs to be done to protect our health and the environment. New technologies and better science are enabling us to develop more effective approaches than the command-and-control policies of the past. The President has pursued a bold environmental agenda to better safeguard our health and ecosystems while allowing for growth and innovation.

Healthy Forests Initiative

Catastrophic fires have plagued the West for years and threatened lives, land, buildings, air quality, endangered species, and the health of our forests. Habitats for endangered species and other wildlife have been devastated by severe fires.

In August 2002, in the midst of one of the worst fire seasons in recent history, the President launched his Healthy Forests Initiative. The initiative focuses on reducing the risk of catastrophic fire while upholding environmental standards. This is accomplished by permitting the thinning of dense undergrowth and brush in priority locations on a collaborative basis with Federal, State,



Taming Wildfire. At the top, untreated forest is scorched by violent crown fires. At the bottom, healthy treated forests burn more naturally.

Saving Black Butte Ranch

As fire blazed through the dense areas of the Deschutes National Forest in Central Oregon, residents of Black Butte Ranch, a private community adjacent to the forest, were alarmed at its intensity. However, the U.S. Forest Service, in cooperation with State and local officials, had implemented a hazardous fuels reduction program in the wildland-urban interface surrounding the community. The Forest Service had thinned and limbed trees, mowed shrubs, and removed ground fuels, effectively creating a fire buffer adjacent to the community.

When the fire reached the treated area, the intensity lessened dramatically, dropping out of the crowns to the ground, where crews were able to stop the fire by hand. Result? Only two homes were lost while many others were saved. Had fuel treatments not been performed, the entire community most likely would have been destroyed.

tribal, and local officials. The initiative also permits more timely responses to disease and insect infestations that threaten to devastate forests.

Last December, the Congress passed and the President signed the Healthy Forests Restoration Act of 2003. This law strengthens public participation in the development of high-priority forest health projects; reduces the complexity of environmental analysis, allowing Federal land agencies to use the best science available to actively manage land under their protection; and provides a more effective appeals process encouraging early public participation in project planning. Overall, the Act established a more effective and timely process to protect communities, wildlife habitats, and municipal watersheds from catastrophic fires.

The President's Budget continues to support fire fuels reduction efforts, which reduce the risk of catastrophic wildfires. Funding for these efforts will increase by an additional \$58 million in 2005, for a total that is more than four times the funding in 2000. The President's Budget also provides funding for fire suppression at the 10-year average, \$685 million, and supports front-line firefighting resources with \$660 million for fire preparedness.

Clear Skies

America has made extraordinary progress in cleaning up the air we breathe. Still, we can do more by employing proven tools for reducing pollution. In 2002, the President proposed the Clear Skies Initiative which would employ the successful "cap-and-trade" approach responsible for reducing more pollution in the last decade than all other Clean Air Act command-and-control programs combined.

The Clear Skies Initiative would create a mandatory program to dramatically reduce power plant emissions of sulfur dioxide (SO₂), nitrogen oxides (NO_x), and mercury by setting a national cap on each pollutant. Over the next 10 years, Clear Skies would achieve substantially greater reductions in pollution from power plants than are attainable under current law. The Clear Skies approach would deliver guaranteed emissions reductions of SO₂, NO_x, and mercury at a fraction of command-and-control costs, increasing certainty for industry, regulators, consumers and citizens, while maintaining energy diversity and affordable electricity. Under Clear Skies, tens of



A clear day. President Bush calls on the Congress to pass Clear Skies legislation on September 16, 2003.

millions of people who would have otherwise been exposed will be protected from unhealthy amounts of ground-level ozone and fine particulate matter, which cause respiratory and cardiovascular distress.

Clear Skies will also benefit our wildlife habitats and ecosystem health by reducing acid rain, nitrogen and mercury deposition. Clear Skies will cut pollution further, faster, more cheaply, and with more certainty.

Because the Congress has not yet acted, the Environmental Protection Agency (EPA) has moved forward to implement a cap-and-trade plan to reduce emissions. In December 2003, the EPA proposed the Interstate Air Quality rule. This rule would establish an innovative cap-and-trade system to reduce power plant emissions of SO₂ by approximately 70 percent, and NO_x by about 65 percent when the rules are fully implemented. The Administration will continue to work with the Congress to enact Clear Skies legislation.

Clear Skies: A Clear Improvement

Clear Skies will produce dramatic improvements in air quality, reducing power plants' emissions of sulfur dioxide, nitrogen oxides, and mercury by 70 percent from 2000 levels.

EPA estimates that Clear Skies annually could prevent up to:

- 14,100 premature deaths;
- 23,000 heart attacks;
- 30,000 hospitalizations and emergency room visits; and
- 180,000 asthma attacks.

COMPASSIONATE RESULTS: HELPING AMERICANS MOST IN NEED

President Bush is committed to helping Americans in need by reaching out to and expanding the role of faith-based and community organizations. To achieve this goal, the President has directed Federal agencies to remove barriers that prevent faith-based and grassroots groups from doing more to help their fellow citizens.

One of the President's first official acts was to create the White House Office of Faith-Based and Community Initiatives. The Office was tasked with leading a "determined attack on need" by strengthening and expanding the role of faith-based and community organizations in addressing the Nation's social problems. The Office was charged with leveling the playing field for faith-based and community groups that want to partner with the Federal Government.

In September 2003, regulations went into effect allowing faith- and community-based charitable organizations to compete fairly for billions of dollars in Federal money. The Administration has proposed additional regulations to ensure that all groups competing for Federal grant funds are treated fairly. Due to these efforts, faith-based organizations previously denied Federal grants are finding it easier to apply for and obtain the resources that will enable them to further help those in need.

In the 2005 Budget, the President again proposes to encourage more people to contribute to their communities through charitable giving by extending the availability of the tax deduction for charitable contributions to those who take the standard deduction. In order to support charitable efforts further, the President also proposes to increase the Compassion Capital Fund in 2005 to \$100 million so that charitable organizations can improve and expand their services.

[O]ur government must not fear the application of faith into solving social problems. We must not worry about people of faith receiving taxpayers' money to help people in need. In my judgment, that doesn't obscure the line of church and state; it enhances the capacity of state to save lives, by tapping into this fundamental powerful resource of ours, the heart and soul of the American people.

The discrimination against faith-based programs at the Federal level prevents us from using all our resources to save lives. And for those who hurt, we need to use every resource we have. For those who are lonely, we need to use every resource. For those who are hungry, we need to use every resource. For those who look for housing, we need to use every resource. And so one of my missions is to work with people to end the discrimination in Washington, D.C. against faith-based programs.

President George W. Bush
September 2003



Good company. President Bush visits the St. Augustine Parish Hunger Center in Cleveland, Ohio in May 2001.

The Administration is also working to mobilize the armies of compassion to help at-risk children most in need. In 2005, the President's Budget provides \$50 million in competitive grants to train adult volunteers as mentors to children whose parents are incarcerated, and \$100 million to schools and community-based organizations for school-based mentoring.

The President's Budget also proposes \$300 million over four years to fund an initiative to help communities impacted by the ever-growing number of released inmates. This initiative will help released inmates—estimated to be in excess of 600,000 in 2004—turn to religious and community charities for assistance

in finding work, staying out of prison, and starting new lives. These funds will supplement resources already available in the Department of Labor's budget for these purposes.

And the 2005 Budget continues funding for the President's Access to Recovery drug treatment voucher initiative. In 2005, the initiative will provide \$200 million in vouchers to those in need to obtain assistance from the most effective drug and alcohol treatment programs, including faith- and community-based organizations.

ANSWERING THE CALL TO SERVICE

The response to the President's "Call to Service" has been tremendous. The overall ranks of America's volunteers increased from 59.8 million to 63.8 million from September 2002 to September 2003. The USA Freedom Corps created the largest ever clearinghouse of volunteer opportunities—millions of service options are available through more than 75,000 organizations according to interest and geographic location. The USA Freedom Corps has also helped channel this increase in volunteerism in such exemplary ways as the Business Strengthening America Initiative, where CEOs make long-term changes in corporate practices to facilitate employee participation in volunteer service activities.

America's need and potential for service remain great. The President's Budget addresses this need and this potential by requesting the highest funding level in history for the Corporation for National and Community Service. It includes \$442 million for AmeriCorps and \$225 million for SeniorCorps to meet the President's commitment of supporting 75,000 AmeriCorps members and 600,000 SeniorCorps volunteers. The Budget also includes \$20 million for Silver Scholarships for older Americans who volunteer 500 hours of service tutoring and mentoring students, in exchange for a \$1,000 scholarship. Seniors may transfer their scholarships to a grandchild or young person.



Putting it together. President Bush discusses his faith-based initiative with urban leaders gathered at the White House.

America's spirit of service extends around the world. The Peace Corps is currently active in 71 countries—14 more than in January 2002—and is enrolling 7,533 volunteers, the highest number in 28 years. The Budget continues the President's support for the Peace Corps by providing \$401 million in 2005.

Nearly two years ago, I created USA Freedom Corps to continue the momentum generated by the countless acts of kindness we saw after the attacks of September 11, 2001. I asked every person in America to commit 4,000 hours over a lifetime, or about 100 hours a year, to serving neighbors in need.

The response was immediate and enthusiastic, and has remained strong. Over 75,000 service organizations now work with USA Freedom Corps, and a growing percentage of Americans have answered the call to service.

America's 63 million volunteers are setting a fine example for our Nation. They are meeting essential needs in their communities—and they know the fulfillment that only comes from serving a cause greater than self. And many volunteers got started in the same way: Because someone asked them.

President George W. Bush
December 2003

EXTENDING AMERICA'S COMPASSION

The President's Budget includes approximately \$17 billion to fight HIV/AIDS in the United States. For example, the Budget provides over \$2.9 billion in care and treatment programs—including \$784 million for the Ryan White AIDS Drug Assistance Program—and over \$750 million for the Centers for Disease Control and Prevention to support HIV/AIDS prevention efforts. The Budget also includes nearly \$2.6 billion in HIV/AIDS research funding for the National Institutes of Health.

America's compassion does not stop at the water's edge. That is why in his 2003 State of the Union President Bush announced the Emergency Plan for AIDS Relief. The scourge of AIDS is a global threat that the United States is leading the world to address. In 2003, AIDS claimed the lives of approximately three million people worldwide, and an additional five million people were infected. This disease is particularly insidious because the nations hardest hit by AIDS are also among the poorest—these nations have seen their labor productivity cut in half and their economic growth fall by 2.6 percent.

President Bush's plan will: provide \$15 billion over five years for 14 focus countries that are home to 70 percent of HIV infected individuals in sub-Saharan Africa and the Caribbean, and 50 percent of all cases worldwide; continue bilateral programs in over 75 countries; and include \$1 billion for the Global Fund to Fight AIDS, Tuberculosis and Malaria. This life-saving plan will prevent seven million new HIV infections, treat at least two million people with life-extending drugs, and provide care for at least 10 million people affected by AIDS. The President's 2005 Budget provides \$2.8 billion for the second year of the five-year Emergency Plan, an increase of over \$450 million.

CONCLUSION

Improving education for all children, strengthening Medicare, working towards a cleaner environment, and extending compassion and a helping hand to those in need are key to supporting the values that make our Nation strong. The agency chapters that follow describe in more detail how President Bush's Budget proposes to address the challenges we face in upholding these and other important American values.

DEPARTMENT OF AGRICULTURE

Since 2001, the Administration:

- Expanded the financial safety net for farming and ranching families;
- Treated 7.7 million acres of forests and wooded rangeland, and doubled the yearly acreage under the President's Healthy Forests Initiative;
- Strongly supported the largest increase in conservation funding in U.S. history through the 2002 farm bill;
- Restored Food Stamp eligibility for legal immigrants residing in this country for five years, and for legal immigrant children and adults with disabilities; and
- Facilitated an increase in agricultural exports of 10 percent from \$51 billion in 2000 to \$56 billion in 2003.

The President's Budget:

- Proposes \$381 million for new agriculture and food defense initiatives to protect our food supply;
- Increases the acres that can be treated to improve the health of the Nation's Forests, provides a 14-percent increase for Forest Service fuels reduction projects, and fully funds forest firefighting at the 10-year average;
- Provides for a 50-percent increase in the number of children receiving food and education assistance in developing countries under the McGovern-Dole program; and
- Provides for increased testing and surveillance and development of an animal identification system to protect the food supply from Bovine Spongiform Encephalopathy.

Department of Agriculture

Ann M. Veneman, Secretary

www.usda.gov 202-720-3631

Number of Employees: 109,832

2005 Discretionary Budget Authority: \$19.1 billion

Key Components: 18 program agencies organized under seven mission areas, with a total of 7,400 field, State, or regional offices outside the Washington, D.C. area.

Major Assets: 192 million acres of National Forests.



Secretary of Agriculture Veneman recently inspected U.S. food aid efforts in Iraq.

OVERVIEW

The United States Department of Agriculture (USDA) implements programs that meet a wide range of the Nation's needs. The Department promotes agricultural production and trade; protects animal and plant health; works to assure food safety; protects natural resources; fosters strong rural communities; and fights hunger in America and abroad. For example, the Department:

- Provides a financial safety net for farmers, insuring an economically sound future for American agriculture;
- Provides important nutrition programs, including the Food Stamps, School Lunch, Breakfast, and Child and Adult Care Food programs, and the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC);
- Manages National Forests and Grasslands and assists private landowners to manage lands in a productive, sustainable way;
- Helps protect public health at 6,430 meat, poultry, and egg product plants by ensuring compliance with food safety standards;
- Protects agriculture from pest infestations and disease;
- Provides assistance to businesses, housing authorities, electric companies, water supply and sewage treatment facilities and other utilities in rural areas; and
- Conducts and sponsors research in areas ranging from food and fiber production to human nutrition and food safety.

USDA plays a critical role in advancing Administration priorities including economic growth, national security and forest health. One result of USDA's efforts is seen in the economic improvement of the U.S. agricultural sector. Agricultural prices and farm income continue to rise, and agricultural production is also increasing. In addition, it is estimated that the support provided by Rural Development business programs in 2005 will result in the creation or maintenance of nearly 70,000 jobs.

Protecting the Nation's security includes helping to protect the agricultural industry and food supply from contamination and animal and plant diseases and infestations that can have significant impacts on human health and the economy. The 2005 Budget provides \$381 million for the new agriculture and food defense initiatives to increase laboratory capability, monitoring and surveillance,

response and recovery, and research to protect the agricultural industry and food supply from terrorist attacks. In addition, competitive peer-reviewed research on a wide range of agricultural issues, including national security, is supported by the National Research Initiative.

Forest health will be improved with more efficient project analysis under the Healthy Forests Initiative, and with increased funding provided to USDA and the Department of the Interior to reduce dense undergrowth that leads to unnaturally large and destructive fires.

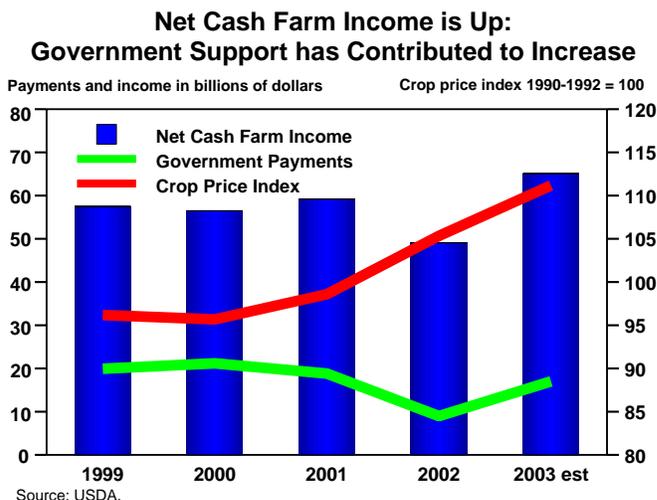
The Budget also includes recommendations for improvements in fire suppression management, including cost containment measures. Together, these provide the beginning of a long-term solution to reduce the risk of catastrophic wildfires and the damage and disruptions they cause.

During 2005, USDA will also increase its efforts to reduce hunger and malnutrition and to improve literacy and primary education as part of the McGovern-Dole International Food for Education and Child Nutrition Program.

FOOD PRODUCTION

The U.S. agricultural economy is the strongest in years. Net cash farm income is estimated to be a record \$65 billion in 2003, (including roughly \$19.7 billion in Government payments to farmers), \$16 billion, or 33 percent, higher than in 2002, 15 percent above the 10-year average, and seven percent above the previous record. This is due primarily to record income from commodity markets, up \$17 billion from 2002, resulting from robust production and historically high prices. Farm equity rose to a new record level, and debt ratios remain low.

In 2003, the farm sector is forecast to contribute \$100 billion to the U.S. economy in net value-added (value of production less payment to other sectors of the economy), a level exceeding the previous record of \$97.7 billion contributed in 1996. With the productivity of U.S. agriculture growing faster than domestic demand, U.S. farmers and agricultural firms rely heavily on export markets to sustain prices and revenue. One in three U.S. farm acres is planted for export. The farming sector depends on export of U.S. commodities for



We've Got Nonfat Dry Milk

U.S. milk production continues to grow, even though per capita dairy consumption has declined significantly. To support the price of milk, USDA purchases excess milk production and stores, on average, 22 million 25 kg bags of nonfat dry milk. Most of the nonfat dry milk is purchased from 10 large dairy processing plants in four western States, each with annual Government sales between \$18 million to \$86 million. The dairy program highlights the challenge to design programs that provide a safety net for farmers but do not distort the market. USDA donates internationally and domestically a portion of the nonfat dry milk that is acquired. Recently, USDA donated nonfat dry milk to acquire kid friendly products, such as shelf-stable, flavored milk for the National School Lunch program.

between 20 percent and 30 percent of total farm income annually. Agricultural exports totaled \$56.2 billion in 2003 and are forecast at \$59.5 billion for 2004, up from \$53.3 billion in 2002.

Agricultural exports support jobs on farms, in food processing, in manufacturing, and in the transportation sector. According to USDA, each dollar of agricultural exports generates about \$1.50 of additional business activity in supporting sectors. Because a growing share of global agricultural production is traded internationally, international and individual country trade policies are critical to the flow of agricultural products. This is why the Administration is committed to removing trade barriers.

The Administration is actively working to expand U.S. exports not only to help our farmers and ranchers, but also to improve the lives of producers and consumers in the developing world and around the globe. Currently, the United States is negotiating a number of free trade agreements that would enable our farmers to better compete in world markets. For instance, the United States presented an ambitious proposal to the World Trade Organization for multilateral agricultural policy liberalization worldwide. In addition, the proposed Free Trade Area of the Americas would form the largest, most affluent free trade zone in the world, with more than 800 million consumers and \$13 trillion in gross domestic product.

More than 800 million people worldwide suffer from hunger and malnutrition. The United States is the world's leader in international food aid with a goal of addressing a third of global hunger needs. Working with the U.S. Agency for International Development, and non-profit religious and humanitarian organizations, U.S. commodities are used to meet immediate food aid needs, while we seek long-term solutions to alleviate global food insecurity.

During 2003, USDA began implementation of the McGovern-Dole International Food for Education and Child Nutrition Program. This program provides U.S. agricultural commodities and financial and technical assistance to carry out preschool and school feeding programs overseas. It also authorizes maternal, infant, and child nutrition programs with the overall purpose to reduce hunger and malnutrition, and improve literacy and primary education. In 2004, this program is expected to reach 1.25 million women and children, with increases in the 2005 Budget to feed an estimated 1.88 million.

Risk Management

Natural disasters regularly threaten and affect agricultural production. USDA's crop insurance program is the farmer's primary risk management tool. The Program Assessment Rating Tool (PART) evaluations and other reviews indicate that crop insurance does a good job of insulating the agricultural community from the vagaries of nature. Claims for losses incurred in the 2003 crop year are expected to be approximately \$3.8 billion. Although private insurance companies provide coverage, over half the cost of farmers' insurance premiums is subsidized to encourage farmer participation. Currently, 83 percent of eligible acres are insured by the program, which compares favorably with private sector benchmarks.

SAFEGUARDING THE NATION

USDA plays a significant role in protecting America's agricultural industry and food supply from intentional and unintentional harm. USDA is responsible for protecting the Nation's resources from plant and animal diseases and pests and inspecting meat, poultry and egg products before they enter the retail food chain. USDA's Animal and Plant Health Inspection Service (APHIS) monitors the condition of agricultural crops and animals for signs of infestations, and, when appropriate, takes action to eradicate them. In addition, USDA's Food Safety and Inspection Service is responsible for

Keeping the Food Supply Safe from Bovine Spongiform Encephalopathy (BSE), Commonly Known as Mad Cow Disease

On December 23, 2003, USDA announced the discovery of a single BSE positive cow in the United States. There is strong evidence that indicates the cow was imported into the United States. USDA and FDA acted rapidly and aggressively to further strengthen our already extensive BSE protection systems. Since the late 1980s, the United States has had a robust BSE prevention program developed in response to the prevalence of the disease in the United Kingdom and elsewhere. For example, FDA and USDA severely restricted the importation of animals and animal products that pose a possible risk of spreading BSE from high-risk countries. USDA established in 1990 an active surveillance program for evidence of BSE positive cattle. In 1997, FDA instituted a feed ban, which prohibited the feeding of rendered ruminant proteins to other ruminants—believed to be the primary sources of cattle-to-cattle spread of the BSE agent. In total, the USDA and FDA budgets include over \$2.9 billion in funding to protect agriculture and the food supply through border and food inspections, monitoring and surveillance for pests and diseases and research to support these functions. As part of this, \$34 million is currently dedicated specifically to BSE monitoring and surveillance and research.

In response to the December 23rd confirmation that a single BSE positive dairy cow has been found in the United States, USDA announced aggressive actions to further strengthen our Nation's BSE preventative program. For example, non-ambulatory, disabled (downer) cattle are believed to be of higher BSE risk and will be prohibited from the human food supply. In addition, certain cattle tissues, called specified risk materials, will also be prohibited from the human food supply. USDA will wait until the test results of any cattle tested for BSE are known before allowing their meat to enter the food supply. In addition, USDA plans to implement a national animal identification system that will allow for easier identification and tracking of cattle. USDA has announced that an international panel of scientific experts will be convened to provide an objective review of our response actions and areas for potential enhancement. Further actions may be taken as a result of this review.

In order to fully implement these changes, the 2005 Budget proposes \$46 million for USDA for increased surveillance and testing, and additional expenses related to the development of an animal identification system. The Budget also includes an increase of \$8.3 million at FDA to enhance enforcement of Federal regulations designed to prevent the introduction or spread of BSE.

assuring that meat, poultry and egg products are safe and wholesome and for reducing the risk of food borne illness.

Food contamination and animal and plant diseases and infestations can have catastrophic effects on human health and the economy. USDA, the Department of Health and Human Services (HHS) and the Department of Homeland Security (DHS) are working together to create a comprehensive food and agriculture policy that will improve the Government's ability to respond to the dangers of disease, pests, and poisons, whether they occur naturally or are intentionally introduced.

The 2005 Budget provides \$381 million, a \$302 million increase, the largest increase ever, for USDA to enhance efforts to quickly respond to food contamination or plant and animal diseases and infestations. USDA will work with HHS and DHS to increase laboratory capacity, research, and monitoring and surveillance. Increases in laboratory capacity will include new methods designed to rapidly identify food contamination or plant and animal diseases, expansion of labo-



She sees the turkey before you do.

Taking Aim at Animal Disease

The existing national animal disease research and diagnostic facilities at Ames, Iowa are over 30 years old, have limited usefulness, and no longer meet health and safety requirements. The new Ames facility will combine separate facilities into a single state-of-the-art research and diagnostic facility. This facility will provide modern equipment for testing and for the containment of harmful bacteria and viruses.

ratory networks to ensure that there is the necessary laboratory capability throughout the United States, and improved laboratory connectivity through expanded information technology systems. Though laboratory capacity is an important piece of biosurveillance, other biosurveillance activities include the joint efforts of HHS, DHS and USDA to improve the monitoring of public health data and increases in plant and animal monitoring and surveillance by APHIS. In addition, USDA will increase availability of animal vaccines and establish a National Animal Disease Recovery System.

Research, education, and extension programs are funded at approximately \$2.4 billion, including \$178 million to complete renovating and modernizing the national animal disease and diagnostic facility at Ames, Iowa. Research will be performed to determine methods for decontaminating food, preventing and responding to disease, and eradicating infestations. The Budget also increases the National Research Initiative competitive grant program, which will continue the Administration's long-standing commitment to peer-reviewed competitive research.

NUTRITION PROGRAMS

Over half of USDA's budget supports nutrition programs for individuals and families in need. These programs include the National School Lunch Program, WIC, and the Food Stamp Program.

The Administration strongly supports child nutrition programs and seeks to ensure that all eligible children are served. The Administration will work with the Congress to make improvements in program integrity without creating barriers and target investments to improve the nutritional quality of meals. The Budget fully funds child nutrition and provides for the extension of a number of expiring provisions to ensure that all aspects of the program continue to operate without interruption.

The Special Supplemental Nutrition Program for Women, Infants and Children, more commonly known as the WIC Program, serves the nutritional needs of low-income pregnant and post-partum women, infants, and children up to their fifth birthday. The President's Budget repropose a WIC reauthorization plan to provide \$4.8 billion for WIC services, full funding for all those estimated to be eligible and seeking services. In addition, the funds will support: a breastfeeding peer counselor program to target nutrition education and information to increase breastfeeding initiation and duration; test programs to see if WIC can help prevent childhood obesity; an



The National School Lunch Program serves 28 million children every school day.

independent, comprehensive evaluation of the effectiveness of the WIC program; and efforts to improve State WIC agencies' management information systems.

In 2003, the Congress enacted the Administration-proposed contingency fund, which remains available, to ensure that the program can expand to serve an increasing number of eligible persons should that be necessary. If these funds are insufficient, however, the Administration will work with the Congress to ensure eligible individuals seeking services can access this important program.

Breastfeeding Promotion Efforts

Breastfeeding is the preferred method of infant feeding in the WIC Program. Studies show a positive correlation between the duration of breastfeeding and infant health. Breastfeeding peer counselors are an effective method of increasing both breastfeeding initiation and duration.

The Texas Breastfeeding Peer Counseling Program promotes and supports breastfeeding to pregnant women and mothers in WIC clinics and hospitals. Since the program began in April 1991, over 2,200 mothers have been trained to be peer counselors. Today there are approximately 300 active peer counselors working in 61 local WIC agencies and 40 hospitals. Breastfeeding rates have increased at all WIC agencies where Peer Counselor programs have been implemented.

Food stamps alleviate hunger and malnutrition among low-income individuals. In 2005, the Food Stamp program will provide approximately \$26.3 billion in benefits to 24.9 million people. The Federal Government will provide an additional \$4.1 billion for State administrative costs, job training programs for food stamp recipients, and the Puerto Rico Nutrition Assistance block grant.

The President's Budget includes a common-sense proposal to exclude combat-related military pay when determining food stamp benefits for members of the armed forces. Military personnel receive supplements to their basic pay when they serve in combat. This proposal supports the families of

servicemen and servicewomen fighting overseas by ensuring that they do not lose food stamps as a result of this additional income.

The Administration is committed to improving integrity in the Food Stamp Program with a goal of reducing the national average error rate from 8.3 percent for 2002, to 7.4 percent for 2005. This improvement is projected to save as much as \$110 million in 2005. The PART evaluation for Food Stamps found that the program is effective overall, but lacks a program strategy to further improve the dietary status of program participants. In 2004, USDA will develop a plan for improving nutrition among food stamp participants.

CONSERVATION OF OUR NATURAL RESOURCES

USDA delivers a portfolio of conservation programs that provides technical and financial assistance to landowners and agricultural managers to protect and enhance natural resources. This assistance helps farmers and ranchers in numerous ways, including reducing soil erosion, protecting water quality, providing for wildlife habitat, and improving the economic return from their operations.

A review of several of the Natural Resources Conservation Service's (NRCS) programs this year using the PART found that the agency has made progress in measuring the performance of its activities. In general, NRCS uses adequate annual performance measures to evaluate program delivery. However, the agency will continue to work on improving long-term performance and efficiency measures.



"The ducks will go here."

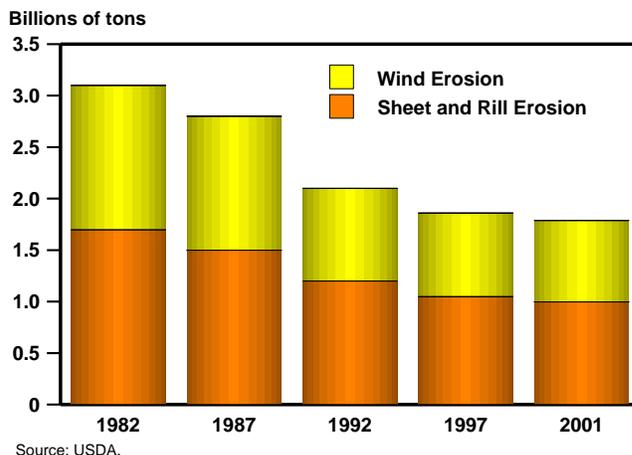
Conserving our natural resources is critically important for keeping our Nation's economy competitive and for solving challenges we face in agriculture and the environment. Over the past two decades, the Department's principal conservation agency, NRCS, has helped agricultural producers improve resource conditions, such as enhancing water quality. For example, in recent years NRCS and its conservation partners helped to install over 1.5 million miles of vegetative "buffers" along waterways to protect water quality from non-point source pollution (such as sediment, nutrients, pesticides, and pathogens). In addition, work with producers on protecting soil resources has resulted in

substantial reductions in the estimated soil erosion over the past 20 years.

In 2002, President Bush signed into law the most conservation-oriented farm bill in history. USDA now has unprecedented new resources to continue to build on its conservation accomplishments. USDA has made great strides in implementing the conservation provisions in the farm bill, such as delivering the expanded Environmental Quality Incentives Program, Conservation Reserve Program, and Wetlands Reserve Program. In 2003 alone, NRCS assisted producers with:

- Applying erosion control measures on 5.9 million acres of cultivated cropland that reduced annual soil loss by 50 million tons;
- Implementing comprehensive nutrient management systems on 11.9 million acres of grazing land; and
- Improving irrigation water management on 1.9 million acres and conserving 5.8 million acre-inches of water.

Soil Erosion on Cropland



OUR NATIONAL FORESTS

For decades, a major objective of forest policy has been the containment and prevention of wild-fires. The motivations for this policy were good, but the policy has had dangerous consequences. The buildup of underbrush and small trees, combined with drought, has left millions of acres susceptible to large, catastrophic fires that are unnaturally intense. While the President's Healthy Forests Initiative focuses on management improvements and making better use of existing resources, the Budget also supports the initiative by providing an additional \$33 million increase for USDA Forest Service fire fuels reduction projects in 2005.

Healthy Forests

In August 2002, President Bush announced the Healthy Forests Initiative, a joint effort of USDA and the Department of the Interior designed to reduce the threat of catastrophic wildfire and improve the health of our Nation's forests and wooded rangelands by expanding local involvement in project selection and reducing unnecessary delays in forest health projects. In just over one year, the Administration completed its promised administrative steps, and also worked with a bipartisan coalition of Members of Congress to pass two new laws to help the agencies better protect communities and forests.

The initiative culminated in the passage of the Healthy Forests Restoration Act, which President Bush signed into law on December 3, 2003. This scientifically-based legislation helps fulfill the President's pledge to care for America's forests and rangelands, reduce the risk of catastrophic fire to communities, help save the lives of firefighters and citizens, and protect threatened and endangered species.

The Healthy Forests Initiative marked a clear and decisive change in direction. Instead of enduring season after season of devastating fires my Administration acted to remove the causes of severe wildfires.

President George W. Bush
December 2003

The Act:

- Strengthens public participation in developing high-priority forest health projects;
- Reduces the complexity of environmental analysis, allowing Federal land agencies to use the best science available to actively manage land under their protection;
- Provides a more effective appeals process by encouraging early public participation in project planning; and
- Issues clear guidance that courts should not enjoin forest health projects unless they have also considered the long-term risks of fire if projects are not completed in a timely manner.

The Act will help provide a long-term solution to reduce the risks of catastrophic wildfires by reducing fire "fuels"—unusually high amount of underbrush and small trees. The Budget puts additional discretion into the hands of on-the-ground managers by funding hazardous fuels activities within the National Forest System at \$266 million. Total Forest Service and Department of the Interior funding on these projects has increased four times since 2000. Following the recommendations contained in the PART, the Budget also focuses on ensuring that fuels reduction activities are adequately targeted and efficiently managed. The Budget also reflects anticipated increases in fuels treatments through increased efficiencies resulting from the use of the new stewardship contract authority and other administrative and productivity improvements resulting from the President's Healthy Forests Initiative.

Healthy Forests Will Help Fire Suppression

The buildup in small trees and underbrush not only impacts the health of forests, but also leads to fires that are larger and more costly than those that occur in forests that are in a healthy condition. The cost of fire suppression has risen dramatically. For three out of the last four fiscal years,

Federal wildfire suppression costs have exceeded \$1 billion per year. While weather and drought undoubtedly played a role in this trend, the rising per-acre costs lead to concerns about targeting of suppression activities and cost-effectiveness of suppression efforts, particularly the use of costly aviation resources. These high costs have a detrimental effect on other Forest Service activities as resources must be redirected from activities such as recreation, endangered species habitat management and protecting sources of clean water to firefighting.



What we want...

What we have.

A PART evaluation noted weaknesses in incentives for controlling suppression costs and in the process for allocating preparedness resources effectively. The Budget reflects the PART recommendation that the Forest Service and the Department of the Interior develop and implement cost containment strategies for suppression. In response, these agencies developed new procedures that focus on cost containment strategies in suppressing wildfires and eliminating unnecessary expenses; establishing clearer financial management accountability of personnel; and providing for improved controls and incentives for

suppression costs. The Budget builds upon these improvements as well as the integrated use of aviation and personnel resources.

The President's Budget also maintains the Administration's fiscally responsible policy of budgeting for the cost of fire suppression at the 10-year average, \$685 million. This level reduces the need for supplemental appropriations or Forest Service redirecting resource management funds to fight fires. In addition, this Budget maintains front-line firefighting resources by providing \$666 million for fire preparedness.

CREATING JOBS IN RURAL AMERICA

The Nation's population has gradually shifted toward urban and suburban centers, with about 20 percent of the population now living in rural surroundings compared with 36 percent just 50 years ago. Despite this migration, rural business, health and personal service industries posted job gains in the past year, although they barely offset job losses in other industries. To help combat these issues, USDA's rural development loan and grant programs are designed to create jobs and provide the necessary infrastructure, housing and economic development that is needed to improve the quality of life in rural areas. On average, USDA provides over \$10 billion in such assistance annually. In addition to several USDA efforts to assist the rural community, the President also has placed a priority on expanding access to care through health centers and supported payment increases to rural Medicare facilities.



To the rescue.

One of the important factors for continued development of rural America is infrastructure. Telephone, electricity, water and sewer, schools, libraries, hospitals and fire and rescue services are necessary to attract and maintain rural businesses and residents. In addition, new technology seems to come last to rural areas making it more difficult for them to compete. Programs like the Distance Learning and Telemedicine, and Broadband programs help speed the investments in new technology in rural areas by providing high speed internet access, distance learning facilities and quality medical care that help rural America attract business investment and improve quality of life.

Old Glory: Saving an Historic Company

Established in 1847, Anin and Company is the largest and oldest flag manufacturer in the United States. The company’s aging Coshocton, Ohio facility was unable to meet production needs. Rural Development provided a \$1.6 million loan guarantee to help Anin purchase and renovate a new building less than 10 minutes from the old facility. The assistance allowed Anin to consolidate production into the new facility and meet peak production needs. This helped sustain the local employer and preserve over 200 jobs.

For 2005, the Budget will provide \$527 million in assistance through community facilities grants and loans. The community facilities program provides low interest loans, loan guarantees and grants to rural communities, which help them afford necessary and important facilities such as police stations, medical units, and daycare centers. Through the PART review, community facilities programs were noted for being successful at leveraging funds with other Federal agencies as well as non-governmental agencies, such as faith-based organizations. The Administration is ensuring that any and all barriers to participation within the community facilities program for faith-based organizations are being addressed, so that leveraging and faith-based organization participation is increased.

PERFORMANCE EVALUATION OF SELECT PROGRAMS

The Budget continues to focus on improving program performance. Eighteen of USDA’s programs were assessed using the Program Assessment Rating Tool (PART), which evaluated the programs’ design and purpose, strategic planning efforts, how well they are managed, and whether they are generating positive results for taxpayers. Below are some of the highlights and recommendations from the PART evaluations. For further details on USDA’s performance assessments, see the White House budget website at www.whitehouse.gov/omb/budget/.

| Program | Rating | Explanation | Recommendation |
|---|-----------|--|--|
| Animal and Plant Health Inspection Service (APHIS): Monitoring Programs | Effective | Purpose and design are clear and the program is well-managed. Measures focus on key outcomes of the program. | The Budget proposes increases to support detection of significant pest introductions, including BSE, before they spread. |

| Program | Rating | Explanation | Recommendation |
|--|--------------------------|--|--|
| Rural Business Service (RBS): Business and Industry Guaranteed Loans | Adequate | While the program has defined good performance goals that measure the number of jobs created and saved, program management needs improvement as the cost of the program has increased over the last few years. | The agency is rewriting regulations to address deficiencies. To provide an understanding of the benefits provided by the program, RBS will be refining its performance measures to compare the types of employment opportunities supported with the economic gain provided to communities. |
| Forest Service: Land Acquisition | Results Not Demonstrated | Although lands are acquired at fair market value, the program needs to establish national priorities that protect public benefits to the greatest extent possible while also providing optimal reduction of Government's current and future costs. | The Budget proposes that the Forest Service begin conducting analyses of land ecology, vegetation and biodiversity to identify priority areas in need of protection to ensure monies are directed more effectively. |

UPDATE ON THE PRESIDENT'S MANAGEMENT AGENDA

The table below provides an update on USDA's implementation of the President's Management Agenda as of December 31, 2003.

| | Human Capital | Competitive Sourcing | Financial Performance | E-Government | Budget and Performance Integration |
|-----------------|---|---|---|---|---|
| Status |  |  |  |  |  |
| Progress |  |  |  |  |  |

USDA developed a comprehensive human capital plan and has worked to develop strategies to address human resource challenges. Additional work is needed, however, to optimize organizational structures and develop department-wide guidance for succession planning as a large proportion of the workforce will be eligible for retirement over the next decade. USDA has completed public-private competitions for over 13 percent of activities eligible to be performed by the private sector. In many instances, USDA employees have won these competitions and overall, competition is improving efficiencies of program delivery. Competitions conducted by the Forest Service on maintenance work on roads, trails and facilities resulted in an estimated savings of \$1.5 million annually. USDA's efforts in financial management resulted in its second clean audit opinion and the resolution of 12 audit weaknesses, though problems associated with funds control still need to be resolved. Efforts during 2003 resulted in a reduction of over 25 percent in the number of information technology systems and over 15 percent in the funding by combining similar systems and reducing duplication. During 2004, USDA will focus on correcting the significant number of information technology security deficiencies. For the first time the USDA budget links resources to program performance and strategic goals.

| Initiative | Status | Progress |
|---|---|---|
| Faith-Based and Community Initiative |  |  |
| <p>USDA will publish a general department-wide rule affirming the ability, rights, and responsibilities of faith-based organizations participating in USDA programs and benefits in accordance with Executive Order 13279. As part of its outreach and technical assistance efforts, USDA has greatly enhanced electronic access to information to encourage faith-based and community-based organizations (FBOs/CBOs) to learn about funding opportunities and apply for grants. USDA is also establishing baseline levels of participation by FBOs/CBOs in specific programs across three USDA mission areas. This information will be used to set goals for increased activity by FBOs/CBOs applying to administer USDA funded programs. USDA is working to ensure that FBOs/CBOs have full access to formula grant programs administered by State and local agencies.</p> | | |

DEPARTMENT OF AGRICULTURE
(In millions of dollars)

| | Actual | | Estimate | |
|--|--------|--------|----------|--------|
| | 2001 | 2003 | 2004 | 2005 |
| Spending | | | | |
| Discretionary Budget Authority: | | | | |
| Commodities and International..... | 2,481 | 3,287 | 3,045 | 3,098 |
| Rural Development | 2,714 | 2,764 | 2,449 | 2,205 |
| Forest Service..... | 4,449 | 3,955 | 4,192 | 4,238 |
| Conservation..... | 1,017 | 1,016 | 1,028 | 908 |
| Food and Nutrition Service | 4,483 | 5,085 | 4,930 | 5,142 |
| Research | 2,120 | 2,492 | 2,468 | 2,404 |
| Marketing and Regulatory Programs | 1,558 | 1,940 | 1,610 | 1,803 |
| Central Administration | 448 | 575 | 517 | 631 |
| Subtotal, excluding items below | 19,270 | 21,114 | 20,239 | 20,429 |
| Receipts and new user fees | -33 | -43 | -33 | -214 |
| Emergencies | — | 919 | 523 | — |
| Mandatory savings proposals | — | — | — | -1,159 |
| Total, Discretionary budget authority ¹ | 19,237 | 21,990 | 20,729 | 19,056 |
| Total, Discretionary outlays | 17,640 | 20,317 | 21,374 | 20,781 |
| Mandatory Outlays: | | | | |
| Food and Nutrition Service | 28,620 | 36,143 | 40,488 | 42,245 |
| Commodity Credit Corporation..... | 24,288 | 17,198 | 14,936 | 15,215 |
| Crop Insurance..... | 2,463 | 3,255 | 3,965 | 3,685 |
| Natural Resources Conservation Service | 24 | 902 | 1,839 | 2,079 |
| Agriculture Marketing Service..... | 1,050 | 1,371 | 1,060 | 977 |
| Forest Service..... | 809 | 549 | 705 | 705 |
| Loan liquidating accounts and reestimates..... | -4,304 | -6,833 | -5,733 | -3,475 |
| Receipts and all other programs | -2,589 | -717 | -1,022 | -434 |
| Total, Mandatory outlays | 50,361 | 51,868 | 56,238 | 60,997 |
| Total, Outlays | 68,001 | 72,185 | 77,612 | 81,778 |

DEPARTMENT OF AGRICULTURE—Continued

(In millions of dollars)

| | Actual | | Estimate | |
|---|--------|--------|----------|--------|
| | 2001 | 2003 | 2004 | 2005 |
| Credit activity | | | | |
| Direct Loan Disbursements: | | | | |
| Farm Loans..... | 1,072 | 1,100 | 1,035 | 937 |
| Commodity Credit Corporation..... | 8,267 | 10,718 | 8,284 | 9,209 |
| Rural Utilities Service..... | 2,957 | 4,127 | 4,507 | 4,598 |
| Rural Housing..... | 1,212 | 1,134 | 1,494 | 1,369 |
| Rural Community and Economic Development..... | 246 | 275 | 371 | 407 |
| P.L. 480..... | 262 | 65 | 301 | 31 |
| All other programs..... | 69 | 45 | 91 | 84 |
| Total, Direct loan disbursements..... | 14,085 | 17,464 | 16,083 | 16,635 |
| Guaranteed Loan Commitments: | | | | |
| Farm Loans..... | 2,200 | 2,592 | 2,461 | 2,866 |
| Commodity Credit Corporation..... | 2,183 | 2,388 | 4,155 | 4,528 |
| Rural Utilities Service..... | 35 | 26 | 212 | 382 |
| Rural Housing..... | 2,171 | 3,047 | 2,914 | 2,837 |
| Rural Business and Community Development..... | 824 | 795 | 536 | 432 |
| Total, Guaranteed loan commitments..... | 7,413 | 8,848 | 10,278 | 11,045 |

¹ For comparability, the 2001 data reflect transfers related to the creation of the Department of Homeland Security.

DEPARTMENT OF COMMERCE

Since 2001, the Administration:

- Enhanced trade opportunities for U.S. firms by implementing the Trade Act of 2002 and pursuing new agreements and improved enforcement;
- Improved statistical information about the U.S. economy by enhancing the measurement of international trade and services and accelerating the release of key statistics;
- Raised the quality of patent and trademark processing; and
- Increased accuracy and lead times of weather warnings and forecasts for severe storms.

The President's Budget:

- Strengthens the economy through job creation, expanded trade opportunities, and enhanced statistics critical to understanding the U.S. economy;
- Supports technological innovation by modernizing patent and trademark operations and conducting fundamental scientific research and industrial standards development; and
- Improves weather and climate forecasting to benefit public safety and economic growth.

Department of Commerce

Donald L. Evans, Secretary

www.doc.gov 202-482-2112

Number of Employees: 36,000

2005 Discretionary Budget Authority:
\$5.7 billion

Key Components: 10 bureaus with offices across the United States and 80 countries, as well as laboratories, vessels, aircraft, and satellites used for environmental observations and scientific research.



Following the signing of the President's Jobs and Growth package, Secretary Evans speaks to a town hall meeting in Minnesota.

OVERVIEW



On Labor Day 2003, President Bush spoke to the Ohio Operating Engineers about the economy and key components of the Manufacturing Initiative.

The Department of Commerce helps foster economic growth and environmental stewardship. It accomplishes these missions by promoting technological innovation; gathering and developing economic and demographic statistical data used by the public and private sectors; pursuing open and fair international markets and helping U.S. firms and consumers benefit from them; issuing patents and trademarks that reward innovation; developing and setting new industrial standards and performing valuable scientific research; forecasting the weather to benefit public safety and aid environmental policy; and promoting environmental safeguards for the oceans and coasts, including stewardship of

ocean fisheries. These missions are reflected in Commerce's three strategic goals:

- Provide the information and tools to maximize U.S. competitiveness and promote economic growth for American industries, workers, and consumers;
- Foster scientific and technological leadership by protecting intellectual property, enhancing technical standards, and advancing measurement science; and
- Observe, protect, and manage the Earth's resources to promote environmental stewardship.

Commerce's three strategic goals form the basis of the 2005 Budget request.

The Budget supports Commerce's work in improving the statistics that describe the U.S. economy and in promoting fair competition in international trade.

To foster economic and job growth in the United States, businesses need to make technological advances. This Budget supports increases for the Patent and Trademark Office (PTO) and the National Institute of Standards and Technology's (NIST) core program to improve the quality and timeliness of their products and services to preserve U.S. technological leadership.

Public safety and economic growth depend on accurate weather and marine information. Our Nation's fisheries are both an environmental resource and an economic resource that require sound management and stewardship to promote the public's interest. The Budget supports the efforts of the National Oceanic and Atmospheric Administration (NOAA) to enhance the quality of weather information and improve fisheries management.

IMPROVING ECONOMIC INFORMATION AND PERFORMANCE

The President's Budget proposes to strengthen core statistical programs and to realign efforts in international trade and economic development.

The Bureau of Economic Analysis (BEA) develops economic statistics that are critical to understanding the U.S. economy. For example, BEA provides quarterly estimates of the Gross Domestic Product, a closely-watched measure of the performance of our Nation's economy. Reflecting BEA's effective rating in the Program Assessment Rating Tool (PART) analysis, the Budget requests an additional \$15 million to continue to improve the timeliness and quality of BEA's economic data.

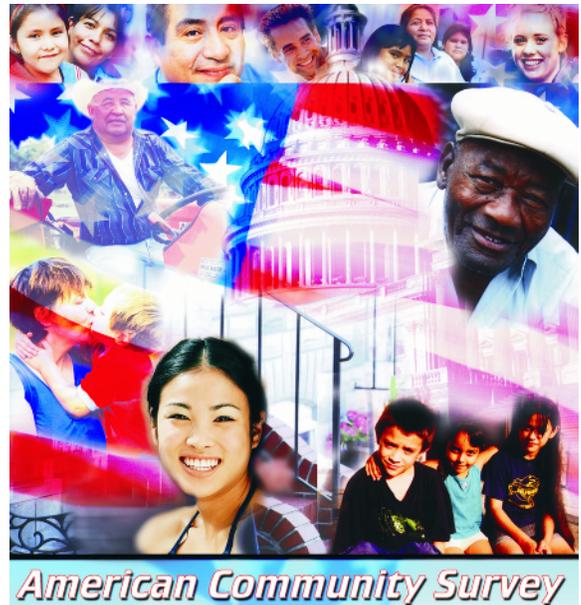
The Census Bureau collects, tabulates, and distributes a wide variety of statistical information about Americans and the economy, including the constitutionally mandated decennial census. The Budget proposes a \$180 million increase to continue improvements to the design of the 2010 census and the information it provides. The Bureau has improved the coverage accuracy of the census over time; however, the costs of conducting each census have risen sharply. The Bureau is reengineering the 2010 census to further improve coverage accuracy, contain costs, and provide more timely “long-form” data. Funding increases will be used for early planning and testing; continued improvements in address and geographic information; and full implementation of the American Community Survey to provide long-form data on an on-going basis, rather than waiting for once-a-decade censuses.

The International Trade Administration (ITA) assists in the creation of U.S. jobs by aiding the growth of export businesses. It also ensures international trade is fair for U.S. workers and businesses by enforcing U.S. trade laws and agreements, and improving access to overseas markets by identifying and pressing for the removal of trade barriers. This Budget provides ITA an \$11 million increase for international trade activities.

Throughout 2003, Secretary Evans and other senior Commerce officials consulted with American manufacturers through a series of nationwide roundtables to discuss the challenges and job losses facing the industry. On Labor Day 2003, President Bush outlined the key findings of these roundtables. In response to these challenges, this Budget reflects the following changes at the Department of Commerce: creating a new Assistant Secretary to serve as a leader within the Administration on manufacturing; creating a new Assistant Secretary for Trade Promotion to boost exports, particularly to those markets that U.S. negotiators have recently opened, like China; and establishing an Unfair Trade Practices Team to track, detect, and confront unfair competition before it injures an industry here at home. ITA continues to develop and implement the President’s National Export Strategy, including the International Trade Process Streamlining Initiative. This Presidential E-Government effort provides U.S. companies better access to trade-related market research and export services information at www.export.gov.

The Bureau of Industry and Security regulates the export of sensitive goods and technologies and helps U.S. industry comply with international arms control agreements. The Budget provides \$9.5 million to: 1) enhance the enforcement of license conditions; and 2) implement a more effective system of dual use export controls that better protect U.S. national and economic security.

The Economic Development Administration’s (EDA) mission is to promote a favorable business environment in economically depressed communities, principally through infrastructure investments. The Budget proposes sustained funding for EDA to continue to encourage private enterprise, job creation, and economic growth in the Nation’s most distressed communities. The Budget proposes an additional \$6 million for the Minority Business Development Agency to continue to strengthen partnerships with the private sector and other Federal, State, and local entities that help promote the growth of minority businesses.



The American Community Survey will provide current information about communities and how they change. This annual survey, conducted by the Census Bureau, collects the information that businesses and local officials will use in providing the goods and services Americans need—locating new businesses, schools, roads, hospitals, and allocating Federal resources.

BUILDING INFRASTRUCTURE FOR INNOVATION

The 2005 Budget strengthens key Commerce programs so that U.S. workers and businesses can maintain their technological edge in world markets.

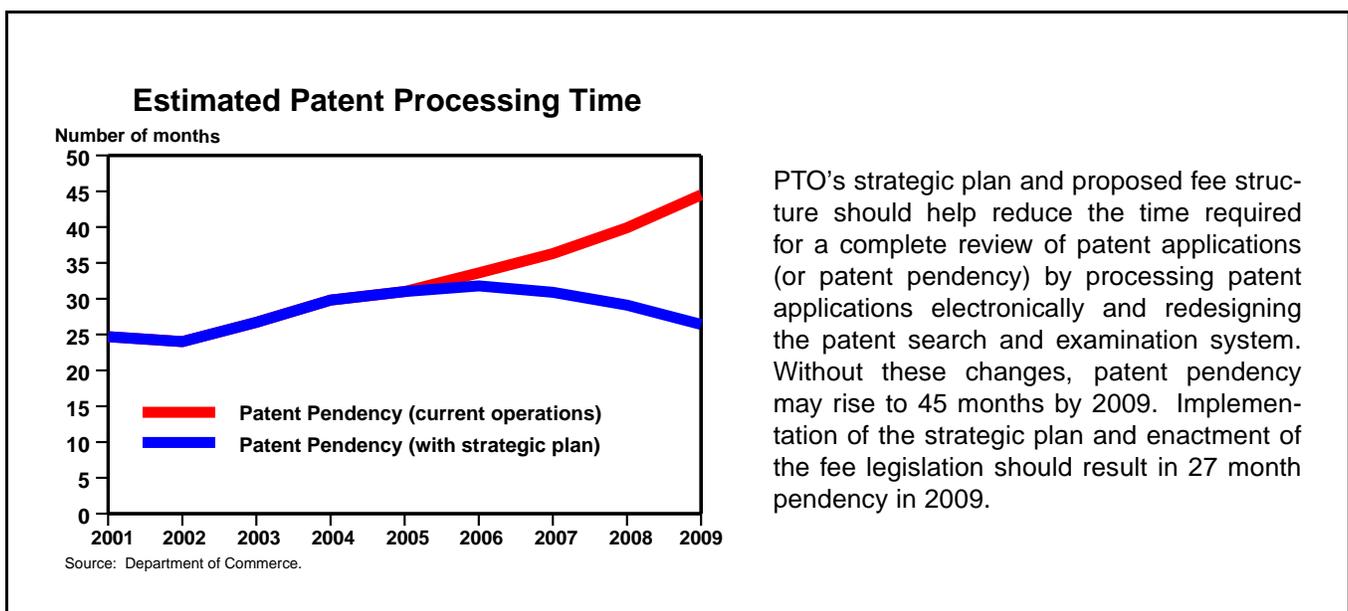
PTO issues patents and registers trademarks. It also works to protect U.S. intellectual property right holders around the world through international treaties and enforcement training programs.

As the U.S. economy depends increasingly on protection of intellectual property, PTO must efficiently and accurately process patent and trademark applications. In the past few years, however, PTO has experienced a growing backlog of patent applications and has struggled to meet performance goals. To address these challenges, the agency developed a far-reaching strategic plan in 2002 to improve quality and reduce the time required to process patents and trademarks. The first PART assessment on PTO, conducted for the 2004 Budget, supported the strategic plan initiatives as a mechanism to improve performance. As part of the strategic plan, the 2004 Budget included legislation to increase and restructure PTO's fees to enable the agency to meet its workload problems. The efforts to modernize and strengthen the PTO are also important parts of the President's Manufacturing Initiative to improve the competitiveness of U.S. manufacturers.

This Budget supports the fee legislation and a spending level of \$1.5 billion that will allow PTO to continue implementation of its strategic plan. This proposal provides PTO full access to its fee collections in 2005.

PTO expects to meet the following performance targets with its 2005 funding and initial implementation of strategic plan initiatives:

- Reduce its error rate from 4.4 percent in 2003 to 3.7 percent in 2005 for patents, and from 5.3 percent in 2003 to 4.5 percent in 2005 for trademarks;
- Receive 10 percent and manage 90 percent of patent applications electronically by 2005, and receive 70 percent and manage 100 percent of trademark applications electronically by 2005; and
- Achieve complete review of patent applications in an average of 26.9 months by 2009, and complete review of trademark applications in an average of 20.7 months by 2009.



PTO's 2005 funding will cover the full accruing retirement costs of its employees, as well as the hiring of 900 new patent examiners and investments in E-Government to process patents electronically.

The Budget provides increased funding for NIST laboratories in order to meet Commerce's challenge of promoting state-of-the-art industrial 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 upgrade to NIST's lab facilities continues with \$31 million to equip and operate the Advanced Measurement Laboratory, a new facility designed to meet cutting edge research requirements, and \$25 million for continued renovations of NIST's Boulder, Colorado facilities. The fundamental scientific research and advanced facilities capabilities of NIST support the innovation priorities of the interagency National Nanotechnology Initiative at \$53 million and Networking and Information Technology Research and Development (R&D) at \$33 million. The Budget provides funding for NIST's ongoing research efforts in homeland security standards development related to biometric identification, threat detection, and high-rise safety. These activities will provide more accurate identification of individuals seeking to enter the United States, improve the capability to detect nuclear and radiological weapons and help prevent smuggling of these weapons across our borders, and update building and fire standards along with operational guidance for building owners and emergency responders.

Consistent with the Administration's emphasis on shifting resources to reflect changing needs, the 2005 Budget proposes to terminate the Advanced Technology Program (ATP). The Administration believes that other NIST research and development programs are much more effective and necessary in supporting the fundamental scientific understanding and technological needs of U.S.-based businesses, American workers and the domestic economy. Further, large shares of ATP funding have gone to major corporations that do not need subsidies. Finally, ATP-funded projects often have been similar to those being carried out by firms not receiving such subsidies.

The 2005 Budget maintains the 2004 level of funding for the Manufacturing Extension Partnership (MEP). MEP was designed to demonstrate how to provide information and consulting services to help businesses adopt advanced manufacturing technologies and business practices, and to transfer these methods, activities and functions to the private sector. MEP was originally intended to be comprised of 12 federally supported centers, with Federal funding ending after six years. In its 15 years of operation, the program has expanded away from this original design to include 400 locations, and the Congress has removed the sunset provision. Given advances in manufacturing and technology, it is appropriate to evaluate MEP operations and take steps for continuous improvement. The Administration proposes to coordinate MEP fully with other Commerce Department programs that are helping manufacturers to be more competitive and expand markets.

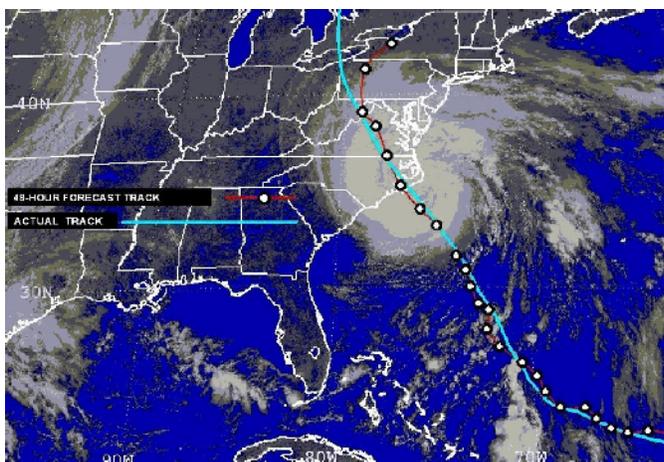
The Budget continues to strengthen the spectrum management capabilities of the National Telecommunications and Information Administration by providing funding for laboratory upgrades, and spectrum management and research in support of the Administration's Spectrum for the 21st Century Initiative. In addition, the Administration will again propose legislation to streamline the current process for reimbursing Federal agencies that must relocate from spectrum auctioned to commercial users. Additional telecommunications legislation is discussed in the Federal Communications Commission section in the Other Agencies chapter.

The Budget provides no funds for Public Telecommunications Facilities, Planning and Construction grants. This program has recently targeted most of its funding toward the purchase of digital transmission equipment by public broadcasting stations. The Budget proposes that a portion of the Corporation for Public Broadcasting's already enacted 2005 funding be made available for this purpose.

IMPROVING THE OBSERVATIONS AND MANAGEMENT OF THE NATION'S OCEANIC AND ATMOSPHERIC ENVIRONMENT

Accurately predicting storm and other weather events and tracking changes in the climate over time are important to public safety, environmental safety, and averting economic losses. This Budget funds the high-priority, core activities of NOAA, including efforts to improve severe-storm forecasts, the satellite infrastructure needed for weather and climate prediction and research, and fisheries and ocean programs. In addition, funding is provided to address maintenance and safety issues associated with NOAA facilities, vessels, and aircraft.

Exceptional Performance Tracking Hurricane Isabel Saves Lives



Thanks to accurate forecasting, loss of life and property was minimized during Hurricane Isabel.

Last fall, Hurricane Isabel paralyzed the East Coast, shutting down schools and offices and damaging hundreds of homes and businesses. The National Weather Service (NWS) accurately predicted the path of the hurricane from off-shore and landfall through dissipation over West Virginia and Pennsylvania. Thanks to the NWS, local officials had time for emergency preparations to save lives and minimize damage, and evacuation warnings could be targeted to minimize costs and inconveniences.

Every year, hundreds of lives and billions of dollars are lost due to severe storms, floods, and other natural disasters. NOAA's National Weather Service (NWS) aims to minimize these impacts through improved weather warnings and forecasts. In recent years, NWS has demonstrated strong performance during key weather events. Last fall, the preliminary 48-Hour Forecast Track Error for Hurricane Isabel was only 61 nautical miles, significantly less than the average error of 130 nautical miles. Because of NWS's record of success, the Budget provides a boost to further increase lead times and to improve the accuracy of the warnings. The Budget also includes an increase for NOAA's satellite programs, which provide irreplaceable data that are essential for weather and climate prediction and environmental monitoring.

In support of the Administration's newly released Climate Change Science Program (CCSP) Strategic Plan, the 2005 Budget includes an additional \$19 million for NOAA to expand climate observing capabilities. These activities will contribute to reducing scientific uncertainty in three key areas identified in the CCSP plan: 1) effects of aerosols; 2) atmospheric and oceanic interactions, and 3) carbon sources and sinks. This funding is one component of a Government-wide initiative, which provides \$103 million over two years for accelerated climate observing activities and research. The Administration will continue to work with the international community to develop a comprehensive, global earth observation system.

This Budget continues steps to improve the effectiveness of management actions by NOAA's National Marine Fisheries Service. Currently, about 17 percent of major fisheries stocks are known to be over-fished, and stock levels are unknown for another 38 percent. While more than 80 percent of the over-fished stocks are currently under rebuilding plans, rebuilding long-lived stocks can take decades. Over the last decade, several fisheries have "collapsed" and, as a result, there has been a rise in fishing moratoria, lawsuits, and Federal payments to support affected fishermen and fishing-dependent communities.

The 2005 Budget sustains the focus on core activities, such as fisheries science and stock assessments, which will improve the management and economic sustainability of the Nation's fisheries and enhance protection of endangered species. In addition, the Budget supports the 2004 proposal to reauthorize the Magnuson-Stevens Fisheries Conservation and Management Act, including the authority to establish individual fishing quota systems. Providing market-based incentives and redirecting funds to meet the highest priority fishery management needs will enhance sustainability and improve the livelihood of fishermen who depend on these resources.

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 two by the end of 2005 and by 12 by the end of 2009. A greater effect will be felt in the number of sustainable fisheries, as stock levels improve and stocks with unknown population status are evaluated. The status of an additional 11 stocks should be determined by the end of 2005, and an additional 19 stocks by 2009.

Restoration of endangered salmon stocks is important for environmental quality, Native American communities, commercial and recreational fishermen, and the economic vitality of the Pacific Northwest. This Budget provides \$100 million for the Pacific Coastal Salmon Recovery Fund to assist States, Tribes, and local governments with thousands of projects that benefit Pacific salmon in Washington, Oregon, California, Idaho, and Alaska. This represents a \$10 million increase over 2004. This Budget also seeks more accountability in the use of these funds, consistent with last year's PART analysis, which found that results could not be demonstrated due to a lack of performance measures.

Accurate nautical charts and water level information are essential for maintaining safe and efficient maritime commerce. The 2005 Budget increases NOAA's capacity to provide state-of-the-art electronic nautical charts to both commercial and recreational boaters. In addition, the Budget invests in data collection platforms to monitor coastal water levels. This information is used on a daily basis to improve the efficiency of U.S. port operations. Climate change researchers are also interested in the trends of these observations over time, as well as the information they provide in severe weather events.



A barge loaded with four construction cranes passes underneath the Oakland Bay Bridge with two feet of clearance. State-of-the-art navigation tools, positioning information, and water level predictions from NOAA's National Ocean Service made this precise maneuver possible.

PERFORMANCE EVALUATION OF SELECT PROGRAMS

The Budget continues to focus on improving program performance. Fourteen Commerce programs were assessed using the Program Assessment Rating Tool (PART), which evaluated the programs' design and purpose, strategic planning efforts, how well they are managed, and whether they are generating positive results for taxpayers. Below are some of the highlights and recommendations from the PART evaluations. For further details on Commerce's performance assessments, see the White House budget website at www.whitehouse.gov/omb/budget/.

| Program | Rating | Explanation | Recommendation |
|--|--------------------------|--|---|
| NIST Labs | Effective | The program is well managed and effectively conducts fundamental R&D and industrial standards development. | The Budget funds improvements to facilities and infrastructure and prioritizes nanotechnology, information technology (IT), and manufacturing technology. |
| NOAA: Mapping and Charting | Moderately Effective | The program demonstrates progress in meeting goals, but contains design flaws that limit cost-effectiveness. | The Budget supports modest expansion of Electronic Navigation Charts. |
| Census: Decennial Census | Moderately Effective | The 2000 census was highly accurate, but was conducted at great cost. | The Budget funds significant activities to redesign the 2010 census to simplify data collection and contain cost. |
| ITA: U.S. and Foreign Commercial Service (USFCS) | Adequate | The program does not adequately recover the cost of its services through fees. | The Budget supports work to develop a cost-accounting system to provide better information about the full cost of USFCS services. |
| NOAA: Coastal Zone Mgmt Grants | Results Not Demonstrated | The program does not have measures to demonstrate performance in improving the condition of the Nation's coasts. | The Budget reprioritizes grant funding to other NOAA programs that are better able to demonstrate results. |

UPDATE ON THE PRESIDENT’S MANAGEMENT AGENDA

The table below provides an update on the Department of Commerce’s implementation of the President’s Management Agenda as of December 31, 2003.

| | Human Capital | Competitive Sourcing | Financial Performance | E-Government | Budget and Performance Integration |
|---|---|---|---|---|---|
| Status |  |  |  |  |  |
| Progress |  |  |  |  |  |
| <p>Efforts to optimize Commerce’s workforce structure are ongoing, with Commerce utilizing Voluntary Early Retirement Authorities and Voluntary Separation Incentive Payments to facilitate restructuring, reorganizing and delayering. Although accomplishments in competitive sourcing are not as progressive as originally proposed, Commerce has, to date, completed competitions for seven percent of its commercial inventory. Commerce is revamping its program to focus on institutionalizing competitive sourcing as a management tool. The Department completed deployment of the Commerce Administrative Management System, thereby meeting requirements for an integrated financial system for the first time, and is working to address remaining compliance issues. Commerce has made strong progress in E-Government by improving information technology security for all of its systems. In addition, Commerce has completed PARTs for nearly two-thirds of its programs.</p> | | | | | |

Department of Commerce
(In millions of dollars)

| | Actual | | Estimate | |
|---|--------|--------|----------|--------|
| | 2001 | 2003 | 2004 | 2005 |
| Spending | | | | |
| Discretionary Budget Authority: | | | | |
| Departmental Management: | | | | |
| Salaries and Expenses | 40 | 49 | 47 | 56 |
| Emergency guaranteed loan program accounts..... | -115 | -1 | — | -35 |
| Undistributed reductions..... | — | — | -18 | — |
| Office of the Inspector General..... | 20 | 21 | 21 | 22 |
| Subtotal, Departmental Management..... | -55 | 69 | 50 | 43 |
| Economic Development Administration..... | 449 | 320 | 310 | 321 |
| Bureau of the Census | 429 | 551 | 612 | 828 |
| Economic and Statistics Administration | 54 | 72 | 73 | 88 |
| International Trade Administration..... | 345 | 417 | 332 | 394 |
| Bureau of Industry and Security | 65 | 66 | 67 | 77 |
| Minority Business Development Agency..... | 27 | 29 | 29 | 34 |
| National Oceanic and Atmospheric Administration: | | | | |
| Operations, Research and Facilities | 2,179 | 2,463 | 2,699 | 2,460 |
| Procurement, Acquisition and Construction..... | 750 | 754 | 963 | 899 |
| Other accounts..... | 197 | 54 | 23 | 18 |
| Subtotal, NOAA..... | 3,126 | 3,271 | 3,685 | 3,377 |
| Patent and Trademark Office: | | | | |
| Program Level | 1,039 | 1,182 | 1,221 | 1,533 |
| Offsetting Collections..... | -1,085 | -1,194 | -1,271 | -1,533 |
| Subtotal, PTO..... | -46 | -12 | -50 | — |
| Office of Technology Policy..... | 8 | 10 | 6 | 8 |
| National Institute of Standards and Technology: | | | | |
| Scientific & Technical Research & Services..... | 313 | 357 | 337 | 423 |
| Industrial Technology Services | 250 | 285 | 209 | 39 |
| Construction of Research Facilities..... | 35 | 66 | 64 | 59 |
| Subtotal, NIST | 598 | 708 | 610 | 521 |
| National Telecommunications and Information Administration: | | | | |
| Salaries and Expenses | 12 | 15 | 14 | 22 |
| Grant programs..... | 90 | 60 | 34 | 3 |
| Subtotal, NTIA | 102 | 75 | 48 | 25 |
| Total, Discretionary budget authority ¹ | 5,102 | 5,576 | 5,772 | 5,716 |
| Total, Discretionary outlays | 5,094 | 5,553 | 5,962 | 6,018 |
| Total, Mandatory outlays | -69 | 103 | 211 | 133 |
| Total, Outlays | 5,025 | 5,656 | 6,173 | 6,151 |
| Credit activity | | | | |
| Direct Loan Disbursements: | | | | |
| Fisheries finance direct loan financing account | 24 | 22 | 181 | 14 |
| Guaranteed Loans: | | | | |
| Emergency guaranteed loan financing accounts.... | 113 | 145 | 105 | — |

¹ For comparability, the 2001 data reflect transfers related to the creation of the Department of Homeland Security.

DEPARTMENT OF DEFENSE

Since 2001, the Administration has:

- Fought the War on Terror on the offensive;
- Removed threats to our security in Afghanistan and Iraq liberating nearly 50 million people in these countries;
- Provided pay raises to our servicemen and women of more than 21 percent and expanded the use of targeted pays and bonuses;
- Begun to transform our Nation's defenses and increased spending by 26 percent, the largest increase in the Defense budget since the Reagan Administration;
- Launched a transformational and joint training program improving readiness rates;
- Increased research and development funding by 56 percent;
- Improved the quality of housing for military personnel and their families through privatization and new construction; and
- Doubled investments in missile defense systems, deploying the first ever land and sea-based system.

The President's Budget:

- Advances our ongoing efforts in the Global War on Terror;
- Provides \$401.7 billion for the Department's base budget, an annual increase of seven percent, for a total increase in defense spending of 35 percent since 2001;
- Makes measurable strides in transforming the Department to meet new threats; and
- Continues improvements in the quality of life for our military personnel and their families.

Department of Defense

Donald H. Rumsfeld, Secretary

www.defenselink.mil 703-697-5131

Number of Employees: 2.3 million Military (Active, Reserve, and Guard) and almost 700,000 Civilian

2005 Discretionary Budget Authority: \$401.7 billion

Key Components: Department of the Army, Department of the Navy, Department of the Air Force, 15 defense agencies, and unified combatant commands.

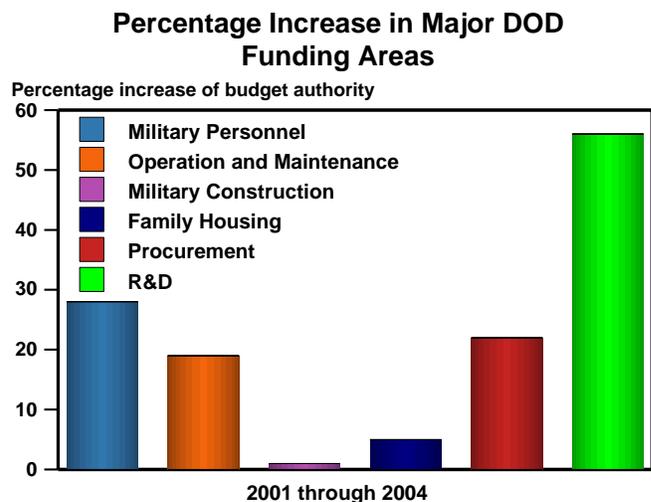


Secretary Rumsfeld responds to a question at a town hall meeting in the Pentagon.

OVERVIEW

The Department of Defense (DOD) is currently on the front lines of the War on Terror. As of December 14, 2003, there were 12,387 U.S. military troops deployed to support Operation Enduring Freedom in Afghanistan and 125,141 to support Operation Iraqi Freedom. These troops are fulfilling the President's commitment to take the war on terror to the terrorists. The fall of the repressive Taliban and Hussein regimes is making way for new governments in both Afghanistan and Iraq, paving the way for societies that are free.

Prior to taking office, President Bush pledged to invest resources more wisely when funding DOD. As the accompanying chart shows, since taking office, President Bush has consistently built defense strength. In fact, in constant 2004 dollars, defense spending has only been higher twice since World War II—during the Korean War and at the peak of the Cold War buildup. While some of this spending may be attributed to the War on Terror, President Bush committed to and has succeeded in steadily growing the base budget of DOD from \$296.8 billion when he took office to \$401.7 billion in the 2005 Budget. This 35-percent increase to the Department's base budget helps fulfill the President's commitments and ensures a fighting force that is second to none.



One of the challenges confronting the Department is the fulfillment of President Bush's commitment to transform the Department to meet new threats. As the chart depicts, funding for research and development (R&D) as well as funding for procurement has grown substantially. While this fulfills half of the President's pledge—to provide more resources—the other challenge is in knowing how to use these resources more wisely. The Department has made tremendous strides in fielding new technologies and changing the way the United States confronts its foes. From the use of unmanned vehicles to the use of advanced communications, the Department is aggressively pursuing the President's vision. As part of that pursuit in 2005, the Department will continue to reexamine many of its procurement programs that were transformational at their inception 20 years ago, but that are now being sustained at the expense of truly transformational technologies.

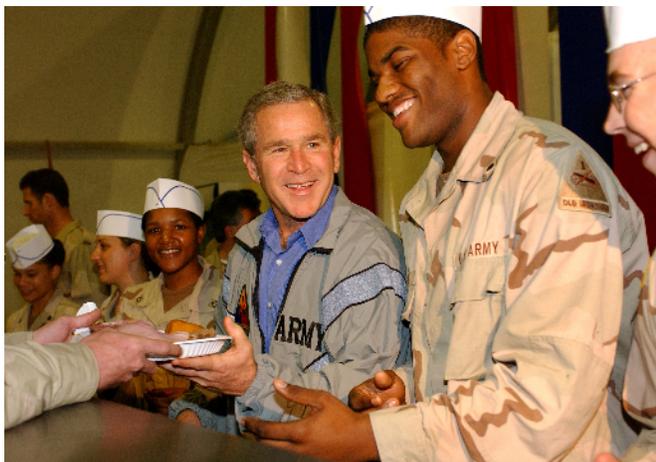


Mother and daughter reunited.

BETTER PAY, BETTER TREATMENT, BETTER TRAINING

The President promised to provide members of the Armed forces “better pay, better treatment, and better training.” He has fulfilled that promise to our troops. The purpose of better pay, treatment, and training is simple—to attract the best into the armed forces, to train them to fight effectively, and to give them the incentive to remain in the military.

During the first three years of his Presidency, basic pay alone has increased by more than 21 percent. Many servicemembers have seen much more than that. And, basic pay is only two-thirds of servicemembers' take-home pay. The increase in basic salary and payments for food and housing has reached almost 29 percent. In addition, the food and housing allowances are provided tax-free, so their actual value is significantly higher. Average compensation is now more than \$40,000 for enlisted members and more than \$79,000 for officers. Servicemembers also receive retirement benefits and health care for themselves and their families at little or no charge.



The President joins the troops in Iraq for Thanksgiving.

The Department continues to provide many servicemembers with bonuses, incentive pay and allowances, and also provides a host of non-monetary compensation initiatives, such as commissaries; exchanges; the Thrift Savings Plan; fitness facilities; morale, welfare, and recreation activities; and significant education benefits and other training; both in and outside of service, complemented by many veterans programs. This year, many military retirees will for the first time receive both their military retired pay and their veterans' disability compensation. Further, military health benefits are without peer. The TRICARE for Life (for retirees over age 65) is in place, as are enhancements to survivor benefits. This total

Privatization: Peace on the Home Front

With soldiers deployed in Iraq, families can rest easy in new homes with amenities such as more bedrooms for children, large storage rooms, covered carports, and fenced-in backyards with patios.

One of the largest Army sponsored privatization projects is at Fort Hood in Killeen, Texas. The Army initiative allows for a public-private partnership to own, maintain and manage 974 newly constructed housing units and to renovate, revitalize, own, maintain, and manage an additional 4,938 housing units, resulting in a total of 5,912 privatized housing units. The Government conveyed housing units, leased land, and contributed an equity investment, while the private sector partner obtained a commercial loan and contributed equity. Already, over 500 new homes have been built. Every month, 30 new homes are constructed and 40 existing units are renovated. By 2005, the private sector will construct 974 new units and renovate about 1,530 units for military families at Fort Hood.

compensation package ensures that most servicemembers have reason to be satisfied with their quality of life. It also ensures that recruitment and retention, which had fallen off during the late 1990s, stays strong.

Current law protects members of the Armed Forces from IRS collection action, penalties, and interest while they serve in a combat zone and for 180 days afterwards. Activated members of the National Guard and Reserve who are called up for long periods to fill in for deployed troops often leave behind jobs and businesses. Even if they do not serve in a combat zone, by virtue of their deployment these personnel are often unable to respond to the IRS in full or on a timely basis. The President's Budget will assure that activated Guard and Reserve members enjoy the same temporary shield against IRS tax actions as their active duty counterparts who are serving in a combat zone.

Part of this basic compensation entitles servicemembers to housing at no charge or a cash allowance to cover the cost of housing. Until the mid 1990s, servicemembers who lived off-base were expected to "absorb," or pay for, 15 percent of their housing costs. In reality, this cost for service personnel had grown until it was almost 20 percent. By the end of 2005, out-of-pocket expenses will be eliminated, meaning that the average servicemember who lives off-base will have all their basic housing costs covered.

The Administration will continue to improve the quality of housing for military families. One of the goals of the President's Management Agenda is to eliminate 120,000 inadequate housing units by 2007. The 2005 Budget supports this 2007 goal.

One way to eliminate inadequate housing and to improve the quality of housing over the long-term is to privatize Government-owned family housing—letting the Government take advantage of private sector skills. One component of the President's housing initiative permits DOD to enter into business agreements with the private sector, whereby it draws on private sector expertise, leverages Government resources, and improves the quality of family housing faster than the traditional approach of Government construction of



Family housing at Camp Pendleton, California.

of

housing. In privatized housing, business entities own, operate, and maintain quality homes, allowing military personnel and their families the option to rent high quality homes at prices covered by housing allowances. Privatizing housing also allows the Department to focus on mission critical needs and leaves the management of houses to the private sector.

In promising “better training,” the President committed to strengthen the military readiness of our soldiers, sailors, marines, and airmen. Since taking office, the President has added \$9.2 billion to the operation and maintenance accounts to make good on this promise. This investment is paying off as critical readiness indicators are improving.

- The number of miles soldiers drive a tank in training improves their skills and readiness; the average tank crew will drive a tank nearly 858 miles in 2005 or 12 percent over the 2000 level.
- Similarly, the number of hours air crews fly air force fighter jets in training improve their skills and readiness; the average air crew will fly a fighter jet nearly 17 hours per month in 2005 up from nearly 16 hours in 2000.



U.S. and Philippine Marines train together.

However, the real proof of military readiness is combat performance. Our combined military forces have demonstrated overwhelming combat effectiveness in Afghanistan, Iraq, and in other operations around the world. The readiness of U.S. Armed Forces to carry out combat operations anywhere in the world is now unparalleled. The Budget provides over \$140 billion in operations and maintenance funds to ensure that our military is capable of executing the National Security Strategy. This strategy demands that the military be able to:

- Assure our allies and friends;
- Dissuade future military competition;
- Deter threats against U.S. interests, allies, and friends; and
- Decisively defeat any adversary if deterrence fails.



An Army Specialist mans a security position in Iraq.

The military’s ability to achieve these strategic ends rests on four pillars of military readiness—all supported strongly in the 2005 Budget:

- Soldiers, sailors, marines, and airmen are trained to the highest possible standards;
- The best possible equipment is available to accomplish any mission;
- Equipment is maintained to the highest possible standard; and
- Sufficient personnel with the right capabilities are recruited and retained.

As one example, the Budget supports the Navy's shift to a new operational concept, the Fleet Readiness Program (FRP). The FRP is designed to provide the Nation with more flexible forces that can be deployed to deter aggression or to defeat swiftly the efforts of our adversaries. The FRP will change the way the Navy trains, maintains and deploys its units. With this concept in place, the Navy will be able to deploy up to 6 of its 12 carrier groups and to have two more groups ready to follow on within 90 days. This is in contrast to the previous routine which kept only three carriers deployed for portions of the year. The FRP's tremendous increase in available combat power and responsiveness is only possible due to the Administration's multi-year investment in readiness. The FRP will give the President more flexibility to meet today's complex security challenges. The FRP is an excellent example of the Administration's efforts to transform the armed forces so that we fight even more effectively.



USS Nimitz returns home to San Diego after supporting Operation Iraqi Freedom.

DEFENSE HEALTH



An aeromedical team evacuates soldiers injured in Iraq.

The primary mission of DOD's medical care delivery system is to train and support its medical staff for combat and other field operations and to maintain the health of our fighting forces. In addition, DOD, like other employers, provides its active duty and retired personnel and their families with health care coverage under a system called TRICARE. Since the military medical facilities can only handle a limited number of patients, private sector care is provided to all others under TRICARE. When President Bush took office, DOD provided care to just over eight million beneficiaries. In 2005, DOD will provide care to almost nine million people, an increase of eight percent.

DOD has moved forward with new TRICARE contracts that will maximize the use of Federal health care facilities in conjunction with private sector sources, while continuing to ensure high-quality health care and excellent customer service. One of President Bush's key management initiatives is better coordination between DOD and the Department of Veterans Affairs (VA) to provide seamless and top quality efficient services to

our Nation's military members as they transition out of military duty. The Departments are now working to implement a computer system that allows the instant flow of patient medical information between them. They have started to explore and implement joint training opportunities and are sharing more and more facilities. More information on the coordination between DOD and VA health care is found in the VA chapter.

Combat Medical Support

This Administration made critical changes in combat medical support that are saving lives during Operation Iraqi Freedom. When combat forces rolled across the Iraqi desert, medical corps professionals moved with them. The medical staff now has new high tech equipment, including mobile surgical units and chemical bandages that stop heavy bleeding. With new, lighter equipment, surgical teams stabilized patients on the front lines and provided definitive treatment in highly mobile field hospitals within hours. Often, within 24 hours of injury, patients are air-evacuated by highly skilled medical teams to U.S. military hospitals thousands of miles away. Medical teams from the three Services are more integrated than in any past wars, and the collaboration of their specific skills clearly saves more lives.

TRANSFORMING OUR ARMED FORCES TO FIGHT 21st CENTURY WARS

Warfare in the 21st Century will look very different from that for which the U.S. military has trained, equipped, and organized during the past 50 years. Throughout history, nations that failed to recognize the changing nature of warfare often suffered defeat. The U.S. military currently possesses an overwhelming superiority in conventional warfare. As President Bush has noted, with that superiority secure for the near-term, now is the perfect window of opportunity to transform the way DOD organizes and equips itself to fight our 21st Century adversaries. Leveraging rapidly changing technology with flexible organizations and adaptable doctrine, the U.S. military aims to become lighter, faster, and more lethal.

Operation Enduring Freedom in Afghanistan and Operation Iraqi Freedom demonstrated many of the Department's initial transformation efforts to re-define warfare on our terms. In both conflicts, over 70 percent of all munitions used were precision-guided compared to less than 10 percent in the 1991 Gulf War. Furthermore, advanced communications and satellite technologies provided U.S. soldiers and Marines in Iraq nearly instant access to precision air support and critical battlefield information such as the position of friendly and enemy forces. With these advantages, and with the skill, bravery, and initiative of the well trained and led American servicemember, U.S. forces quickly took control of the battlefield and destroyed the military capabilities of our adversaries.

The real goal is to move beyond marginal improvements to replace existing programs with new technologies and strategies. To use this window of opportunity to skip a generation of technology. This will require spending more, and spending more wisely.

Governor George W. Bush
The Citadel, September 1999

To support the President's transformational goals, the Administration has:

- Doubled investment in missile defense systems to put the Department on track to field an operational system in 2004;
- Committed a significant amount of DOD's procurement budget to transformation;
- Pursued transformational programs across the services to include the Army's Future Combat System, the Navy's conversion of ballistic missile submarines to guided missile submarines, and the Air Force's unmanned combat aerial vehicles.

Furthermore, the Department has undertaken other transformational initiatives to include:

- Changing how, where, and why forces are deployed around the world;
- Adjusting the structure of some of the Army's units to facilitate fielding a more flexible, adaptable force;



A Predator Unmanned Aerial Vehicle being towed to the runway in support of Operation Enduring Freedom.

where around the world, it will emphasize expanding the role and capabilities of unmanned aerial vehicles, enhancing the mobility of soldiers and equipment, improving communications, and using space systems in new ways.

Specific transformation initiatives include:

Unmanned Vehicles. The current operational Unmanned Aerial Vehicles (UAV), such as the Air Force Predator and Army Shadow have demonstrated tremendous capabilities in recent conflicts. While they have mainly been used in a reconnaissance role, the successful use of the Predator as a weapons platform is an early indicator that this technology offers profound opportunities to transform the way in which the United States will be able to conduct a wide array of combat and military support operations. The Department is consolidating and expanding its efforts to explore the potential of UAV technology. The Secretary of Defense has identified 49 goals for unmanned aviation that support the Department's overall strategy of fielding transformational capabilities, establishing joint standards and controlling costs. The Department's funding for UAV development has risen from just above \$3 billion in the 1990s to over \$12 billion for 2004 through 2009. These funds will be used to develop new sensor technology, to assess the feasibility of new roles and missions for UAVs, and to develop intelligent autonomous vehicles that can perform the "dull, dirty and dangerous" missions better and with less risk to U.S. forces. The development and testing of combat UAVs for the most dangerous combat missions is one of the Department's highest priorities. As a result of these efforts, unmanned vehicles will become an increasingly important advantage for U.S. forces on the battlefield of the future and will play a major role in transforming the way the United States wages war.



A Global Hawk Unmanned Aerial Vehicle receives a pre-flight test.

- Equipping small teams of U.S. Special Forces personnel with communications and targeting devices to allow them to coordinate U.S. attacks from the air and indigenous forces' efforts on the ground;
- Modifying the way the Navy deploys aircraft carrier battlegroups to extend their presence; and
- Deploying Air Force expeditionary wings that are more responsive to Combatant Commanders.

As the Department continues to transform so that its forces are capable of rapid power projection with precision engagement any-



The Army's Stryker Infantry Carrier Vehicle.

time, which will reduce the need for an immediate logistics or supply line. These capabilities are designed with the objective of providing the Combatant Commanders multiple options in any situation using a single force.

To increase the mobility and response time of U.S. troops, the Army, Navy, and Marine Corps are currently experimenting with a commercially developed High Speed Vessel (HSV). Experimentation to date has shown that HSVs are able to move brigades of troops and their equipment at approximately twice the speed of any other sealift vessel. These ships are small enough to allow the use of shallow harbors, which means that troops can disembark from more ports. Beyond troop mobility, these platforms are reconfigurable and can be tailored to a wide variety of different missions. This concept is being employed by the Navy for its new ship class, the Littoral Combat Ship. The Budget assumes that the first ship of this class will be procured in 2005 as an experimental platform to prove the concept and evaluate what else these small reconfigurable ships may be able to do.



High speed sealift operates in the Persian Gulf.

Agile and Mobile Troops. Other transformation efforts are focused on the mobility and agility of ground forces. The Army reoriented its focus to be lighter and more mobile than its current tank and infantry fighting vehicle based units. The centerpiece of this change is the Future Combat Systems (FCS). FCS is designed to provide a rapidly deployable, highly mobile, lethal land force with the ability to fight on arrival in theater.

Forces will be networked to a system of sensors so that commanders will be able to react and plan in real-time. FCS units will also be self-sustaining for limited periods of

Communications. Communications improvements have already revolutionized the way the United States fights. The 2005 Budget continues to support advanced technologies, which improve and refine knowledge available to soldiers, sailors and marines on the battlefield and at sea through sensor technology and real-time communications. Network Centric Warfare systems will tie real-time intelligence and sensor information, target identification, mission planning and battle damage assessment capabilities together in one place. As the technology develops and evolves, the ability to transmit this information to all forces within range will be possible. Similarly, the Single Integrated Air Picture will correlate radar information from air, ground and sea platforms to create a single radar picture for all forces, allowing for a more complete and accurate rendering of the environment.

Space. The Department continues to make progress in significant new, transformational space programs. The Space Based Radar program promises to provide near-continuous, all-weather surveillance on a global basis. DOD is also conducting an Operationally Responsive Spacelift demonstration program with the first flight planned in 2007. Rapid launch of satellites will become an essential element of future transformational space operations. Finally, continued development of laser communications satellites will provide dramatic new capabilities to supply more timely, secure information to combat forces. Communications to mobile forces, unlimited by current bandwidth restrictions, are critical to transformation of DOD combat operations.



Two members of the Joint Task Force check a satellite antenna in Afghanistan.

The President's Commitment to Increase Funding for Research and Development

The President has steadfastly increased R&D investments in order to skip a generation of weapons and transform the military into the 21st Century fighting force it must become. From 2001 to 2004, the Department increased its R&D spending from \$41.1 billion to \$64.3 billion. The increases have supported a wide range of new systems including fighter aircraft, surface ships, submarines, the Army's Future Combat System, satellites, communications equipment, intelligence systems, and science and technology programs to accelerate the availability and capability of future generations of weapons. Furthermore, the level of investment in R&D will continue into the future, with \$68.9 billion being proposed for 2005, a \$27.8 billion increase over the 2001 appropriated level. In 2005, the Budget provides funding for many new defense systems, including the Joint Strike Fighter program, the Future Combat System, a new destroyer ship program, high capacity communications, and a number of intelligence systems.



A ballistic missile target is launched from Hawaii as part of a test.

The President's Commitment to Field a Missile Defense System

In December 2002, President Bush directed the deployment of missile defenses to protect the United States from long-range missile threats with their ability to deliver weapons of mass destruction. The 2005 Budget provides more than \$10.3 billion to pursue this goal and to provide effective missile defenses for deployed U.S. forces, our allies, and friends. The first, modest land- and sea-based systems to defend against long-range missile threats will be fielded by September 2004. As the Missile Defense Agency proceeds with its new incremental, "capabilities-based" concept of missile defense, these initial systems will become more effective and flexible as new elements are added in 2005 and beyond.

In addition to defenses against long-range missile threats, DOD is moving forward with short and intermediate-range defenses which, integrated with long-range defenses, provide a global missile defense network. The Patriot Advanced Capability III provided defense of U.S. forces in Operation Iraqi Freedom and is the only combat-tested

missile defense system in the world. Newer systems, such as the Theater High Altitude Area Defense missile system and the Airborne Laser will continue development in 2005 to be ready for future operational deployments. The Missile Defense Agency is also continuing to develop technologies for new types of missile defenses and sensor systems to keep pace with future threats.

Next Steps in Transformation

U.S. Global Defense Posture Review. The familiar national security threats facing our Nation during the Cold War have given way to less predictable dangers such as global terrorism, state sponsors of terrorism, and the proliferation of weapons of mass destruction. The President is committed to strengthening the U.S. global defense posture to better address current and future security challenges. To that end, the Administration is undertaking a comprehensive, global defense posture review as a central component of overall defense transformation. This review, which examines all aspects of U.S. global defense posture including infrastructure, personnel, and equipment will enhance our ability to fight at long ranges and with new technologies that allow forces to move quickly to where they are needed.

The current global defense posture reflects the realities of the Cold War when the United States relied on forces that were expected to fight in place. The military must be repositioned to deal with a future that is marked by uncertainty and surprise in the origin of any threat.

Therefore, the global defense posture review will seek to reconfigure how and where U.S. capabilities are based around the world to make them rapidly deployable to meet the realities of the new strategic environment. In support of the initiative, DOD and the Department of State are currently soliciting views and participation from our friends, allies, and global partners in defining the options for the United States' posture. In addition, the Administration has begun, and will continue, to consult with the Congress. Based on the review and consultations, DOD will develop a plan that will be factored into the 2006 Budget. DOD will consider shifts from overseas locations to the United States in conjunction with base realignment and closure recommendations.



An F-15 departs Prince Sultan AB, Saudi Arabia.

Enhancing Intelligence Capabilities. While intelligence sources, methods and activities must remain secret, this Budget makes a significant investment in U.S. intelligence capabilities and continues efforts to transform the way this Nation collects and analyzes information. The proposed increases will improve our ability to collect information, process and analyze the collected data, and disseminate the resulting intelligence to warfighters and policymakers at all levels of government. These improvements will enhance our ability to anticipate and counter the broad range of threats facing the United States. A major emphasis will be on robust support to those fighting the war against terrorism on the front lines around the world.

National Security Personnel System. Until recently, a rigid and outdated civilian personnel system, not updated since 1978, has constrained the Department from putting the right people in the right jobs to meet our national security challenges. To meet DOD's dynamic human resource needs, the Administration proposed, and in November, the Congress passed landmark legislation that allows

DOD to establish a new civilian personnel management system, the National Security Personnel System (NSPS). It provides the Department with the flexibility to hire, assign, pay, evaluate, advance, and remove DOD civilian employees based on current national security requirements. NSPS also permits a more constructive, issue-based system of labor-management relations and a streamlined approach to employee appeals. The system will protect employees' rights by continuing the use of merit system principles, accommodation of veterans' preference, and respect for bargaining. Once fully implemented, NSPS will cover over 700,000 civilian DOD employees. It contains the flexibilities and incentives necessary for DOD to transform its civilian workforce into an effective weapon in the ever-changing war on terror.

ENVIRONMENTAL INITIATIVES

As vital as the DOD mission is, the President has directed it still must be conducted in a manner that is consistent with sound environmental stewardship practices. In 2005, the Department plans to spend \$3.8 billion on environmental cleanup, compliance, conservation, and pollution prevention. Programs such as the Energy Conservation Investment Program (ECIP), which received an effective rating from the 2004 Program Assessment Rating Tool and the Naval Facilities Engineering Command's Energy Program, which won a Presidential Award for outstanding performance in energy conservation, highlight successful environmental activities. The environmental initiatives undertaken by DOD not only protect the environment, but they also help to save tax dollars. ECIP projects produce nearly four dollars in savings for every dollar expended by improving water and energy efficiency at DOD facilities. The energy conservation program at Dyess Air Force Base, Texas, one of many such programs at individual bases, saves over \$1.6 million annually in costs through the efforts of its energy conservation program.

In the 2003 Defense Authorization Act, DOD received the authority to partner with environmental conservation organizations and State and local governments to preserve land surrounding military installations through purchases of land or development rights. The Budget includes funding to phase-in a multi-year DOD readiness and environmental initiative to exercise this new legal authority. This initiative will support a wide array of environmental efforts. These efforts include the creation of buffers around military installations to prevent land development that would impede live training and testing needed to maintain military readiness while at the same time providing additional habitat for wildlife. In November 2003, the Department entered into an agreement with the State of Florida and the Nature Conservancy establishing the Northwest Florida Greenway Partnership. This agreement is the first step to protect a 100 mile corridor of undeveloped land stretching from the Apalachicola National Forest to Eglin Air Force Base.

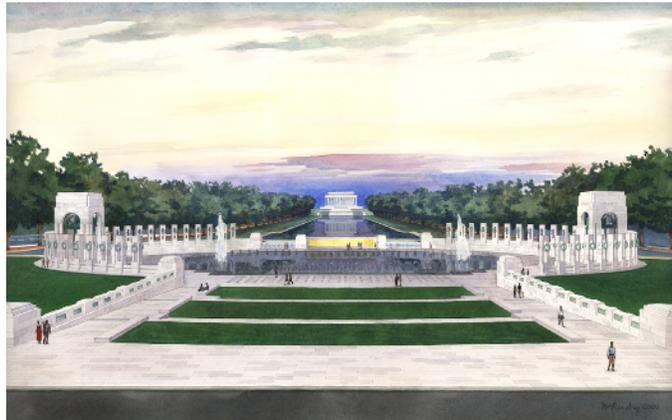
Another successful initiative undertaken by the Administration included a number of proposals to ensure the protection of the environment while allowing our troops to train realistically. Several of the key proposals were adopted by the Congress in the 2004 Defense Authorization Act.



A wind generator purchased as part of the ECIP Program.

Honoring the Service and Sacrifices of America’s World War II Generation

Public Law 103-32 authorized a World War II Memorial on the National Mall between the Lincoln Memorial and the Washington Monument dedicated to the more than 400,000 who died, the 16 million who served in the Armed Forces, and the millions of supporters at home. Private contributions to this effort have been overwhelming. The President will dedicate the Memorial on Memorial Day weekend 2004. This project, undertaken by the American Battle Monuments Commission was completed on time and within budget and earned an effective rating by OMB’s Program Assessment Rating Tool.



An artist rendering of the World War II Memorial.

PERFORMANCE EVALUATION OF SELECT PROGRAMS

The Budget continues to focus on improving program performance. Three DOD programs were assessed using the Program Assessment Rating Tool (PART), which evaluated the programs’ design and purpose, strategic planning efforts, how well they are managed, and whether they are generating positive results for taxpayers. Below are some of the highlights and recommendations from the PART evaluations. For further details on DOD’s performance assessments, see the White House budget website at www.whitehouse.gov/omb/budget/.

| Program | Rating | Explanation | Recommendation |
|------------------|-----------|---|--|
| Force Management | Effective | The focus of the PART was manning the force—having the right quantity and quality of personnel in the right places at the right times to meet DOD’s requirements. | While the program is highly effective, it currently lacks adequate efficiency measures. The Department should develop additional measures to address better the efficiency and need for its bonuses and targeted pays and better measurement of the value of its overall compensation package individually rather than addressing disparate parts. |

| Program | Rating | Explanation | Recommendation |
|---|--------------------------|--|---|
| Comanche | Results Not Demonstrated | <p>The purpose of the Comanche is to replace the Army's existing armed reconnaissance helicopters. The program has faced a number of problems during its development including schedule delays and cost overruns that have delayed the projected delivery of the aircraft until 2009. The program has been in development over 20 years. By the time of projected delivery, UAVs will likely perform a similar mission.</p> | <p>DOD should continue to evaluate the program's progress under its revised schedule and complete short term performance measures to better track near-term progress.</p> |
| Small Business Innovation Research (SBIR) Program | Results Not Demonstrated | <p>DOD's SBIR and Small Business Technology Transfer (STTR) programs supply funds to small businesses (in the case of the STTR program, in conjunction with non-profit research institutions) to develop products that help DOD to defend the country. The assessment found that the program funds some companies with track records of poor performance and in some cases overestimates commercial successes resulting from Federal support by treating additional investment in the same way as product sales.</p> | <p>DOD should tighten eligibility requirements for accepting proposals from companies and individuals that repeatedly fail to sell resulting products in the marketplace, change the way companies' past performance is assessed to ensure that further investment is not mis-counted as a sales success, budget explicitly for the program's administrative costs and seek to get highly successful awardees to enter the mainstream of Defense contracting.</p> |

UPDATE ON THE PRESIDENT’S MANAGEMENT AGENDA

The table below provides an update on DOD’s implementation of the President’s Management Agenda as of December 31, 2003.

| | Human Capital | Competitive Sourcing | Financial Performance | E-Government | Budget and Performance Integration |
|-----------------|---|---|---|---|---|
| Status |  |  |  |  |  |
| Progress |  |  |  |  |  |

Recent passage of the National Security Personnel System will enable DOD to use innovative ways to compensate based on performance. For competitive sourcing, DOD is budgeting the resources necessary in the 2004–2008 period to implement the competition of the positions identified in DOD’s Business Initiative Council plan. In financial management, DOD is committed to achieving a clean audit opinion for 2007 and is making progress: DOD expects the next audit to show that 2 of 13 material auditor-reported internal control weaknesses will be eliminated. In addition, DOD developed a high-level business enterprise architecture for information technology systems during 2003, and will, with careful management, overhaul its financial systems. DOD has also sped-up the production of its financial statements and improved financial reporting. DOD has improved the quality of its information technology business cases and is participating in E-Government projects in three of the four major areas. DOD incorporated performance information into its annual defense report and is using performance metrics from the Balanced Risk Scorecard process in its decision making. For instance, long-term and intermediate performance outcomes and outputs for operational availability were shaped directly by lessons learned in Operations Enduring Freedom and Iraqi Freedom, and are shaping how execution data are evaluated.

| Initiative | Status | Progress |
|---|---|---|
| Privatization of Military Housing |  |  |
| DOD is improving the quality of housing and plans to privatize 90,000 houses over the next two years. | | |

Department of Defense—Military
(In millions of dollars)

| | Actual | | Estimate | |
|---|---------|---------|----------|---------|
| | 2001 | 2003 | 2004 | 2005 |
| Spending | | | | |
| Discretionary Budget Authority: | | | | |
| Military Personnel..... | 76,373 | 93,932 | 97,932 | 104,812 |
| Operation and Maintenance..... | 107,450 | 125,290 | 127,626 | 140,636 |
| Procurement..... | 61,672 | 74,677 | 75,321 | 74,904 |
| Research, Development, Test, and Evaluation..... | 41,109 | 57,337 | 64,331 | 68,942 |
| Military Construction..... | 5,405 | 6,505 | 5,452 | 5,288 |
| Family Housing..... | 3,622 | 4,179 | 3,805 | 4,173 |
| Revolving Funds and Other (with rescissions and transfers)..... | 1,169 | 3,340 | 792 | 2,962 |
| Subtotal..... | 296,800 | 365,260 | 375,259 | 401,717 |
| Emergency and Non-emergency | | | | |
| Supplementals ^{1, 2} | 10,009 | 72,235 | 66,109 | — |
| Total, Discretionary budget authority ³ | 306,809 | 437,495 | 441,368 | 401,717 |
| Discretionary Outlays..... | | | | |
| Discretionary Outlays..... | 287,222 | 339,270 | 377,711 | 403,453 |
| Emergency and Non-emergency Supplementals ² | 4,527 | 48,831 | 56,396 | 25,477 |
| Total, Discretionary outlays..... | 291,749 | 388,101 | 434,107 | 428,930 |

¹ 2003 supplemental funding does not reflect all transfers to other agencies.

² 2004 includes CPA administrative costs.

³ For comparability, the 2001 data reflect transfers related to the creation of the Department of Homeland Security.

DEPARTMENT OF EDUCATION

Since 2001, the Administration:

- Reformed K–12 education through the landmark No Child Left Behind Act that is raising standards, improving accountability, and expanding parental choice;
- With this Budget, increased funding for Title I grants by \$4.6 billion (or 52 percent) to help improve low-income schools and Special Education grants by \$4.7 billion (or 75 percent) to better serve students with disabilities;
- Refocused education research so that parents, teachers, and administrators have access to practices with proven results;
- Provided approximately \$60 billion in student aid annually through grants, loans, and work study to help nearly 10 million students attend college each year; and
- Initiated tax reforms that help families save for college.

The President's Budget:

- Continues unprecedented increases in Title I and Special Education to help schools implement No Child Left Behind and meet the needs of students with disabilities;
- Supports new initiatives that will help students make the transition from high school to college and from college to the workforce; and
- Achieves the President's commitment to increase funding for Historically Black Colleges and Universities and minority serving institutions by 30 percent since 2001.

Department of Education

Rod Paige, Secretary

www.ed.gov 800–USA–LEARN

Number of Employees: 4,487

2005 Discretionary Budget Authority:
\$57.3 billion

Key Components: 10 regional and 11 field offices.



Secretary Paige visits with fourth grade students in Westerville, Ohio.

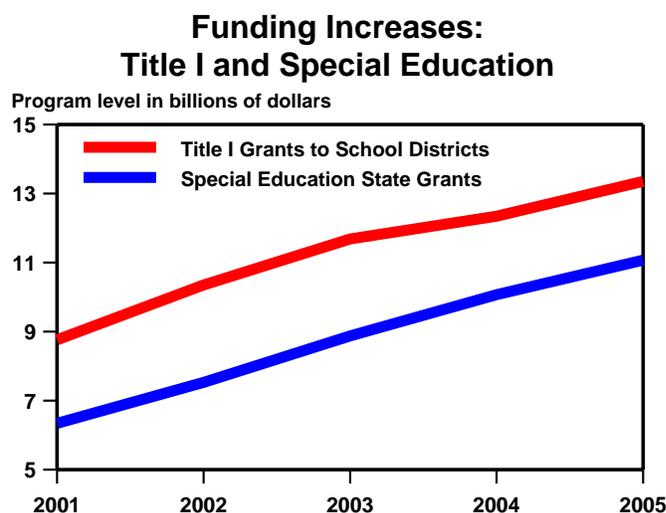
OVERVIEW

Education is the fundamental building block of American prosperity and growth. Without a strong education system, America would be unable to sustain an expanding economy, maintain improvements in citizen health, foster scientific advancement, protect our Nation's security, or meet many of the other various challenges of the 21st Century. The Department of Education plays a critical role in ensuring that America maintains a strong, effective, and inclusive education system by: 1) providing formula and competitive grants to States and local educational agencies to support improvement of elementary and secondary education; 2) offering student aid in the form of loans and grants designed to ensure that post-secondary education is affordable and attainable; 3) conducting research and disseminating information on the best educational practices; and 4) producing statistics on the condition of education in the United States. The 2005 Budget targets resources to education programs that most effectively help all children and young adults, especially disadvantaged populations, achieve academic and economic success; maintains the momentum of recent accomplishments; and helps fulfill the President's vision for continuing education improvement.

Leaving No Child Behind. When President Bush entered office, two-thirds of all low-income fourth graders could not read on grade level, and the achievement gap between rich and poor students was growing. On January 8, 2002, President Bush signed into law the No Child Left Behind Act and forever changed public education in America. Local schools are now held accountable for rigorous achievement goals for all students, parents are provided with detailed information on school performance, and students in under-performing schools have the option to attend a school that demonstrates results. The soft bigotry of low expectations is being removed from our schools and communities. The 2005 Budget continues the President's unprecedented commitment to K–12 education and to helping schools meet the new challenges of No Child Left Behind, providing \$13.3 billion for Title I grants, a \$1 billion increase from last year, and a \$4.6 billion, or 52-percent, increase since the President took office. With the 2005 Budget, funding for reading programs will have increased nearly five-fold since 2001—for a total of \$1.3 billion—so that every child can read at grade level or above by the end of third grade.

Renewing America's Commitment to Students with Special Needs. America's schools need better tools to improve services for students with disabilities—11 percent of all students. The President is committed to reforms for Federal special education programs that increase accountability for results, reduce administrative burdens on States and schools, enhance the role of parents, and ensure that research-based practices are widely used. The 2005 Budget demonstrates the President's commitment to serving students with disabilities by providing \$11.1 billion for Special Education Grants to States, a \$1 billion increase from last year, and a \$4.7 billion, or 75-percent, increase since the President took office.

Getting Students Ready for College and the Workforce. America faces many challenges in ensuring that young adults get the academic and work-related skills they need to meet the demands of today's and tomorrow's workforce. High school test scores are declining, career and technical education programs are outdated and have proven ineffective, the cost of higher education continues



to rise, and the percentage of minority and low-income students going to college remains unacceptably low. To address these challenges, the President is committed to focusing Federal resources on successful programs serving young adults and to developing promising new initiatives that build on these successful programs. The 2005 Budget, therefore, supports several new Federal high school initiatives designed to invigorate and update career and technical education programs as well as strengthen students' reading and math skills. Moreover, the Budget continues the Administration's strong commitment to the Pell Grant program, and proposes a new program that enhances Pell by providing additional aid for students who complete a rigorous high school curriculum.

LEAVING NO CHILD BEHIND

The President's landmark No Child Left Behind Act (NCLB) means just that. No child, as the President has said, will suffer from the "soft bigotry of low expectations," and no child will be trapped in a low-performing school. NCLB sets the Nation's sights high: all children will be proficient in reading and math within 12 years. Although the full impact of NCLB will not be seen for several years, States already have made great strides in putting in place the reforms that will help them reach their achievement goals.

Accountability for Results. Every State has a NCLB accountability plan that has been peer-reviewed and approved by the Department of Education; 47 States have had their plans approved by their State legislative or regulatory bodies. These plans are the States' blueprints for ensuring that all students can read and do math, for holding schools responsible for improving achievement, for publishing report cards to give parents information on their schools' performance, and for expanding parental choice options.

Testing in Grades 3-8. NCLB requires reading and math tests in grades 3-8 and in high school to give teachers and parents information on how their schools are performing. States must have these tests in place by the 2005-2006 school year, yet 20 States already meet the NCLB requirement.

Reporting Results. As a result of NCLB, most States are now publishing performance information on their districts and schools. These reports indicate which schools are performing well and which need to improve, and provide data on the achievement of all populations of students. Under NCLB, 43 States are publishing report cards this year, up from 16 in 2002-2003. School districts are adding other useful data to their report cards, including information on teacher qualifications.

School Improvement. Forty-five States have identified over 5,000 schools in need of improvement because they did not meet their performance goals for two consecutive years. Over half a billion

Beating the Odds and Closing the Achievement Gap

Over 90 percent of the children in Longfellow Elementary School in New York State qualify for a free or reduced-price lunch. Normally, these children would be some of the lowest achieving in the State. But since 1999, this urban Title I school has made dramatic gains in student achievement and outscored 97 percent of all other New York State elementary schools in both reading and math.

How have they done it? While Longfellow's reforms began before NCLB became the law of the land, their strategies represent many of the key principles of NCLB. Longfellow is implementing research-based practices, focusing on reading in the early grades, providing before- and after-school tutoring, and training its teachers in high-quality instruction. Most important, all children are expected to succeed, and the data show that they are meeting these expectations.

dollars will be made available under the Title I program to help these schools implement the reforms they need to raise student achievement.

Parental Choice. Under NCLB, students will no longer be trapped in schools that are not meeting rigorous academic achievement goals. If schools do not meet their goals for two years, students may transfer to better-performing schools. In the 2003-2004 school year, an estimated 2.5 million students are eligible to transfer to a better school. If students do not transfer and their schools do not meet their goals for a third year, students have the option of receiving tutoring funded by the school district. States are offering tutoring services from over 1,600 providers, nearly three-quarters of which are from the private sector.

Funding What Works. NCLB's Reading First program supports K-3 reading instruction that has been proven to be effective so that all children can read proficiently by the end of third grade. All 50 States have been awarded Reading First grants on the basis of rigorously reviewed applications demonstrating comprehensive support for improved reading instruction grounded in scientifically based research. In addition, 45,000 teachers have already been trained under this program. The Department of Education is conducting several rigorous studies to identify effective educational practices in such areas as reading, the use of technology, and after-school programs. The Budget provides \$185 million for core departmental research activities, a 12-percent increase over the 2004 level.

The 2005 Budget for Elementary and Secondary Education. The Budget proposes several key funding increases to continue and enhance the NCLB reforms.



The First Lady has played a prominent role in national literacy efforts through various activities that are helping children to be better readers. Mrs. Bush participated in the Second Annual Book Festival, an event sponsored by the Library of Congress to celebrate the works of America's most renowned children's authors.

Title I Grants to Local Educational Agencies. Title I provides funds to schools in low-income communities and is the foundation for the NCLB accountability, school improvement, and parental choice reforms. The Budget requests \$13.3 billion for Title I, a \$1 billion, or 8.1-percent, increase over the 2004 level, and the third \$1 billion annual increase requested by this Administration.

Reading First and Early Reading First. The Budget includes nearly \$1.3 billion to help students in preschool and elementary school improve their reading skills. Reading First supports high quality, scientifically proven reading practices in grades K-3. The Budget proposes \$1.1 billion, an increase of \$101 million (9.9 percent) over the 2004 level, for Reading First. The Budget also includes \$132

million for Early Reading First, an increase of more than \$37 million, to develop model childhood literacy and pre-reading programs for schools serving high-poverty communities.

State Assessments. The Budget provides \$410 million for this program to help States implement NCLB testing requirements. This includes \$10 million for competitive grants to help States tackle some of the most difficult testing issues including assessments for special populations.

Choice. As noted, NCLB provides unprecedented choice for parents of children in low-performing schools. To support and enhance school choice reforms, the Budget provides \$219 million for Charter School Grants, \$100 million for Credit Enhancement for Charter School Facilities, \$50 million for the Choice Incentive Fund to support development of innovative school choice programs, and \$14 million

through the District of Columbia budget for scholarships to help low-income students who reside in Washington, D.C. attend higher-performing schools.

Military Families. Children of military families—who frequently move to new schools—face difficult challenges when the new school has different educational and health-related requirements. The Department of Education and the Department of Defense will work with States on strategies to prevent disruption in the educational progress of children of military families and to ease the stresses on military families. The Department of Education’s budget includes \$10 million to support grants to States to encourage reciprocity agreements, develop data management systems, and support other activities to facilitate the transfer of children of military families between schools.

RENEWING AMERICA’S COMMITMENT TO STUDENTS WITH SPECIAL NEEDS

The Administration continues to work with the Congress on revising the Individuals with Disabilities Education Act (IDEA) to improve services for students with disabilities. The Administration’s reauthorization principles for this law promote accountability for results, provide flexibility and reduce paperwork burdens for States and school districts, enhance the role of parents, and improve student achievement based on sound research. These principles also align IDEA to the framework of the landmark NCLB Act so that the 6.5 million children who receive special education services are fully included in the effort to raise academic achievement for all students. The 2005 Budget provides significant new resources, over \$1 billion in total, to assist States in implementing reforms that will benefit States, schools, students with disabilities and their families.

One of the major achievements of IDEA is the integration of special education students into mainstream school environments, such as the regular education classroom shown here. In the 2001-2002 school year, almost 96 percent of all special education students ages 6 through 21 attended regular schools while about four percent were in separate schools, residential facilities or hospitals. Almost half of special education students spend 80 percent or more of their day in regular classrooms, where students have the opportunity to learn together and from each other.



Since 1975, the Federal Government has played an important role in helping States and school districts provide a free, appropriate public education for special needs children. The President is firmly committed to expanding opportunities for students with disabilities, one of the priorities of his New Freedom Initiative. Since taking office, the President has sought and received unprecedented funding increases for IDEA Grants to States. In 2005, the Budget requests another \$1 billion, or 10-percent, increase for a total of \$11.1 billion. In addition, the President is targeting resources to the most at-risk population—infants and toddlers with disabilities. The Budget provides \$467 million, a \$22 million, or five-percent, increase for the IDEA Infants and Families program because research

has shown that early intervention may help reduce or eliminate the need for special education when children enter school. As part of this initiative, the Administration will work with State and local governments to demonstrate how this program benefits children and their families.

A Public Agenda survey in 2002 showed that more than half of parents with children in special education agreed that “better programs and policies, not more money, is the best way to improve special education.” The Administration believes that research can be better focused and coordinated so that schools can learn from programs that work and put them into practice. Consistent with the legislative proposals to create a new Center for Special Education Research, the Budget moves the IDEA Research and Innovation program to the Department of Education’s Institute of Education Sciences. This association will strengthen the Department’s investment in relevant, high quality special education research that can also help inform regular education practices.

GETTING STUDENTS READY FOR COLLEGE AND THE WORKFORCE

We need an educated workforce to keep this country the most productive in the world.

President George W. Bush

June 2003

As the demands of the workforce change, so must America’s approach to educating young adults. Recent test scores show that many high school students lack the basic reading and math skills necessary to make the transition to college or the workplace. Moreover, studies show that an increasing number of high school students require remedial education once they get to college. Other research indicates that current high school career and technical education is outdated and ineffective. Students and parents face rising college costs and a complex array of student aid and college options. Unfortunately, these realities disproportionately affect low-income and minority students who attend and complete college at an unacceptably low rate. The Administration proposes to address these challenges in a variety of ways.

Ensuring Our Nation’s High School Students Are Academically Prepared. The NCLB promise is not only about our Nation’s elementary and middle school students. Recent results from the National Assessment of Educational Progress demonstrate that while achievement for our Nation’s fourth and eighth-graders is on the rise, reading and math scores for twelfth-graders are declining. Many students who are behind in reading and math skills in ninth grade are dropping out, while those who stay in school find the transition to college or the workplace is significantly more difficult. To help reverse this trend, the Administration proposes to direct resources to the following promising new initiatives:

Strengthening Math Skills. The President will increase funding to strengthen math education, with a new emphasis on improving math learning among high school students. Two separate components of the Math and Science Partnership program, which had been operated by the National Science Foundation and the Department of Education, will be unified within the Department of Education to infuse research-based practices into federally supported projects. The Budget includes \$269 million for the Department of Education’s program, including support for competitive grants to help States and school districts improve classroom instruction and accelerate learning in math for struggling students.

Striving Readers. This new grant program builds on the Administration's reading initiatives in elementary school. It would provide \$100 million to develop and implement research-based interventions that will improve the reading skills of high school students who read below grade level.

Adjunct Teacher Corps. Good and qualified teachers can come from many backgrounds—not just from teaching colleges—and the Administration proposes to encourage their participation in America's schools. This competitive grant program would provide \$40 million to lower barriers to and create opportunities for well-trained individuals and professionals with appropriate academic training and background experience to teach specific high school courses in core academic subjects.

Advanced Placement (AP). To help low-income students bridge secondary schooling with college-level coursework, the Budget provides \$52 million, more than double the current program total of \$24 million. The additional \$28 million will provide teacher training to expand the pool of instructors qualified to teach AP classes at schools that serve large populations of low-income students.

State Scholars. Studies show that high school students who take rigorous courses are more likely to succeed in college. Under this new program, low-income high school students would be eligible for up to \$1,000 in additional college aid if they complete a rigorous curriculum, including at least three years of math and science, four years of English and social studies, and foreign language courses. Students would receive this aid in their first two years of college. The Budget provides \$33 million for this aid to students, and an additional \$12 million to help States establish State Scholar programs.

Updating Career and Technical Training. Career and technical training (or "vocational education") in our Nation's high schools has largely been an outdated relic, suitable for the classroom realities of the 1950s, instead of a dynamic, academically rigorous component of the 21st Century high school. As a result, students participating in vocational education programs in our Nation's high schools are often limited to courses that offer a narrow set of job skills and poor academic preparation for college and the modern workforce. For many decades, there has been scant evidence that the Department's Vocational Education State Grants program leads to positive student outcomes despite decades of increasing Federal investment. The program scored the lowest possible rating (Ineffective) on the Administration's Program Assessment Rating Tool (PART).

The President is committed to ensuring that our Nation's high school and college students have the academic and technical skills necessary to prepare them for challenging careers in today's rapidly changing economy. Therefore, the Administration proposes to reinvigorate career and technical education by holding schools accountable for high academic achievement standards, improved job readiness skills, and critical employment outcomes such as quality job placements. The President's plan would target funds through a competitive State-based grant to high school, community college, and business partnerships that prove they can use the funds effectively.

In addition, the President's Budget proposes a new initiative to expand the capacity of community colleges to help students get jobs. With their connections to local businesses and neighboring schools,

Entering Freshmen Need Better Academic Skills

An alarming number of America's students are enrolling in remedial courses once they get to college, according to a new study conducted by the National Center for Education Statistics. The study found that almost half of all entering freshmen at public two-year schools and one out of five entering freshmen at four-year schools enrolled in at least one remedial course in the fall of 2000. The study also found that students spent a longer period of time in remediation in 2000 than they did in 1995. The President's proposed reforms are designed to help reduce the need for remedial education by ensuring that students obtain the academic skills they need while they still are in high school.

community colleges provide vital training and academic preparation for our Nation's young and old alike. In order to capitalize on these strengths, both the Departments of Labor and Education propose to strengthen the role of community colleges in workforce development and academic preparation. (Please refer to the Department of Labor chapter for more information on this initiative.)

Easing Student Financial Burdens.

With college costs rising at an unprecedented rate, student aid has become more critical to ensuring that students from all backgrounds have an opportunity to go to college. This year, the Federal Government will make more than \$60 billion in financial aid available to nearly 10 million students through grants, loans, work study, and tax credits. Federal student aid is available to students who go to school full-time and those who attend on a part-time basis pursuing an undergraduate degree, as well as adults returning to school in degree or certificate programs to improve their employment opportunities.

This year, the Administration plans to work closely with the Congress to reauthorize the Higher Education Act. In this reauthorization, the Administration's goal is to make college more accessible and affordable to millions of Americans, particularly those from disadvantaged and historically underrepresented populations. The Administration also plans to improve higher education accountability and simplify the student aid process for millions of Americans. To help support these goals, the Budget includes the following:

Pell Grants. The 2005 Budget includes \$12.8 billion for the Pell Grant program, the single largest source of grant aid for postsecondary education, to provide nearly five million undergraduates up to \$4,050 to help pay for school. As found in the PART analyses, Pell Grants are well targeted to low-income families, and help increase the college enrollment rates of historically underrepresented students. Based on current estimates, the Budget provides sufficient funding for every Pell Grant that will be awarded to students in the 2005-2006 school year. However, the Pell Grant program also has a \$3.7 billion funding shortfall that requires it to borrow from the subsequent year's appropriation to pay for program costs. This is largely due to recent underfunding. For instance, in last year's budget the Administration requested \$12.7 billion for Pell Grants to pay for both student awards in the 2004-2005 school year and part of the shortfall. The Congress, however, increased the cost of the Pell Grant program and provided less money than requested. We now expect the Pell Grant shortfall

An Interactive Roadmap to College

The Department of Education has developed a new tool to help students and parents navigate the complexities of planning for and choosing a college. Student Aid on the Web (www.studentaid.ed.gov) offers students and their families a single source of free information on choosing a career, selecting a school, and identifying resources to pay for higher education. Students and parents can use the website through each stage of the college lifecycle:

Preparing for college. Plan high school courses and use the college savings calculator to predict tuition costs and establish a monthly savings plan.

Choosing a college. Obtain a list of potential colleges based on individual priorities on a number of factors that affect college choice—cost, academics, demographics, social activities, athletics, etc. Also, take an online campus tour.

Applying for college. Obtain a timeline for high school seniors, make a "to do" list, and fill out and submit college applications online.

Funding for college. Find and apply for different sources of Federal student aid.

Attending college. Obtain entrance counseling on how to manage resources, reapply for aid each year, and maintain eligibility.

Repaying college loans. Obtain exit counseling for managing debt and paying loans online.

to increase to \$3.7 billion this year, \$1 billion more than the shortfall was in 2003 and \$2.3 billion more than 2002. We can no longer continue to underfund the Pell Grant program and make the existing shortfall even worse. The Administration will work closely with the Congress to provide sufficient funding for Pell Grants, and retire the shortfall.

Other Student Financial Aid Reforms. The Budget proposes to modernize the Federal student aid programs to help millions of students and families realize their dreams through higher education. To help students meet rising tuition costs, the Budget increases loan limits for first-year students, extends the favorable interest rate framework currently available to students, and eases and expands repayment options so millions of students can manage higher debts. The Administration also proposes to make higher education more accessible by expanding college and university options for offering courses and programs online. The Budget further provides \$17,500 in student loan forgiveness to math, science, and special education teachers who work in high-poverty schools for at least five years. The President will work closely with the Congress on other student aid reforms that will ease the financial burden of college for millions of students and families. The Budget offsets the cost of these proposals with modest reforms to the existing student loan programs.

The Administration will also work closely with the Congress to provide more information to help students and families make better decisions on their higher education options. Moreover, the Administration will explore ways to streamline outdated and unnecessary Federal student aid requirements as well as other higher education reporting requirements.

Minority Serving Institutions. To address the educational needs of many of America's most disadvantaged students, the Department of Education provides support for Historically Black Colleges and Universities (HBCUs), Historically Black Graduate Institutions (HBGIs) and Hispanic-Serving Institutions (HSIs). The President committed to increasing funding for these important institutions by 30 percent by 2005 in order to strengthen the institutions' infrastructure and help them achieve financial stability. The Budget fulfills the President's commitment by proposing \$240 million for HBCUs, \$58 million for HBGIs, and \$96 million for HSIs.

PERFORMANCE EVALUATION OF SELECT PROGRAMS

The Budget continues to focus on improving program performance. Nineteen of the Department of Education's programs were assessed using the Program Assessment Rating Tool (PART), which evaluated each of the programs' design and purpose, strategic planning efforts, how well they are managed, and whether they are generating

positive results for taxpayers. Below are some of the highlights and recommendations from the PART evaluations. For further details on the Department of Education's performance assessments, see the White House budget website at www.whitehouse.gov/omb/budget/.

It is not enough to spend more on schools. The issue is not just about money. We must spend money more wisely. We must spend money on what works. And we must make sure we continue to insist upon results for the money we spend.

President George W. Bush
January 2003

| Program | Rating | Explanation | Recommendation |
|---|----------------------|--|---|
| National Center for Education Statistics (NCES) | Effective | NCES has a useful performance measurement system that measures customer satisfaction with the comprehensiveness, timeliness, and utility of NCES products and services. | Although NCES consistently demonstrates high levels of customer satisfaction regarding the comprehensiveness and utility of products and services, timeliness needs improvement to meet the Department's performance targets. |
| Troops to Teachers | Moderately Effective | 71 percent of teachers supported by this program were rated as better than non-program teachers by their school administrators. | While General Accounting Office reports and program evaluations report promising results, the Department will work to strengthen data collection for its new program measures and make such information more easily accessible to the public. |
| Perkins Loans | Ineffective | This program is duplicative and unnecessary given the broad availability of need-based, subsidized, relatively low interest loans available through the two larger student loan programs (Federal Family Education Loans (FFEL) and Direct Loans (DL)). In addition, the program is less cost efficient than FFEL or DL and does not adequately target resources to the neediest students. | The Administration proposes to eliminate funding for this program and redirect funds to more effective student aid programs, such as Pell Grants. |
| Even Start | Ineffective | Even Start is a family literacy program. Two national evaluations have shown that neither the children nor their parents who received services made educational gains compared to those who do not receive Even Start services. | The Administration proposes to eliminate this program and redirect funds to more promising literacy programs, such as Reading First and Early Reading First. |

UPDATE ON THE PRESIDENT’S MANAGEMENT AGENDA

The table below provides an update on the Department of Education’s implementation of the President’s Management Agenda as of December 31, 2003.

| | Human Capital | Competitive Sourcing | Financial Performance | E-Government | Budget and Performance Integration |
|-----------------|---|---|--|---|---|
| Status |  |  |  |  |  |
| Progress |  |  |  |  |  |

Double-arrow indicates change in status rating from red to green since evaluation as of September 30, 2003.

The Department of Education’s management reform efforts are beginning to yield significant and measurable results. The Department achieved a second consecutive clean financial audit, eliminating its last remaining material weakness, and complying with OMB’s accelerated audit schedule one year ahead of schedule. These financial management improvements, unprecedented in the agency’s history, are providing the Department with more timely and accurate financial data so that it can be a better steward of taxpayer dollars. Education has also developed a comprehensive approach to competitive sourcing, where competitions will be considered for each business process analyzed under its human capital restructuring plan. Competitions in areas affecting human resources and payment processing have already been initiated. The Department is implementing important E-Government reforms, making more than 85 percent of all its Government-citizen transactions available electronically. Finally, Education has made extensive use of the PART process, assessing a majority of the agency’s program funding over the past two years and ensuring that budget requests and program reform proposals reflect PART results.

| Initiative | Status | Progress |
|---|---|---|
| Elimination of Fraud and Error in Student Aid Programs and Deficiencies in Financial Management |  |  |
| Faith-Based and Community Initiative |  |  |

Elimination of Fraud and Error in Student Aid programs and Deficiencies in Financial Management. The Department is increasing its efficiency in administering its student aid programs. The financial management improvements referenced above are improving Education’s ability to account for program dollars and thus better ensure that Federal student aid dollars are being used for their intended purpose. Other successes include: 1) playing a key role in the introduction of legislation that would allow the Department to match data with the IRS and dramatically reduce fraud and error in the Pell Grant program; 2) working closely with the Inspector General on strategies for improving oversight of schools, lenders, and other financial partners; and 3) securing a new contract for administering the Direct Loan program that is estimated to cost \$1 billion less than the existing contract over a 10-year period.

Faith-Based and Community Initiative. The Department of Education is one of seven Federal agencies focusing on removing barriers to the participation of faith-based and community organizations (FBCOs) in providing social services. Education has conducted extensive outreach and technical assistance. The staff has organized 23 workshops, distributed 45,000 pieces of literature, maintained contact with 5,000 local organizations, and established an informative website. As a direct result of these activities and efforts to reduce regulatory barriers and streamline application processes, participation by FBCOs in targeted discretionary grant programs has quadrupled since 2001.

DEPARTMENT OF EDUCATION

(In millions of dollars)

| | Actual | | Estimate | |
|--|---------|---------|----------|---------|
| | 2001 | 2003 | 2004 | 2005 |
| Spending | | | | |
| Discretionary Budget Authority: | | | | |
| Elementary and Secondary Education | | | | |
| Title I Grants to LEAs ¹ | 8,763 | 11,689 | 12,342 | 13,342 |
| Reading First and Early Reading First | 286 | 1,068 | 1,118 | 1,257 |
| State Assessments..... | — | 384 | 390 | 410 |
| Charter Schools programs..... | 190 | 224 | 256 | 319 |
| Choice Incentive Fund | — | — | — | 50 |
| Impact Aid..... | 993 | 1,188 | 1,230 | 1,230 |
| Teacher Quality State Grants | 2,108 | 2,931 | 2,930 | 2,930 |
| Safe and Drug Free Schools State Grants ² | 439 | 469 | 441 | 441 |
| 21 st Century Community Learning Centers..... | 846 | 994 | 999 | 999 |
| English Language Acquisition | 446 | 684 | 681 | 681 |
| IDEA Part B State Grants ³ | 6,340 | 8,874 | 10,068 | 11,068 |
| Striving Readers..... | — | — | — | 100 |
| Adjunct Teacher Corps..... | — | — | — | 40 |
| Mathematics and Science Partnerships | — | 100 | 149 | 269 |
| Advanced Placement..... | 22 | 23 | 24 | 52 |
| Education for the Workforce | | | | |
| <i>Vocational Rehabilitation State Grants (non-add)</i> | (2,400) | (2,533) | (2,584) | (2,636) |
| Vocational Education (legislative proposal)..... | 1,243 | 1,326 | 1,328 | 1,012 |
| Adult Education..... | 560 | 587 | 590 | 590 |
| <i>State Scholars Initiative (non-add)</i> | — | — | — | (45) |
| Higher Education | | | | |
| Pell Grants (legislative proposal)..... | 8,756 | 11,365 | 12,007 | 12,863 |
| Historically Black Colleges and Graduate Institutions | 230 | 267 | 276 | 299 |
| TRIO/GEAR UP | 1,025 | 1,120 | 1,131 | 1,131 |
| Research and Statistics | 201 | 229 | 257 | 277 |
| All other programs | 7,655 | 9,590 | 9,433 | 7,979 |
| Total, Discretionary budget authority | 40,103 | 53,112 | 55,650 | 57,339 |
| Total, Discretionary outlays | 35,866 | 48,708 | 55,881 | 56,223 |
| Mandatory Outlays: | | | | |
| Federal Direct Student Loans (legislative proposal) | 255 | 5,055 | 3,108 | 231 |
| Federal Family Education Loans (legislative proposal) | -2,460 | 1,192 | 1,288 | 5,510 |
| All other | 2,060 | 2,445 | 2,538 | 2,378 |
| Total, Mandatory outlays | -145 | 8,692 | 6,934 | 8,119 |
| Total, Outlays | 35,721 | 57,400 | 62,815 | 64,342 |

DEPARTMENT OF EDUCATION—Continued
(In millions of dollars)

| | Actual | | Estimate | |
|---|--------|--------|----------|--------|
| | 2001 | 2003 | 2004 | 2005 |
| Credit activity | | | | |
| Direct Loan Disbursements: | | | | |
| Federal Direct Student Loans (FDSL)..... | 10,764 | 11,749 | 12,806 | 14,028 |
| FDSL Consolidations | 7,402 | 6,673 | 6,290 | 6,320 |
| Subtotal, FDSL disbursements:..... | 18,166 | 18,422 | 19,096 | 20,348 |
| Other Direct Loans..... | 12 | 11 | 38 | 57 |
| Total, Direct loan disbursements | 18,178 | 18,433 | 19,134 | 20,405 |
| Guaranteed Loan Commitments: | | | | |
| Family Federal Education Loans (FFEL) | 23,582 | 23,196 | 37,446 | 41,539 |
| FFEL Consolidation | 6,955 | 34,958 | 25,631 | 22,054 |
| Total, Guaranteed loan commitments..... | 30,537 | 58,154 | 63,077 | 63,593 |

¹ Program level. Budget authority is \$554 million less in 2001, \$599 million more in 2003, and \$600 million less in 2004

² Program level. Budget authority is \$330 million more in 2004.

³ Program level. Budget authority is \$1,330 million less in 2001, \$600 million less in 2003, and \$259 million more in 2004.

DEPARTMENT OF ENERGY

Since 2001, the Administration:

- Completed or is implementing nearly 75 percent of the 106 recommendations contained in the President's comprehensive National Energy Policy, such as filling the Strategic Petroleum Reserve to its capacity of 700 million barrels. The Administration worked with the Congress on the energy legislation needed to carry out the remaining recommendations;
- Launched aggressive "zero-emissions" initiatives for hydrogen fuel cells, clean coal, nuclear, and fusion power to increase the Nation's supply of clean, affordable energy;
- Proposed over \$1.1 billion through 2005 to improve the energy efficiency of nearly 500,000 homes of low-income families;
- Accelerated remediation of the Department's nuclear waste sites, which are now scheduled to be cleaned up 35 years sooner and will save taxpayers about \$50 billion; and
- Cleared the path to operating a safe nuclear waste repository at the Yucca Mountain site by 2010.

The President's Budget:

- Increases funding significantly for clean energy resources, including substantial increases to build and operate the world's first zero-emissions coal-fueled power plant and expand research on hydrogen and fuel cell technologies;
- Builds on the progress begun in the 2004 Budget to support a long-range nuclear stockpile stewardship plan that fulfills the Nation's nuclear weapons requirements;
- Strengthens nonproliferation programs that reduce the threat of weapons of mass destruction by securing or eliminating fissile material;
- Invests in energy-efficiency improvements to the homes of about 119,000 low-income families in 2005, nearly 30 percent more homes than in 2004;
- Invests in electricity transmission technology improvements to help avoid electricity blackouts; and
- Expands scientific knowledge through increased investments in the Nation's scientific user facilities and in cutting-edge research and development, including nanotechnology and information technology.

Department of Energy

Spencer Abraham, Secretary

www.energy.gov 202-586-5000

Number of Employees: 16,100 Federal and 100,000 contract

2005 Discretionary Budget Authority: \$24.3 billion (gross)

Key Components: 24 research laboratories and facilities, four power marketing administrations, and 114 contaminated cleanup sites affecting about two million acres of land.



President Bush and Secretary Abraham inspecting a fuel cell vehicle.

OVERVIEW

The Department of Energy (DOE) protects our national and economic security by: 1) promoting the diverse supply and reliable delivery of affordable and environmentally sound energy; 2) applying advanced science and nuclear technology to the Nation's defense; 3) providing world-class basic research capacity and advancing fundamental scientific knowledge; and 4) providing a responsible resolution to the environmental legacy of the Cold War and providing for the permanent disposal of the Nation's high-level radioactive waste.

The 2005 Budget provides significant funding increases for research and development of clean coal and hydrogen fuel cell technologies, and invests in longer-term technologies such as next-generation nuclear and fusion energy. It also improves energy security by meeting the President's commitment to fill the Strategic Petroleum Reserve to its maximum capacity of 700 million barrels in 2005, and by increasing funding for electricity reliability research and development to help prevent electricity disruptions.



Breathing easier. The Nation can increase energy production while maintaining environmental values through projects such as this clean coal project in the Denali National Park and Reserve, an environmentally sensitive area in Alaska.

The 2005 Budget provides \$9.0 billion for the national security activities of the National Nuclear Security Administration to include maintaining the safety, security, reliability and effectiveness of the Nation's nuclear weapons stockpile; preventing the spread of materials, information, and technology of weapons of mass destruction by eliminating or securing nuclear materials and related infrastructure and providing the U.S. Navy with safe, effective nuclear propulsion plants.

America's economic strength depends on our Nation's rich tradition of creative technological innovation. Because investment in fundamental research and development provides the foundation for such innovation,

significant Department of Energy resources are dedicated to delivering the scientific breakthroughs that will transform our future. Two top priority areas expected to have significant economic impact—nanoscale science and technology, and networking and information technology—are supported and advanced with funding research increases.

The Department's environmental efforts include the cleanup of contamination resulting from over 50 years of nuclear weapons production and nuclear energy research. The 2005 Budget provides over \$7.4 billion for the Department's Environmental Management program, a five-percent increase and the most funding ever for this program. This Budget will allow the Department to stay on track to cut in half the number of years remaining to complete site cleanups. The Budget also substantially increases funding for a nuclear waste repository at Yucca Mountain, Nevada, and proposes a new funding mechanism to ensure that the Department can begin accepting waste on schedule in 2010.

The Department has also shown significant improvement in its management. It is among the top performers in meeting the challenges of the President's Management Agenda.

EXPANDING ENERGY SUPPLY

We're heading into a new era. We've got to think new. We've got to be ready for the 21st Century... And a 21st Century energy policy says this country must develop and deploy the latest technology to provide a new generation, a different kind of energy, new sources of energy, cleaner and more efficient energy sources.

President George W. Bush
October 2003

The President's National Energy Policy, developed during the President's first year in office, set out the first comprehensive plan in over a decade to enhance the supply of reliable energy while protecting our environment. In less than three years the Administration has completed or is implementing nearly all of the plan's 106 recommendations that did not require legislation.

The President has proposed and supported bold research and development activities that, if successful, will provide the abundant energy supply that will fuel future economic growth. These activities include finding and exploiting breakthroughs in hydrogen fuel cells, clean coal technology, and nuclear power. As with all research, we may not find all the answers we need to realize the promise in each of these areas. But the successful development of even one of these efforts will have a profound effect on the country's energy security and environmental and economic well-being.

Moving Toward a Hydrogen Economy

In February 2003, President Bush announced a \$1.2 billion Hydrogen Fuel Initiative to reverse America's growing dependence on foreign oil by developing the technology for clean hydrogen production and commercially viable hydrogen-powered fuel cells. So that we can one day power cars, trucks, homes and businesses while producing virtually no pollution or greenhouse gases, the Hydrogen Fuel Initiative and the FreedomCAR Partnership, which was launched a year earlier, will provide a total of \$1.7 billion over five years for hydrogen, fuel cell, and advanced automotive technologies. The President's initiative established the United States as the international leader in hydrogen and fuel cell research, and spurred significant private-sector investment in these areas. The 2005 Budget includes \$228 million for the Hydrogen Fuel Initiative, an increase of \$69 million, or 43 percent, over 2004 funding, to develop the technologies to produce, store, and distribute hydrogen for use in fuel-cell

vehicles, electricity generation, and other applications. A new thrust of this Presidential initiative is a comprehensive program of innovative, high-risk, high-payoff basic research that is intimately coupled and coordinated with the initiative's applied research and development programs.

Developing Cleaner Coal Technologies

The 2005 Budget provides \$447 million for the President's Coal Research Initiative to improve the environmental performance of coal power plants by reducing emissions and improving efficiency. This includes \$287 million for the Clean Coal Power Initiative (CCPI), a \$108 million increase (60 percent) over the 2004 funding level. Within this initiative, \$237 million is provided for the FutureGen coal-fired, nearly emissions-free

electricity and hydrogen generation project announced by the President in February 2003. This project will re-direct clean coal funding that has languished unexpended and unproductive for years. This \$1 billion cost-shared, 10-year project is guided by an industry and international partnership that will work cooperatively on research, development and deployment of technologies that will dramatically reduce air pollution from coal-fueled electricity generation plants, generate hydrogen, and capture and store greenhouse gas emissions.

The President's Clean Coal Commitment

The President committed to invest \$2 billion over 10 years to fund research in clean coal technologies. The President's four budgets have included \$1.4 billion for clean coal technology research and development, well on the way to fulfilling this commitment. Coal is reliable, affordable, and abundant in the United States. The President's clean coal investments will help ensure that coal remains a primary energy source for the Nation.

Encouraging Next Generation Nuclear Power and Fusion

The Administration has taken steps to encourage nuclear power as a clean, reliable, and affordable source of electricity in the coming decades, including streamlining the permitting process for new nuclear power plants, proposing tax changes to help ensure that nuclear plant decommissioning costs are adequately funded, providing a deep geological repository for high-level nuclear waste at the Yucca Mountain site, and proposing extension of the Price-Anderson nuclear liability Act. The 2005 Budget continues these efforts by providing \$31 million for research and development on Generation IV nuclear power technology, a \$7 million increase over 2004 funding. Generation IV technology offers the promise of a safe, economic, and proliferation-resistant source of clean nuclear power and hydrogen. The Budget also continues research on advanced, proliferation-resistant nuclear fuel that would allow the Nation to extract the energy potential from spent nuclear fuel and dramatically reduce the quantity and toxicity of remaining waste.

In January 2003, President Bush committed the United States to participate in negotiations on the largest and most technologically sophisticated energy research project in the world—the International Thermonuclear Experimental Reactor (ITER)—to harness the promise of fusion energy, the form of energy that powers the sun. The United States and its international partners—the European Union, Japan, Russia, China, and South Korea—plan to reach a consensus decision on the site for ITER early in 2004. If successful, this cost-shared \$5 billion research project will help develop fusion's potential as a commercially viable and clean source of energy in the middle of the century. The \$38 million provided for this international partnership in the 2005 Budget, a \$30 million increase over 2004 funding, will ensure that the United States is prepared to participate fully in this important project.

Providing Incentives for Renewable Energy and Hybrid and Fuel Cell Vehicles

The 2005 Budget proposes tax incentives totaling \$4.1 billion through 2009 to spur the use of clean renewable energy and energy-efficient technologies. Consistent with the President's National Energy Policy, the tax incentives include credits for the purchase of hybrid and fuel-cell vehicles, residential solar heating systems, energy produced from landfill gas, electricity produced from alternative energy sources such as wind and biomass, and combined heat and power systems. All of these incentives are included in energy legislation currently pending in the Congress.

Reducing the Size and Frequency of "Blackouts"

The President's National Energy Policy directed Federal agencies to remove constraints on the interstate transmission grid to help ensure that the Nation's electricity can flow more freely and reliably. DOE created the Office of Electric Transmission and Distribution in 2003 to lead a national effort to modernize and expand the Nation's electricity delivery system and reduce the likelihood and impact of disruptions and blackouts, such as the blackout that occurred in August 2003 affecting an area that includes 50 million people, eight States, and one Canadian province. The Budget includes \$91 million for these activities, a \$10 million (12-percent) increase over 2004 funding. The Administration has also worked with two private companies since 2002 to carry out a private-sector financing arrangement for construction of the Path 15 transmission facilities associated with the Federal Western Area Power Administration. This project will relieve a major transmission bottleneck in northern California when it is put in operation in 2004. The Administration strongly supports legislative changes to modernize our electricity transmission grid by reforming outdated laws, promoting open access to the grid, promoting regional planning and coordination, protecting consumers, and developing and deploying new technology. To accelerate the transition to competitive wholesale power markets, the Administration also supports changes to Federal tax law concerning gains from the sale or disposition of transmission assets and preserving the tax-exempt status of rural electric cooperatives that provide open access to their transmission or distribution facilities.



I am a lineman for the country. Local transmission problems can lead to regional blackouts. The Administration is leading a national effort to improve transmission reliability.



What's in your attic? Energy efficiency improvements can save more than \$4,000 per home.

Increasing Weatherization Assistance

The 2005 Budget continues the President's commitment to increase funding for the Weatherization Assistance Program by \$1.4 billion over the next 10 years in order to cut the utility bills of 1.2 million low-income families while conserving energy. The 2005 Budget includes \$291 million for this program, a \$64 million (28-percent) increase over 2004 funding, which will improve the energy efficiency of an additional 119,000 homes of low-income families. OMB and DOE completed an evaluation of this program using the Program Assessment Rating Tool (PART), which concluded that the program generally achieves its goals while maintaining a positive economic return on the taxpayers' investment.

The program's energy-efficiency measures save each participating low-income family an estimated \$210 annually on utility bills, at an average one-time cost to the Government of about \$2,500. With an average lifespan of 20 years, the improvements generate more than \$4,000 in total utility bill savings per home.

CLEANING UP THE ENVIRONMENT

Securing Radioactive Waste

DOE is charged with disposing of the spent nuclear fuel generated by civilian nuclear power plants, Government nuclear reactor facilities, and the high-level waste from the Nation's defense activities. More than 161 million Americans live within 75 miles of the 131 sites in 39 States that currently store spent nuclear fuel and high-level radioactive waste. In February 2002, the President recommended the Yucca Mountain site to the Congress as being qualified for a construction permit application to the Nuclear Regulatory Commission (NRC) as a nuclear waste repository. The Congress approved that recommendation in July 2002. The successful completion of a repository at Yucca Mountain will ensure the Nation has a single underground facility, secure from potential terrorist threats, that stores nuclear waste in a manner that protects the environment and our citizens.



Due to open in 2010.

The Administration is committed to submitting on schedule in 2004 a license application to the NRC to authorize construction of the repository. Substantial resources will be needed to complete the application process and construct the repository. The 2005 Budget includes \$880 million for the repository, an increase of \$303 million over 2004 funding. The Budget also includes a legislative proposal to use utility company contributions to establish a new funding mechanism that will ensure that adequate funds are available for the repository to begin accepting waste in 2010. The Department is also taking a number of steps to ensure effective monitoring of this major construction endeavor, including establishing a clear cost and schedule baseline for evaluating performance and providing for regular reporting to the Congress.

Accelerating Cleanup of Legacy Sites

Over five decades of nuclear weapons production and energy research have left vast amounts of radioactive contamination and hazardous waste at 114 sites in 31 States and one U.S. territory. By the end of 2004, DOE will have cleaned up 77 of the 114 sites, but the largest and most challenging site cleanups lie ahead.

The 2005 Budget includes \$7.4 billion for the Environmental Management (EM) program, the most ever requested for environmental cleanup at DOE sites throughout the Nation. Within this total funding, \$350 million will be made available only to the extent that legal uncertainty concerning certain reprocessing wastes is satisfactorily resolved through pending litigation or by new legislation.

A Rocky Road to Cleanup

In 1999, the EM program awarded a \$4 billion contract with significant incentives to accelerate closure of the Rocky Flats site by seven years to December 2006. Despite delays in critical-path activities such as shipping nuclear materials to the Savannah River site, this project was seven percent below budget and eight percent ahead of schedule at the end of 2003. The Department anticipates completing this site, which will become a wildlife refuge, by September 2006 or earlier.

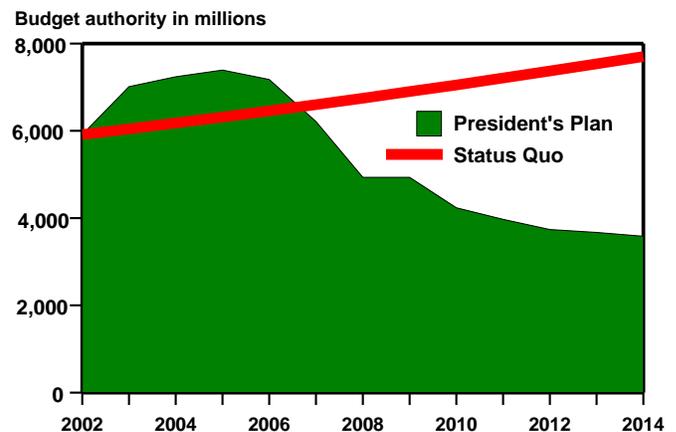
For many years the Environmental Management program failed to achieve its risk-reduction mission, was unable to effectively control cost and schedule overruns, and experienced significant problems in project management and contract administration. DOE's top-to-bottom review of the program in 2002 found that it was focused on managing risk rather than reducing risk. To improve program performance, the 2003 Budget proposed an aggressive reform effort with States and Federal regulators to revise cleanup plans to

accelerate reduction of risk to the public and the environment. DOE has now revised the cleanup strategies for 18 of the sites remaining to be completed. The revised cleanup plans cover a broad range of issues—from new waste treatment and disposal options, to cleaning up the most risky areas first, to simply increasing the number of workers assigned to critical cleanup activities. Under the Administration's revised cleanup plans, DOE expects to accelerate cleanup completion by 35 years, more than a generation ahead of the previous schedule. It also expects to save about \$50 billion doing so, reducing estimated total lifecycle cleanup costs from \$192 billion to \$142 billion.

In addition to revised cleanup strategies, DOE has taken other significant steps to improve the EM program:

- *Improved Contracts.* DOE has re-competed or renegotiated most EM contracts to include performance incentives to protect the public faster and for less money. These new contracts have allowed cleanup sites such as Mound and Fernald in Ohio to get back on track for closure in 2006.
- *Reorganized Staff.* DOE has reorganized the EM Federal staff to focus on the cleanup mission. The EM program has also eliminated or transferred activities that do not support on-the-ground risk reduction. These efforts have resulted in a 24-percent decrease in EM full-time equivalent employees since 2001.
- *Consolidated Business Center (CBC).* DOE is transitioning business functions from its completed and smaller sites to the CBC. This will improve program performance by consolidating functions and providing for a cadre of skills and expertise in closing sites.

Savings from Cleanup Reforms



Accelerating Assistance to Energy Employees

The President's 2005 Budget includes \$43 million for the Energy Employees Occupational Illness Compensation Program Act (EEOICPA) to accelerate assistance to those DOE contract employees and their survivors who have served our Nation as part of the nuclear weapons complex and suffered an illness because of exposure to toxic substances during such service. Together with funds provided

in 2003 and 2004, this will enable DOE to expedite the processing of applications, eliminate the current backlog of applications up to the Physicians Panels in 2005, and eliminate the backlog through the Physicians panels in 2006. The Administration will also work with the Congress on solutions to problems identified since passage of EEOICPA.

EXPANDING SCIENTIFIC KNOWLEDGE

The Department's Office of Science supports a broad array of basic research and operates a variety of unique scientific facilities to support the Department's energy and national security missions. The Office provides more than 40 percent of total Federal funding for basic research in the physical sciences, as well as serving as

the principal Federal funding agency for research in high energy physics, nuclear physics, and fusion energy sciences. It also supports research in areas such as climate change, environmental remediation, genomics, computer science, and applied mathematics. The success of the Office's research program has been exceptional. In the past decade alone, 12 Nobel Prizes in physics and chemistry have been awarded to scientists for work supported by the Office of Science.

The 2005 Budget proposes \$3.4 billion for DOE Science programs. The PART assessments conducted for these programs concluded that they were generally well-managed and produce highly regarded research results. The Budget allocates funds to best performers and activities that provide the broadest benefits to society.

In fact, we might well be called the Department of Energy and Science, given the importance of our role in American, and indeed international, science.

Secretary Abraham

January 2003

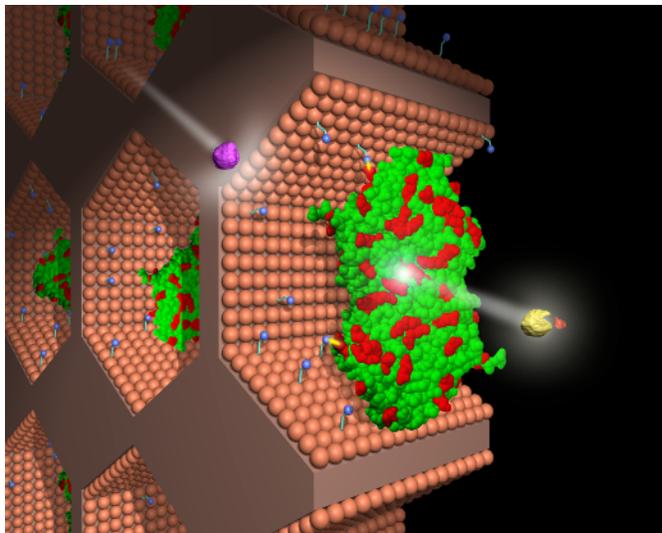


The Advanced Photon Source at Argonne National Laboratory outside of Chicago, Illinois is 3,640 feet in circumference (large enough to encircle Wrigley Field) and will host 2,500 users in 2005.

THE BIG PICTURE

DOE's Office of Science builds and operates many of the Nation's most advanced, large-scale scientific user facilities, including x-ray and optical light sources, particle accelerators, supercomputers, and fusion devices. This suite of state-of-the-art facilities is broadly shared with the science community worldwide and contains technologies and instrumentation available nowhere else. Each year, these facilities are used by more than 18,000 researchers from universities, other government agencies, private industry, and foreign nations. The 2005 Budget provides funds to allow many of these facilities to operate at full capacity in order to maximize their scientific return to the Nation.

The 2005 Budget will enable cutting-edge research across a wide expanse of scientific endeavor, from attempting to understand the birth of the universe to learning how to guide nature's own efficient assembly techniques in order to make cheaper, stronger, and lighter materials for applications like hydrogen fuel cells. The Budget increases research funding to expand supercomputing capacity, and funds new facilities that would keep the United States at the forefront of important new scientific areas, such as nanotechnology and biotechnology. For example, in keeping with the spirit of the 21st Century Nanotechnology Research and Development Act, which President Bush recently signed into law, the Budget funds continued materials and chemistry research at the nanoscale level, and new or ongoing construction of five nanoscale science research centers. The Budget funds procurement activities for a revolutionary x-ray laser light source—located on the Stanford University campus—that would open entirely new realms of discovery in the chemical, materials, and biological sciences. The Budget also funds the design of a first-of-its-kind protein research facility, which could lead to practical applications of genomic research for the energy and environmental challenges that the Nation faces.



The small picture. New user facilities should enable future breakthroughs combining biotechnology and nanotechnology, such as this artist's conception of a synthetic nanostructure that efficiently transforms toxic substances into harmless by-products.

POWER MARKETING ADMINISTRATIONS

The Power Marketing Administrations (PMAs)—Southeastern, Southwestern, Western Area (WAPA) and Bonneville (BPA)—sell electricity generated at 133 multipurpose Federal dams and related facilities operated by the U. S. Army Corps of Engineers (Corps) and the Department of the Interior's Bureau of Reclamation (BuRec). They also manage more than 33,000 miles of federally owned transmission lines.

The 2005 Budget provides \$187 million for Southeastern, Southwestern and WAPA and includes a proposal to allow these PMAs to directly finance the Corps' and BuRec's power-related operation and maintenance expenses from power receipts rather than from appropriations (as BPA already does). Direct funding will enable the Corps and BuRec to perform needed maintenance and small rehabilitation projects on a more timely basis. The Administration also proposes to have BPA and WAPA directly finance BuRec's hydropower research and development activities, for which they are the primary beneficiaries.

BPA finances its \$3.7 billion annual cost of operations and investments primarily using power revenues and loans from the U.S. Treasury. The amount of loans from the U.S. Treasury is currently capped by statute at \$4.45 billion. BPA has also started seeking non-Federal



Direct Current. The Administration proposes that the PMAs be allowed to directly fund improvements to Bureau of Reclamation and Corps of Engineer facilities.

participation and joint financing and ownership of its transmission system upgrades and other investments. BPA will coordinate with the Secretary of Energy or his designee on such alternative financing opportunities before exercising its borrowing authority.

Consistent with scorekeeping procedures developed under the Budget Enforcement Act of 1990, some agency lease-purchase transactions constitute a form of Federal agency debt for budget purposes. This reflects the fact that these long-term transactions result in liabilities that make a claim on future agency resources similar to a traditional loan transaction. (The scorekeeping procedures are discussed at more length in the *Analytical Perspectives* volume.) At the time the 2005 Budget was being printed, BPA was considering whether it would enter into such a lease purchase transaction. As stated above, BPA's debt to the U.S. Treasury is currently limited by statute. To ensure the integrity and usefulness of this limitation, the Administration is considering proposing legislation calling for certain non-traditional financing transactions that are entered into after the date the legislation is enacted and that are similar to debt-like transactions to be treated as debt and counted toward BPA's statutory debt limit. This legislative proposal will be fully vetted with BPA stakeholders.

NATIONAL NUCLEAR SECURITY ADMINISTRATION

The mission of DOE's National Nuclear Security Administration (NNSA) is to:

- maintain and enhance the safety, security, reliability, and effectiveness of the Nation's nuclear weapons stockpile;
- prevent the spread of materials, information, and technology of weapons of mass destruction by eliminating or securing nuclear materials and related infrastructure; and
- provide the Navy with safe and highly capable nuclear propulsion plants for warships.



Coming together. Administrator of the NNSA, Linton Brooks, examines nuclear weapon components manufactured at the NNSA facility in Kansas City, Missouri.

Nuclear Stockpile Stewardship

As the post-Cold War era evolves, NNSA is managing the Nation's nuclear deterrent and ensuring that it is capable of responding to 21st Century challenges unlike those faced during the last half of the 20th Century. Since 1993, and the establishment of a moratorium on nuclear testing, DOE has maintained the safety, security, reliability, and effectiveness of the U.S. nuclear weapons stockpile through its science-based stockpile stewardship program. The program ensures the operational readiness of the Nation's nuclear weapons using science and technology to detect and predict problems in the stockpile. NNSA also relies on advanced engineering methods to develop and apply solutions to extend the life of aging warheads.

Knowledge gained from this program improves the understanding of nuclear weapons physics; enables timely and effective maintenance and refurbishment of existing nuclear warheads; and maintains a design and manufacturing base that can respond rapidly to new challenges and produce new weapons if required. Three national laboratories (Los Alamos, Sandia, and Lawrence Livermore), the Nevada Test Site, and production

facilities in Missouri, South Carolina, Tennessee, and Texas, employ about 1,500 Federal and approximately 25,000 contract personnel to do this work.

The 2005 Budget continues to emphasize programs supported in the Nuclear Posture Review (NPR) released by the Administration in January 2002. The NPR laid out the direction for America's nuclear forces for the next decade. It noted that the Nation's nuclear infrastructure had atrophied since the end of the Cold War and that the evolving security environment requires a flexible and responsive weapons complex infrastructure. To that end, the 2005 Budget reflects an increase over the 2004 enacted level in the Weapons Activities account, which encompasses the stockpile stewardship programs. This increase, along with a multi-year plan supported by sustained, stable funding, will enable NNSA to fulfill the Nation's needs for a safe, secure, reliable and effective nuclear force. The 2005 Budget requests \$6.6 billion for activities related to maintaining the nuclear weapons stockpile, \$365 million above the 2004 enacted level, and consists of four major categories of work:

- Directed Stockpile Work programs to support the Department of Defense's (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. Currently, NNSA is in the process of refurbishing four weapons that originally entered service in the 1970s and 1980s. Without new warheads entering the inventory, a robust refurbishment program is the only way to maintain the nuclear deterrent with a high degree of confidence.
- Facility Operations and Infrastructure Programs that underpin the stockpile work by providing for the operation and maintenance of existing facilities and construction of new facilities. Because facilities have continued to decay since the end of the Cold War, NNSA is embarking on an effort to improve conditions throughout the complex.
- Security Programs to protect the nuclear weapons complex, nuclear weapons and their components within that complex, and transportation of material between facilities. NNSA also operates the Nuclear Weapons Incident Response assets that provide first-responder teams in the event of a nuclear emergency.
- Science programs to develop and maintain critical capabilities needed to certify the reliability of the nuclear stockpile into the future. Some of the key components of the science programs are:
 - The Inertial Confinement Fusion program, which includes construction and operation of the National Ignition Facility at Lawrence Livermore National Laboratory in California. This project has a 192-beam laser to duplicate the conditions of high temperature and pressure that occur in a nuclear explosion so that scientists can better evaluate the science related to performance of nuclear warheads. The PART assessment completed on this program showed that improved planning is overcoming initial difficulties, but performance measures need additional refinement.
 - Advanced Simulation and Computing efforts involving the world's largest and fastest computers to perform calculations and simulations that previously were too complex to perform.



The National Ignition Facility, at Lawrence Livermore National Laboratory, is a cornerstone of NNSA's science-based nuclear stockpile stewardship program that ensures the long-term safety, reliability, and effectiveness of the stockpile without nuclear testing.

These simulations model the behavior of an exploding nuclear weapon and are an integral part of certifying the reliability of the stockpile without underground nuclear testing.

- The Plutonium component manufacturing and certification program that will develop new plutonium cores for nuclear weapons to replace existing ones. The life expectancy for the current inventory is uncertain.

Managing the Stockpile Stewardship Program continues to be an enormous challenge. Throughout the Cold War, DOE maintained a viable nuclear stockpile by designing and producing new weapons on a 15- to 20-year cycle and ensured the effectiveness of the weapons through underground testing. However, the United States last produced a new weapon in 1990 and conducted a nuclear test in 1992. DOE is developing new tools to manage the stockpile without the design and underground testing that historically supported the stockpile. This work will remain critical even as the United States draws down the number of operationally deployed warheads to between 1,700 and 2,200 over the next 10 years.

Preventing the Spread of Weapons of Mass Destruction

Preventing the spread of weapons of mass destruction (WMD) around the world continues to be an urgent priority of this Administration. The importance of this goal was underscored after the September 11th terrorist attacks and the discovery of evidence that terrorists were seeking to obtain WMD.

In June 2002, under the leadership of the United States, the G-8 nations agreed to a new comprehensive nonproliferation effort known as the Global Partnership. The goal of the Partnership is to stop the spread of weapons of mass destruction, related materials and technology, and expertise. To achieve the goal, the G-8 leaders committed to spend up to \$20 billion over 10 years to fund nonproliferation programs in the former Soviet Union. The United States intends to provide half of the total funding through programs in DOE, DOD, and the Department of State. The 2005 overall request for Global Partnership programs totals nearly \$1 billion and consists of:



Coal Comfort. This Soviet era weapons-grade plutonium-producing nuclear power facility in Seversk, Russia will be replaced, under NNSA leadership, with a coal burning facility.

- \$439 million in DOE NNSA programs that support programs to secure or eliminate weapons-usable material;
- \$409 million in DOD Cooperative Threat Reduction programs that provide assistance in dismantling nuclear weapons and provide transport and storage security; and
- \$71 million in Department of State programs that support export control programs and other nonproliferation efforts to include those targeted at preventing the spread of WMD expertise.

Highlights of NNSA programs in the Global Partnership include:

- \$238 million for the International Nuclear Materials Protection and Cooperation program to secure nuclear materials in the former Soviet Union. These programs fund critical activities such as installation of intrusion detection and alarm systems and construction of fences around exposed nuclear sites. By the end of 2005, NNSA will have supported completion of comprehensive

security upgrades to 41 of 64 identified nuclear sites and will have begun work to secure roughly 37 percent of the weapons-grade nuclear material at these sites.

- \$50 million for the program to eliminate weapons-grade plutonium production in Russia. This program will replace three Soviet-era reactors with coal burning plants and stop the annual production of 1.2 metric tons of weapons-grade plutonium by 2011. The 2005 PART assessment of the program found that it possesses solid performance measures and encouraged NNSA to study the lessons learned from other nonproliferation programs to reduce the overall risk and potentially accelerate the program to more rapidly achieve the intended results.

In addition to the Global Partnership programs, the Budget requests \$910 million in 2005 for other nonproliferation programs managed by NNSA. Highlights include:

- \$220 million for the Nonproliferation Research and Development program to develop technologies needed to detect nuclear proliferation abroad; and
- \$484 million to support the U.S. portion of an agreement to dispose of surplus plutonium. Under the agreement, both the United States and Russia agree to dispose of 34 metric tons of plutonium by converting it to a mixed oxide fuel and burning it as fuel for nuclear reactors.

Naval Reactors



The USS Florida steams under the power of reactors developed by NNSA.

NNSA's Naval Reactors program continues its impressive record developing safe and reliable nuclear reactors to power the Navy's warships. The program is responsible for all naval nuclear propulsion work, beginning with technology development, continuing through reactor operation and, ultimately, to reactor plant disposal. The Naval Reactors program is currently developing nuclear propulsion plants to support DOD's efforts to transform itself for 21st Century national security requirements. By the end of 2005, the goal is to complete 70 percent of the design of the next generation aircraft carrier reactor. Furthermore, the Naval Reactors program will continue work on its Transformational Technology Core, which will deliver a significant energy increase to future submarines.

Finally, the program will continue to ensure the safety and reliability of 103 operating naval reactor plants and will add to its record of 129 million miles without a reactor accident or a significant release of radioactivity to the environment.

PERFORMANCE EVALUATION OF SELECT PROGRAMS

The Budget continues to focus on improving program performance. Thirty-six of DOE's programs were assessed using the Program Assessment Rating Tool (PART), which evaluated the programs' design and purpose, strategic planning efforts, how well they are managed, and whether they are generating positive results for taxpayers. Below are some of the highlights and recommendations from the PART evaluations. For further details on DOE's performance assessments, see the White House budget website at www.whitehouse.gov/omb/budget/.

| Program | Rating | Explanation | Recommendation |
|--|--------------------------|---|---|
| Strategic Petroleum Reserve | Effective | The program is well designed with well developed performance measures. | Improve linkage of budget requests to program goals. |
| NNSA—Readiness in Technical Base and Facilities (RTBF), Operations | Moderately Effective | Good planning is beginning to overcome difficult early stages that led to problems in the infrastructure. | Improve mechanisms to gain leverage over operating contractors; establish a plan that integrates RTBF with the Facilities and Infrastructure Recapitalization Program. |
| NNSA—Inertial Confinement Fusion Ignition and High Yield Campaign | Moderately Effective | The program has vastly improved its strategic design and focus; clear, succinct performance measures are difficult for program to articulate. | Continue to refine performance measures that support the goals of the program; encourage frequent independent evaluations to include those initiated by DOD. |
| Yucca Mountain Nuclear Waste Repository | Adequate | The program has strong purpose and design, but is weaker on strategic planning and management. | Complete a Capital Asset Management Plan and certify the Earned Value Management System. |
| Building Technologies | Adequate | The program needs to improve on focusing on longer-term, higher risk R&D; and methods for assessing program benefits. | Develop a consistent framework for analyzing costs and benefits of R&D investments. |
| NNSA—Elimination of Weapons Grade Plutonium Production (EWGPP) | Results not Demonstrated | EWGPP is a new program that does not yet have a track record; the program possesses solid, tangible performance measures. | Evaluate possibility of reallocating funds to reflect a funding profile more consistent with a construction project; review lessons learned from other nonproliferation efforts in Russia to mitigate risk. |

The Department of Energy is one of 12 major R&D agencies that plan, manage, and assess their R&D programs consistent with the R&D Investment Criteria. DOE has been a leader in the Federal Government in using the criteria, including being the pilot agency for application of the criteria to its applied research programs in 2001. This year, DOE assessed 23 R&D programs using the PART. DOE made substantial progress developing program performance measures and this year has long-term and annual measures for nearly all of the R&D programs assessed through the PART. To better inform budget decisions, DOE’s applied R&D programs will continue to improve methods for estimating the potential public benefits of its programs and activities. Further discussion on the implementation of the R&D Investment Criteria at DOE and across the Federal Government is included in the Research and Development chapter in the *Analytical Perspectives* volume.

UPDATE ON THE PRESIDENT’S MANAGEMENT AGENDA

The table below provides an update on the Department of Energy’s implementation of the President’s Management Agenda as of December 31, 2003.

| | Human Capital | Competitive Sourcing | Financial Performance | E-Government | Budget and Performance Integration |
|-----------------|---------------|----------------------|-----------------------|--------------|------------------------------------|
| Status | ● | ● | ● | ● | ● |
| Progress | ● | ● | ● | ● | ● |

The Department of Energy is linking managerial performance appraisals to performance and working to identify and fill gaps in areas where it is lacking workforce skills and competencies under its comprehensive human capital management plan. DOE intends to have more than 60 percent of appraisals linked to performance targets by 2005. DOE has a comprehensive competitive sourcing plan and has completed two competitions. DOE has five additional comprehensive services studies underway covering 1,159 Federal and about 1,000 contract positions, which are scheduled to be completed by December 2004. DOE issued its 2003 financial statements with a clean audit opinion and no material internal control weaknesses. In 2004, DOE began conducting quarterly control reviews for all major information technology investments, assessing actual progress against cost, schedule and performance targets. DOE also improved the linkage between program resources and performance in its 2005 Budget and completed PARTs covering over 60 percent of its program funding.

DEPARTMENT OF ENERGY
(In millions of dollars)

| | Actual | | Estimate | |
|---|--------|--------|----------|--------|
| | 2001 | 2003 | 2004 | 2005 |
| Spending | | | | |
| Discretionary Budget Authority: | | | | |
| National Defense | | | | |
| National Nuclear Security Administration..... | 6,895 | 7,985 | 8,671 | 9,049 |
| Other Defense Activities | 570 | 513 | 671 | 665 |
| Energy Resources..... | 2,448 | 2,629 | 2,708 | 2,664 |
| Science and Technology | 3,202 | 3,296 | 3,484 | 3,432 |
| Environmental Management | 6,436 | 6,951 | 7,061 | 7,434 |
| Nuclear Waste Disposal..... | 314 | 457 | 577 | 880 |
| Corporate Management and all other purposes | 160 | 128 | 118 | 196 |
| Total, Discretionary budget authority (gross) | 20,025 | 21,959 | 23,290 | 24,320 |
| Legislative Proposal: Reclassify Nuclear Waste Fund receipts..... | — | — | — | -749 |
| Total, Discretionary budget authority (net) ¹ | 20,025 | 21,959 | 23,290 | 23,571 |
| Total, Discretionary outlays (net)..... | 18,469 | 21,628 | 22,850 | 23,968 |
| Mandatory Outlays: | | | | |
| Existing law | -766 | -1,796 | -1,357 | -1,371 |
| Legislative proposal | — | — | — | 749 |
| Total, Mandatory outlays | -766 | -1,796 | -1,357 | -622 |
| Total, Outlays | 17,703 | 19,832 | 21,493 | 23,346 |

¹ For comparability, the 2001 data reflect transfers related to the creation of the Department of Homeland Security.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Since 2001, the Administration:

- Passed comprehensive Medicare reform legislation adding prescription drug coverage for seniors and modernizing the Medicare program;
- Completed doubling the resources for medical research through the National Institutes of Health;
- Acquired more than enough smallpox vaccine for every American for use in an emergency;
- Improved preparedness for a bioterrorist attack, providing nearly \$4.5 billion to States, local governments and hospitals;
- Provided access to health care for an additional three million people through 614 new and expanded health center sites;
- Created education and training vouchers for foster care youth, securing funding to provide \$5,000 vouchers to 17,400 eligible youth; and
- Provided a \$522 million increase in resources to State and local governments and service providers to expand substance abuse treatment capacity throughout the Nation.

The President's Budget:

- Strengthens and improves Medicare, including taking the first steps to implement the new drug benefits that will become available in 2006;
- Makes Medicare-approved prescription drug discount cards available in 2004, along with a \$600 subsidy for low-income beneficiaries;
- Supports marriage and healthy family development;
- Continues to aggressively improve bioterrorism preparedness, including a new \$130 million initiative to more rapidly detect and characterize a bioterrorist attack;
- Enhances enforcement of Federal regulations to prevent the introduction or spread of Bovine Spongiform Encephalopathy (or mad cow disease);
- Builds on momentum from the doubling of the National Institutes of Health budget to fund new scientific ideas that can lead to treatments and cures for the world's diseases;

- Improves access to childhood immunizations through enhancements in the Vaccines for Children program;
- Helps 1.6 million additional people receive health care through 332 new and expanded health center sites;
- Provides vouchers for substance abuse treatment services to an estimated 100,000 individuals; and
- Leverages the expertise of the Department to successfully implement the President's Emergency Plan for AIDS Relief to combat the spread of HIV/AIDS globally.

Department of Health and Human Services

Tommy G. Thompson, Secretary

www.hhs.gov 202-619-0257

Number of Employees: 67,000

2005 Discretionary Budget Authority:
\$66.8 billion

Organization: National Institutes of Health, Centers for Disease Control and Prevention, Centers for Medicare and Medicaid Services, Food and Drug Administration, Indian Health Service, Administration for Children and Families.

2004 Medicare Trust Funds financial assets: \$275.9 billion



Secretary Thompson (surrounded by HHS employees) leads the 2nd Annual Older Americans Month Walk on the National Mall.

OVERVIEW

The Department of Health and Human Services (HHS) is the Federal Government's principal agency for protecting the health of all Americans and for providing essential human services. In terms of budget and programs, HHS has become the largest department in the Federal Government, with almost a quarter of total Federal outlays. The Department manages over 230 programs and 60,000 grants, covering a wide spectrum of activities in public health, income support, basic and applied science, and child development. HHS also handles more than a billion Medicare claims per year.

In the 21st Century, HHS has special new responsibilities in protecting Americans from terrorism. Globalization will demand new approaches in many health and social programs. At the same time, the country is at the dawn of an unprecedented growth in the number and proportion of our older Americans as the baby boomers age. These trends are creating new and urgent demands and HHS must adapt. The 2005 Budget recognizes HHS' evolving role and seeks to ensure that its mission is fulfilled.

Implementing Medicare Reform. On December 8, 2003, the President signed historic legislation making available a prescription drug benefit to approximately 41 million Medicare beneficiaries. The Budget enables the Administration to reform and modernize this vital program.

Supporting Marriage and Healthy Family Development. The Budget reflects the President's commitment to healthy families by proposing several initiatives that support marriage, provide tools to parents, and encourage community and faith-based organizations to support families.

Fighting Bioterrorism. The Budget proposes several initiatives to more quickly detect human illness and contamination of the food supply from a terrorist attack, expand the Nation's laboratory capacity to quickly diagnose biological and chemical contaminants in individuals and food, and continue to strengthen the ability of States, localities, and hospitals to respond to crisis.

Ensuring Access to Health Care. Through several Presidential initiatives, the Budget seeks to increase access to needed care. The Budget proposes an increase of \$218 million to enable Health Centers to serve 1.6 million additional people, and an estimated 100,000 individuals will receive vouchers for substance abuse treatment services. It also proposes to allow individuals participating in Health Savings Accounts to deduct their premiums and includes a health care tax credit to facilitate purchase of health insurance by low-income individuals and families.

Enhancing Public Health. The Budget will continue to invest in Indian Health Service infrastructure and prevention activities to improve the health status of American Indians and Alaska Natives; provide a \$35 million increase to expand access to treatment for those living with HIV/AIDS; increase funding by \$81 million to enable more local communities to develop innovative approaches to diabetes, obesity and asthma; work to extend life saving prevention services to underserved populations that are low-income, underinsured, or uninsured through a \$10 million increase to breast and cervical cancer screening services; and provide supportive services to the homeless.

HHS PRIORITIES

Medicare

The Medicare Act of 2003 is Consistent with the President's Principles for Strengthening and Improving Medicare, which:

- Give all seniors access to affordable drug coverage;
- Provide low-income seniors extra help in paying for their prescription drug needs;
- Allow seniors who are happy with the current system to stay where they are—and still get prescription drug coverage;
- Modernize Medicare to give seniors more choices and better benefits;
- Update and streamline regulations and administrative procedures while reducing instances of fraud and abuse; and
- Give more access to comprehensive exams, disease screenings, and other preventive care.

On December 8, 2003, the President signed into law the Medicare Prescription Drug, Improvement, and Modernization Act—the most significant improvement in health care coverage for senior citizens and those with disabilities in nearly forty years. This historic legislation makes available

a prescription drug benefit to all 41 million Medicare beneficiaries, helping them afford the cost of their medicines, and offers other significant improvements as well.

This legislation keeps a national promise to help America's seniors and people with disabilities find affordable medical care in the later years of life. President Lyndon Johnson established that commitment by signing the Medicare Act in 1965. And now, by reforming and modernizing this vital program, the Administration is honoring the commitment of Medicare for this generation of seniors, and for all who follow.

Provisions of the Medicare Act

Prescription Drug Discount Card and Transitional Assistance.

Beginning this spring, beneficiaries will be able to save 10-25 percent off the cost of most medicines through a Medicare-approved drug discount card. Seniors would be able to choose a card that they may use at a local pharmacy or through the mail and receive the discount. Since the typical senior spends \$1,285 annually on his or her medicines, the card could save a senior who lacks drug coverage as much as \$300 annually. The card will provide immediate assistance in reducing the cost of prescription drugs until the full drug benefit goes into effect. Beneficiaries with incomes below 135 percent of the Federal poverty level will receive \$600 in transitional assistance to help them with the cost of their prescriptions.

Prescription Drugs. Beginning in 2006, beneficiaries will be able to enroll in the new voluntary drug benefit. Beneficiaries could see their drug spending cut in half under this new benefit. After a \$250 deductible, they pay only a 25 percent coinsurance up to \$2,250 in spending. In addition, the benefit provides protection against high out-of-pocket prescription drug expenses. A \$2, \$5, or five-percent coinsurance amount per prescription is all a beneficiary will have to pay once he or she accumulates \$3,600 in out-of-pocket prescription spending in 2006. Beneficiaries will still have access to supplemental drug coverage.



The President signs the Medicare Prescription Drug, Improvement, and Modernization Act of 2003.

Beneficiaries will have a choice of Medicare-approved private plans from which to receive their benefit. Plans will receive subsidies from Medicare that will help them keep premiums and cost-sharing low, guard against higher than expected drug costs, and encourage them to participate across the country. There are also additional subsidies that will be paid to employers to preserve retiree health benefits for millions of seniors.

Soon, a new Medicare-endorsed prescription drug discount card will be available to Medicare beneficiaries. This symbol means that beneficiaries are assured that cards meet a high standard of quality and customer service.



below 135 percent of poverty will pay no monthly premium, no deductible and only \$1 to \$5 per prescription in cost-sharing. Beneficiaries with incomes between 135 and 150 percent of poverty would pay reduced premiums, a significantly reduced deductible of \$50, and cost-sharing of just 15 percent.

More and Better Health Care Choices. Choice is the key to strengthening Medicare. In addition to providing prescription drug coverage, the Medicare Act of 2003 achieves another important goal: to provide seniors and Americans with disabilities with more health care choices so they can get the coverage and health care to meet their needs.

One critical choice seniors will have is not to change their health benefits at all. Beneficiaries who choose to remain in Medicare traditional fee-for-service will be able to do so. For other beneficiaries seeking improved benefits and potentially lower costs, the legislation will expand private health plan choices for seniors in a number of important ways.

Seniors will have the option of joining the types of health plans that so many working Americans enjoy but that have been absent from Medicare until now, such as preferred provider organizations. Specifically, the legislation creates the Medicare Advantage program, which will consist of new regional, and new and expanded local health plans. Like Members of Congress and Federal employees, seniors will be able to choose the type of plan and coverage that works best for them. Medicare Advantage plans can also offer the new drug benefit so seniors can choose to receive fully integrated, modern health coverage from a single plan. HHS estimates that, by 2009, more than 30 percent of Medicare beneficiaries will enroll in Medicare Advantage's private health plans.

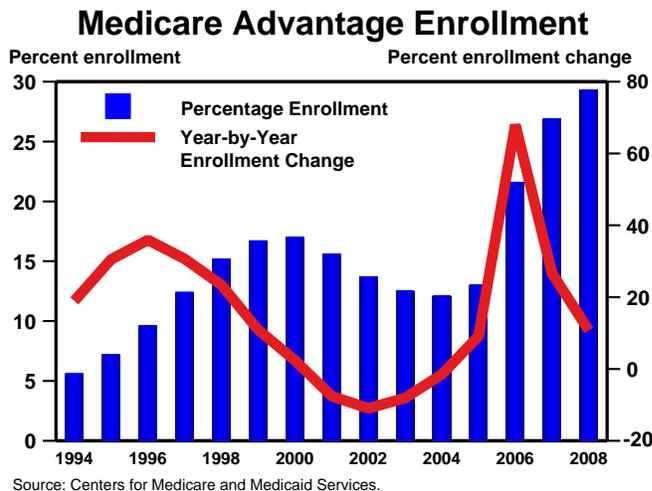
These private health plans will offer seniors and beneficiaries with disabilities more choices and additional benefits, such as protection from high medical costs. In addition, the private plans will have to compete for beneficiaries' business, which will lead to higher quality health care and lower costs. The legislation also establishes a demonstration of competition between traditional Medicare fee-for-service and private health plans beginning in 2010, while incorporating protections for beneficiaries.

New Preventive Benefits. As of 2005, Medicare will cover a physical exam for new enrollees. For all beneficiaries, cardiovascular screening, blood tests, and diabetes screenings will also be covered.

Strengthening Medicare's Long-Term Financial Security. For the first time ever, the Medicare Act of 2003 creates a new fiscal analysis requirement, the Combined Medicare Trust Fund Analysis, to help policymakers address the future of Medicare's finances. This new fiscal safeguard will put the program on a stronger financial foundation by alerting the President and the Congress when Medicare's dedicated revenues fall below adequate levels.

The Combined Medicare Trust Fund Analysis will require a comprehensive analysis of the expenditures and dedicated revenues of both the Hospital Insurance and Supplementary Medical Insurance Trust Funds, providing a complete picture of the financing and commitments of the Trust Funds. The Act requires the Medicare Trustees to issue a warning if dedicated revenues are projected to fall below adequate levels. The President may submit corrective legislation. The Act also allows the Congress to follow expedited procedures for the consideration of legislation to address the Medicare Trustees' warnings. This new process encourages the President and the Congress to take action before dedicated revenues fall below sufficient levels.

Premiums. Under the Act, Federal Medicare subsidies will be better targeted to those individuals who need them the most. Starting in 2007, the Federal subsidy for Medicare Part B premiums will



be smaller for high-income beneficiaries who need less assistance. This will help strategically target Federal funds, and make a wider range of benefits available to more beneficiaries.

Administrative Improvements. The legislation provides regulatory relief so providers can focus on patient care, not burdensome paperwork. HHS will undertake new efforts to help providers and beneficiaries understand Medicare regulations. The Act establishes a Medicare ombudsman to assist beneficiaries who have complaints or need information, and expands efforts to educate Medicare providers about program rules. This overdue regulatory relief will ease the burden on providers and beneficiaries.

Fraud and Abuse. Several measures are included in the Act to combat Medicare waste, fraud, and abuse. For far too long, the prices that Medicare pays for many covered drugs and medical supplies have been higher than those paid by private insurers, other Federal programs, and even individual consumers. The Act establishes new mechanisms that will base Medicare payments for drugs and medical supplies on market prices rather than on antiquated and inflated list prices. The legislation will also help Medicare recover money paid for services and supplies that should have been paid by another party.



A senior examines her prescription drug bottle.

Medicare Providers and Rural Health. The Act increases funding to providers, particularly those in rural areas. This includes payment increases to hospitals, physicians, ambulance services, skilled nursing facilities, and home health agencies that serve rural areas. The legislation increases payments to certain urban providers as well. These payment increases will ensure that beneficiaries can continue to find a Medicare provider wherever and whenever they need care. The Budget builds on the provisions of the legislation and places a priority on Health Centers. Over 50 percent of Health Centers are in rural areas and over 6.5 million of the more than 15 million total health center patients will be served in rural Health Centers in 2005.

Medicare Appeals. The Budget supports reforms put forth in the Medicare Act of 2003 that will make the Medicare appeals process more efficient and effective. The adjudicative function currently performed by Administrative Law Judges at the Social Security Administration will begin to be transferred to HHS. As a result, the judges that adjudicate Medicare appeals will be able to develop greater Medicare expertise and specialization while maintaining the independence from the program that assures a fair review. Also, the Centers for Medicare and Medicaid Ser-

vices (CMS) will be implementing new mechanisms to reduce the time it takes to process beneficiary and provider appeals.

Medicare Management Reform. The President's Principles for Medicare recognized that a modernized Medicare would require new management practices, and strongly supported the inclusion of management reforms in the Medicare Act of 2003. The Act includes several improvements that will allow HHS to better administer the Medicare program. For example, the legislation provides for a new center within CMS to administer the prescription drug benefit and Medicare Advantage programs. This new center will lead efforts to offer beneficiaries more choices and better benefits through private plans. In addition, the Act addressed some of the management deficiencies noted in the President's Principles. For example, HHS will no longer be limited to only contracting with certain insurance companies for administrative services, and will have the flexibility to contract with the full range of businesses that have health administration expertise. The legislation also provides

the authority for competitively awarded contracts that hold Medicare's contractors accountable for the service they provide to Medicare beneficiaries and providers. Successful implementation of these enhancements will improve program effectiveness and result in better service for Medicare beneficiaries and providers.

Medicare and Medicaid Estimates. Historically, HHS and the Congressional Budget Office (CBO) have provided differing estimates of Medicare and Medicaid spending. It is not uncommon for different assumptions underlying the respective estimates to produce differences in cost projections. This happened in Medicare cost projections in 2002. This year, there are new estimates for these programs. These estimates include the changes resulting from enactment of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003.

When Congress considered this act, CBO estimated the cost of the bill at \$395 billion from 2004 to 2013. The Medicare actuaries have recently estimated the cost of the law at \$534 billion from 2004 to 2013. Because the Medicare legislation makes far-reaching changes to a complex entitlement program with many new private-sector elements, there is even larger uncertainty in these estimates than usual.

These estimates provide a reasonable range of possible future cost scenarios for Medicare spending. The tremendous uncertainty surrounding estimates of the newly-enacted Medicare law has resulted in a plausible range of estimates of future spending, from the \$395 billion estimate from CBO to the \$534 billion estimate from the Medicare actuaries. It should be noted that this difference of \$139 billion is approximately 2.1 percent of the projected \$6.5 trillion in total Federal Medicare and Medicaid spending over the same period, as projected by HHS.

The largest portion of the difference in these cost estimates is attributable to assumptions regarding beneficiary participation, market behavior, and cost growth rates. Even small differences in these assumptions can dramatically change the overall cost estimates. For example, CBO and the Medicare actuaries both assume comparable savings from private-plan management of the drug benefit. CBO, however, assumes that these savings will be realized earlier; the Medicare actuaries assume that it will take longer for plans to achieve maximum savings.

The Administration and the Medicare Trustees have traditionally relied on the estimates of the Medicare actuaries, so the President's 2005 Budget incorporates these higher estimates into its calculation of budgetary totals. Because of the uncertainties involved, as well as the disparity between CBO and HHS estimates, and because CBO and HHS have not yet had ample opportunity to attempt to reconcile their differences, this Budget also includes summary calculations that reflect the lower CBO estimates (see Table S-13).

The Administration will work with CBO to better understand the technical differences between the respective cost estimates and will refine the estimates as appropriate.

Marriage and Healthy Family Development

Research has shown the life-long benefits of growing up in married-parent families. Building and preserving families is not always possible, particularly in violent or destructive situations, but it should always be the goal. The Administration's initiatives to promote marriage and healthy family development have four elements: 1) supporting marriage and families; 2) providing tools to parents; 3) teaching values to children; and 4) encouraging community and faith-based organizations to support families.

Supporting Healthy Marriages. The Budget proposes a State-based competitive matching grant program to support healthy marriages. A limited number of States, territories, and tribal organizations would receive funds to develop innovative approaches to promoting healthy marriage and

reducing out-of-wedlock births. Including a dollar-for-dollar State match, the total available funding for this effort would be \$240 million annually. Funds largely would be redirected from the High Performance Bonus in the Temporary Assistance for Needy Families (TANF) program to create this new program.

In addition, the Budget includes a \$120 million annual fund to conduct research and demonstration projects, and to provide technical assistance primarily focusing on family formation and healthy marriage activities. This provision would be principally funded by eliminating the Illegitimacy Reduction Bonus in the TANF program. These funds can be more effectively spent on developing innovative approaches to supporting family formation and healthy marriages.

Parent-Mentor Early Education Initiative. Head Start has a long history of parent involvement. This initiative would build on that legacy by offering training for between 2,000 and 3,000 Head Start parents in a science-based curriculum designed to improve early language and literacy skill outcomes. This cadre of parent-mentors would then train tens of thousands of Head Start parents throughout the country. The initiative would support the goal of increasing school readiness, at a cost of at least \$3 million, which would be financed from existing Head Start funding.

Promoting Responsible Fatherhood and Marriage. With over 25 million children living in homes without fathers, the Administration seeks to promote responsible fatherhood and marriage by providing \$50 million to assist non-custodial fathers in becoming more involved in their children's lives.

Supporting the Recruitment of Foster and Adoptive Parents. The President's Budget calls for the recruitment of 35,000 new foster and adoptive parents in five years. This goal will help thousands of the most vulnerable children find the benefits of a permanent and loving family, and thus improve their chances for success later in life. By meeting this goal, the number of children in institutional, group, or multi-child settings will be significantly reduced. To support a call for more foster and adoptive parents, HHS will launch a public service campaign in the spring of 2004.

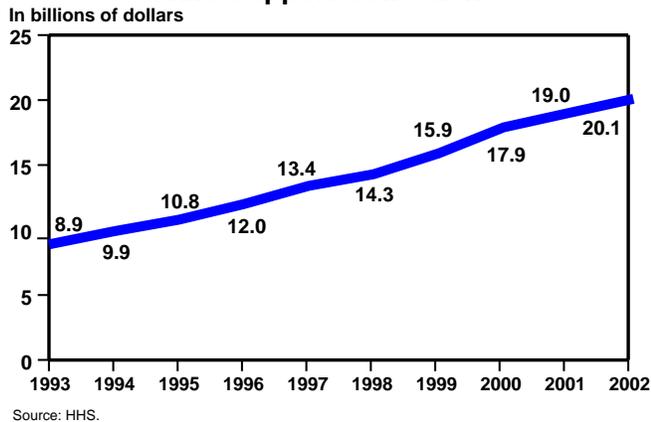
Responsible Choices. The consequences of teenage sexual activity and non-marital childbearing are many and serious for teens, their families, their communities, and society. Over three-fifths of teen mothers live in poverty at the time of their child's birth, and over four-fifths eventually live below poverty. There are substantial disparities in the educational attainment of teen mothers compared to young women who delay sexual activity. Equally important are the physical consequences. Each year, there are 15 million new sexually transmitted disease cases in the United States and one-quarter of them are teenagers.

Abstinence Education grants provide support to communities and States to develop, implement, and evaluate programs for 12 to 18 year olds that promote abstinence and encourage youth to make responsible and healthy choices. In addition, grants financed through these activities also advance parent education and outreach, media campaigns, and research related to abstinence education.

To further the commitment to these activities, to ensure teens have a forum where they can be supported in their decision to abstain, and to provide parents with the tools they need to talk to their children about responsible choices, the Budget doubles the President's financial commitment to \$270 million.

Expanding Child Support Enforcement. The Child Support Enforcement (CSE) program is designed to help low-income and vulnerable families with children become self-sufficient by obtaining support from the children's non-custodial parents. As the accompanying chart and Program Assessment Rating Tool (PART) demonstrate, the CSE program is making improvements in distributing collections to families, in addition to meeting other goals, such as collecting current and past-due

Total Distribution of Child Support Collections



program. This increase will support new mandates in CAPTA, recently reauthorized as the Keeping Children and Families Safe Act of 2003. With this increase in funding, States will be able to reach more children and families with prevention services rather than screening out all but the most at risk. In fact, State child protective service systems will be able to decrease the average time to service provision from 48 to 30 days. This funding increase will also allow an additional 55,000 families to receive CBCAP services.

support and establishing support orders. To further increase the Government's ability to collect child support more effectively, the Administration continues to propose the child support provisions included in the President's 2003 and 2004 Budgets. The Budget also includes new proposals to improve the establishment of medical support for the children without health insurance in the CSE system.

Preventing and Treating Child Abuse. The President's 2005 Budget includes a \$52 million increase for child abuse prevention through the Child Abuse Prevention and Treatment Act (CAPTA) State Grants and the Community-Based Child Abuse Prevention (CBCAP)

Community-Based Child Abuse Prevention (CBCAP)

In Arizona, CBCAP helps support the Healthy Families Arizona (HFA) program, which is a nationally recognized home visiting program designed to assist new parents with multiple stressors in their lives. HFA provides services to enhance parent/child interaction, promote healthy child growth and development, and prevent child abuse and neglect. In New Mexico, CBCAP helps support the Statewide Graduation, Reality and Dual-role Skills (GRADS) program, which is currently operating in 36 local school districts throughout the State. The GRADS projects are designed to assist pregnant or parenting students, male or female, to remain in school through graduation, receive early prenatal care, deliver normal weight babies, and develop positive parenting skills.

Bovine Spongiform Encephalopathy Prevention

On December 23, 2003, the Department of Agriculture (USDA) announced the discovery of a single cow in the United States infected with Bovine Spongiform Encephalopathy (BSE), commonly known as mad cow disease. There is strong evidence that indicates the cow was imported into the United States. The Food and Drug Administration (FDA) is working aggressively with USDA to prevent the spread of BSE in the United States (see USDA chapter for additional discussion). The Budget includes an additional \$8.3 million, or nearly 40-percent increase, at the FDA to enhance enforcement of Federal regulations to prevent the introduction or spread of BSE. These regulations have been credited as a key factor in the Nation's ability to prevent the introduction or spread of BSE in the United States. The additional funding will help ensure that animal feed fed to cows is free of materials believed to be the primary sources of cattle-to-cattle spread of the infectious BSE agent.

National Institutes of Health

Last February, during a visit to the National Institutes of Health (NIH) in Bethesda, Maryland, President Bush praised NIH as a center of excellence and a center of the brilliance of the American people. The President fulfilled his commitment to double the NIH Budget by 2003, so that NIH could make every effort to fulfill its scientific mission of improving the health and well being of the American people. Over the course of this doubling, the dedicated and talented scientists and researchers funded by NIH have made numerous notable discoveries towards treatments or cures to the diseases that plague our Nation and our world. Four new antiretroviral drugs were licensed in 2003 by FDA, bringing new hope to individuals who may have exhausted other HIV/AIDS treatment options. Other novel approaches to HIV prevention are being studied and validated, and the number of HIV vaccines in development and testing is greater than ever before. In the 1990s, death rates from the four most common cancers—lung, breast, prostate, and colorectal—continued to decline. Among the many fruits of NIH research are: a promising drug that could slow the functional decline in Parkinson's disease; a new, quick, and accurate assessment of heart disease risk; a new tool to fight kidney disease in African Americans; and a safe and inexpensive treatment for blood clots. Through unprecedented growth in knowledge, technology, and resources, NIH is committed to accelerating these trends through the discovery, development, and delivery of effective interventions.

Roadmap for Medical Research—Accelerating Progress

The five-year doubling of the National Institutes of Health (NIH) budget, completed in 2003, accelerated the pace of scientific discovery and heightened public expectations. NIH, led by Director Elias Zerhouni, M.D., is carefully charting a new roadmap for NIH research that will speed research discoveries from the bench to the bedside. The Roadmap highlights the most compelling scientific initiatives that NIH will pursue over the next 10 years, which will have the most profound impact on the progress of medical research in the United States and worldwide. The initiative centers around three themes—New Pathways to Discovery, Research Teams of the Future, and Reengineering Clinical Research.

The Roadmap will:

- Allow NIH to better understand complex biological systems through new technologies, databases, and other resources;
- Encourage interdisciplinary research that is creative, unexplored, and high-risk and that possesses a greater chance for groundbreaking discovery; and
- Develop new partnerships among organized patient communities, community-based physicians, and academic researchers so that basic research discoveries can be quickly transformed into diagnostics, drugs, treatments, or prevention methods.

As NIH ushers in the next century of biomedical research, it is beginning to transform our medical research capabilities and speed the movement of research discoveries from the bench to the bedside. The NIH Roadmap, initiated in 2003, provides a framework for the strategic investments that NIH needs to make to optimize its entire research portfolio by charting new pathways to discovery, designing research teams of the future, and re-engineering the clinical research enterprise. In 2005, NIH will begin to fully implement Roadmap initiatives that will foster interdisciplinary scientific teams; public-private partnerships; shared resources; high-risk, high-payoff research that will encourage innovation and breakthroughs; and integrated clinical research networks.

NIH is one of 12 major research and development (R&D) agencies that plan, manage, and assess their R&D programs consistent with the R&D investment criteria developed by the Administration, which are discussed in detail in the chapter on R&D in the *Analytical Perspectives* volume. Consistent with the R&D criteria, the two-tiered NIH peer review system ensures that only the most relevant and high-quality proposals are funded.

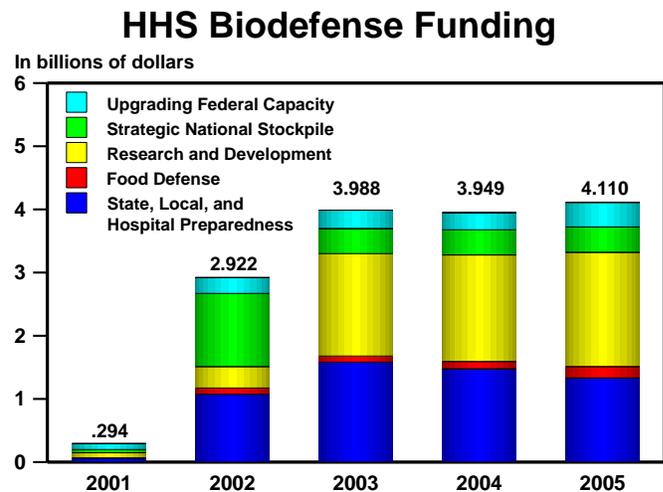
Since NIH is a public institution, the mission of NIH includes not only fostering the highest scientific achievement possible, but also doing so in a way that is accountable to the taxpayers. The doubling of NIH's budget has yielded the world's largest investment in biomedical research, which demands responsible stewardship and dedication to scientific progress. Management changes, including fully funding research project grants, are underway to ensure NIH has the flexibility to respond to the world's complex biomedical research problems and also financially and administratively prepare for the future.

Bioterrorism

Enhancing Biosurveillance. Unlike conventional attacks, the intentional use of biological weapons may not be immediately apparent. Reducing the time it takes to detect an attack can save many lives. The Budget includes a biosurveillance initiative to provide earlier indication that an attack has occurred and to improve the ability to determine accurately its size and scope. This initiative will improve surveillance capacity in the areas of human health, food supply, and environmental monitoring, and will improve integration and analysis of this information at local, State, and national levels, including a new capacity for the integration and analysis of this improved information.

The Department of Homeland Security, HHS, and USDA will participate in this effort. It will be the responsibility of HHS to enhance the surveillance of human illness to detect and respond to an attack. The Budget includes \$130 million for three specific improvements in this area. First, improved monitoring of public health data could give an early indication of problems occurring in the general population. For example, synthesizing information from nurse call lines, over the counter drug sales, and selected laboratory tests may provide an emerging picture of an attack before a large number of actual cases arrive in emergency rooms. Second, funding is proposed to improve the capacity of the Nation's laboratory network to diagnose biological and chemical samples, and to advance linkages between public health and commercial laboratories. Third, the Budget supports expanding from 8 to 25 the number of border health and quarantine stations in selected ports of entry to augment the ability to detect and deal with cases of infectious disease as they enter this country.

Defending the Nation's Food Supply. The Budget includes an increase of \$65 million for FDA to improve the protection of the Nation's food supply from intentional or natural contamination. FDA will enhance surveillance of the food supply to identify potential outbreaks or attacks as early as possible. FDA will conduct research to develop strategies to prevent and mitigate food contamination, as well as develop testing methods to identify the presence of contamination quickly and accurately. The Nation's food laboratory network will be expanded to allow for more rapid analysis of food samples to assist in the identification of potential outbreaks or attacks. Each of these food defense activities



will be coordinated with USDA, which will receive an increase of \$302 million in 2005 to protect the food and agriculture supply from terrorist attacks.

Building the Strategic National Stockpile. The Strategic National Stockpile contains drugs, vaccines, and other medical supplies and equipment that can be delivered to anywhere in the country within 12 hours of a request for assistance. The Administration proposes to transfer funding for the Stockpile from the Department of Homeland Security to HHS to take full advantage of its medical and scientific expertise. The Stockpile contains enough smallpox vaccine for every American, treatments for anthrax, and countermeasures and treatments for injuries following a chemical attack or explosion. During 2003, the Stockpile was expanded to include burn and blast, radiological, and enhanced pediatric treatment capabilities, and the ability of State and local entities to respond to a nerve agent attack by initiating the Chempack program. The 2005 Budget includes authority to increase funding to augment the supply of antibiotics to protect the public against anthrax exposure.

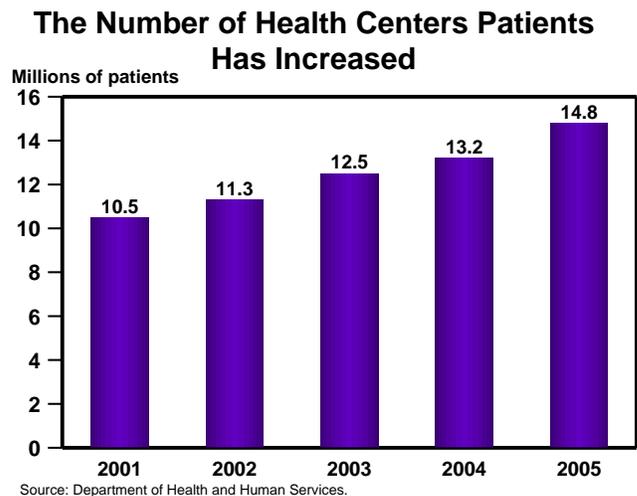
Strengthening State, Local, and Hospital Preparedness. Nearly \$4.5 billion has been provided to bolster State, local, and hospital biodefense preparedness since September 11, 2001. The Budget continues support for these investments by proposing an additional \$1.3 billion in 2005, bringing the total to \$5.8 billion. Equally important as this continued financial support are the steps being taken to ensure that we can tell what preparedness improvements have been made, and where vulnerabilities remain so that they can be targeted with these continued investments. HHS is engaged with State and local partners to establish performance indicators and standards and reassess the distribution of funds, to ensure that these investments are properly directed. HHS is also working with the Department of Homeland Security and other Federal departments and agencies in a coordinated effort to develop a national preparedness goal and related metrics that will help assess the Nation's readiness and determine preparedness assistance needs. These steps will help maximize the effect of each dollar toward reducing our actual vulnerabilities to potential attacks.

Presidential Initiatives

Health Centers. Health Centers deliver high-quality, affordable health care to over 13 million patients at 3,600 sites across the United States. Health Centers serve individuals that live in underserved and rural areas and their clients include low income individuals, migrant farm workers, homeless individuals, school children, individuals in need of drug and alcohol treatment, and HIV/AIDS infected individuals. In many areas, Health Centers are the only primary care facilities readily available. Locally managed Health Centers offer services that are responsive to the unique needs of their communities.

The President's Health Centers Initiative is creating 1,200 new and expanded health center sites to serve an additional 6.1 million people by 2006. The Budget would help more than 1.6 million additional low-income individuals receive health care in 2005 through 332 new and expanded sites in rural areas and underserved urban neighborhoods.

Access to Quality Substance Abuse Treatment. Nearly 12 million Americans reported an addiction to drugs or alcohol in 2002. The Budget continues the Administration's commitment to give individuals in search of substance abuse treatment greater choices to achieve personal recovery. This initiative includes the second year of the Access to Recovery program, which makes grants to States



to provide vouchers to individuals for substance abuse treatment. As discussed in the Faith-Based and Community Initiative section, Access to Recovery will provide \$200 million to enable 100,000 new individuals to obtain substance abuse treatment services, including from faith- and community-based treatment providers.

Health Care Information Technology. The Administration will work with those involved in health care information technology to advance the effort to translate information technology opportunities into higher quality, safer and more efficient health care for all Americans.

In support of this effort, the Budget proposes \$50 million in new funding to support State or regional demonstration grants to test the feasibility of information exchange among health care settings and to fund other innovative information technology projects that improve health care quality.

These efforts will also help to accelerate public-private efforts to adopt health data standards begun under the President's Consolidated Health Informatics initiative, to set uniform standards for the exchange of clinical health information within the Federal Government. In 2003, standards in 5 of 24 health data domains were endorsed, addressing areas such as laboratory test results and retail pharmacy transactions.

In addition, the Budget continues the President's commitment to improve the quality of care and patient safety in all health care settings by proposing \$84 million in the Agency for Healthcare Research and Quality. Within this total, \$50 million will fund grants to continue efforts to promote, accelerate, and demonstrate the development and adoption of information technology, including in small and rural communities where health information technology penetration has been low.

Global AIDS. The Centers for Disease Control and Prevention (CDC) is working in 25 countries in Africa, Asia, Latin America, and the Caribbean to combat the spread of HIV/AIDS and improve treatment and care. The President's Global AIDS Coordinator will rely on CDC to play a key role in implementing the President's Emergency Plan for AIDS Relief in collaboration with the U.S. Agency for International Development and other public and private partners. Over the last year, the Administration successfully launched the President's Mother and Child HIV Prevention Initiative to reach one million women annually and cut the transmission of HIV from mother to child by 40 percent within five years. The Budget builds on these and other successes to rapidly and effectively bring help to those in need and meet the President's goals to prevent seven million new HIV infections, treat at least two million HIV-infected people, and provide care for at least 10 million people, including orphans, affected by HIV/AIDS.

Faith-based and Community Initiative. Creation of the White House Office of Faith-Based and Community Initiatives was one of President Bush's first official acts. The Office was tasked with leading a "determined attack on need" by strengthening and expanding the role of faith-based and community organizations in addressing the Nation's social problems. The President's initiative envisions

a faith-friendly environment where faith-based organizations can compete equally to provide Government-sponsored services.

White House Faith-Based and Community Initiatives

We ought not to fear faith, we ought not to discriminate against faith-based programs. We ought to welcome what I call neighborhood healers in the compassionate delivery of help so that people can experience the greatness of our country.

President George W. Bush

July 2003

President Bush also created centers for Faith-Based and Community Initiatives in six cabinet departments—the Departments of Health and Human Services, Justice, Labor, Housing and Urban Development, Education, and Agriculture—as well as in the Agency for International Development.

Overall, the White House Office of Faith-Based and Community Initiatives focuses its efforts on the following populations—at-risk youth, ex-offenders, the homeless, the hungry, substance abusers, those with HIV/AIDS, and welfare-to-work families. The Budget funds five competitive grant programs targeted at faith- and community-based organizations that can provide innovative services at the grassroots level.

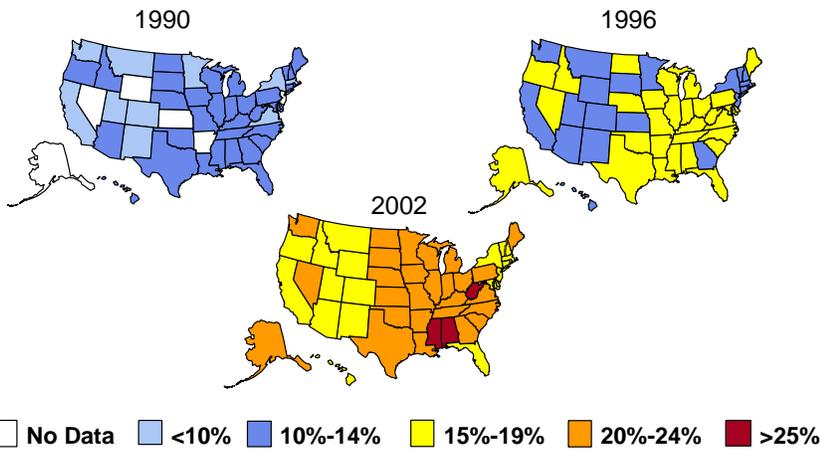
- *Compassion Capital Fund.* To build on the efforts of community-based, charitable organizations, the President's 2005 Budget continues funding for social services provided by faith-based and community organizations with \$100 million for the Compassion Capital Fund. This initiative provides funds to public/private partnerships to support charitable organizations in expanding or emulating model social service programs. These capacity-building entities are responsible for obtaining private matching funds as well as assisting the faith-based and community organizations in seeking private funds. In 2003, HHS awarded 60 new grants totaling \$8.1 million to these organizations to help expand and strengthen their ability to provide social services to those in need, and approximately \$24 million to support 21 continuing grants.
- *Mentoring Children of Prisoners.* 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 can brighten the outlook for these children. In 2003, HHS awarded nearly \$9 million in grants to 52 organizations to train adult volunteers as mentors to children whose parents are incarcerated. The Budget includes \$50 million for competitive grants for this purpose.
- *Maternity Group Homes.* The Administration also proposes \$10 million to increase support to community-based maternity group homes by providing young, pregnant, and parenting women with access to community-based coordinated services.
- *Access to Recovery.* The Budget continues the Access to Recovery initiative, which includes \$200 million to provide vouchers for substance abuse treatment to 100,000 new individuals in need. Access to Recovery will increase substance abuse treatment capacity and give thousands of Americans in search of care greater choices and access to treatment. This recognizes the power of recovery that faith- and community-based programs can have. Individuals who receive vouchers will have the choice to select the programs and providers that will help them the most to achieve recovery, including community- and faith-based providers.

Diabetes, Obesity and Asthma. The Administration successfully launched the STEPS to a HealthierUS initiative in 2003 to give local communities the tools they need to address diabetes, obesity and asthma. According to CDC's National Health and Nutrition Examination Survey, nearly one of every three adults is obese and nearly 15 percent of young people are now overweight. CDC estimates that one in every three children born in 2000 could develop



The President signs an executive order for equal protection of the law for faith-based and community organizations.

The Prevalence of Obesity* is on the Rise...



*Approximately 30 pounds overweight
 Source: Behavioral Risk Factor Surveillance System, CDC.

researchers have long been telling us—increasing physical activity and improving nutrition, quitting smoking, and improving disease management can help prevent these conditions and their consequences.

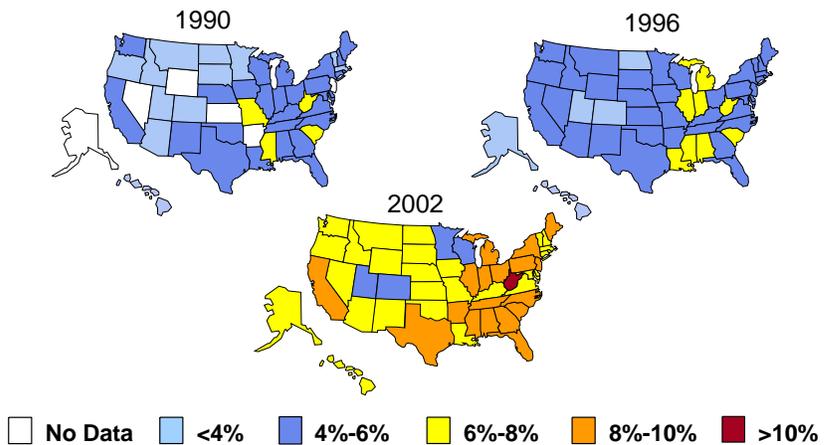
Transformation of Mental Health Care in America. Mental illness is the leading cause of disability in the western world. Between five and seven percent of American adults suffer from serious mental illness. Suicide takes the lives of nearly 30,000 Americans every year. The societal cost of mental illness in the United States, including lost productivity, is estimated at \$79 billion each year.

In April 2002, the President created the New Freedom Commission on Mental Health to examine the mental health service delivery system and make recommendations to enable individuals who suffer from mental illness to recover and fully participate in their communities. The Commission found that many barriers impede care for people with mental illnesses, often leading to unnecessary and costly disability, homelessness, school failure, and incarceration. In response to the Commission’s findings, the Substance Abuse and Mental Health Services Administration will provide grants to approximately 14 State governors’ offices for the development of comprehensive State mental health plans that span the multiple service systems and State agencies involved in meeting the complex needs of people with mental illness. These grants will improve the mental

diabetes over their lifetime, if the Nation’s diet and physical activity patterns do not improve. An estimated 20 million Americans have asthma and 12 million report having an asthma attack in the last year. Lack of physical activity, poor diet, and tobacco use are key risk factors for these and other chronic conditions and diseases.

The Budget includes \$125 million to provide funding and model programs to State and local partnerships to encourage healthy behaviors among target populations. STEPS will challenge these community coalitions to make real what

...Rates of Diabetes are also Increasing.



Includes Gestational Diabetes
 Source: Behavioral Risk Factor Surveillance System, CDC.

Mental disability is not a scandal; it is an illness. And like physical illness, it is treatable, especially when the treatment comes early.

President George W. Bush
April 2002

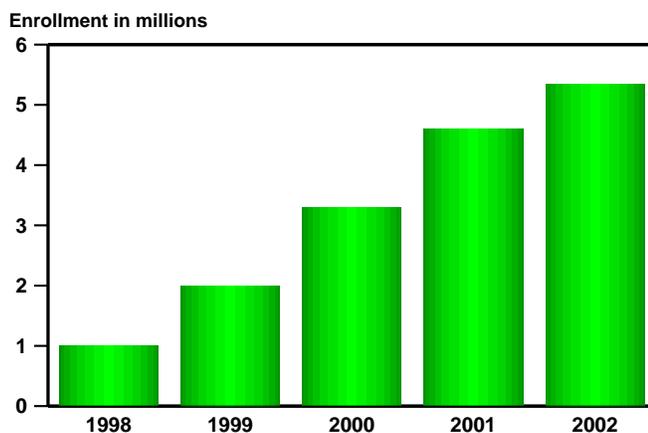
health care delivery infrastructure and hold States accountable for making sure consumers achieve positive outcomes.

Medicaid and the State Children's Health Insurance Program Overview

Medicaid. Close to 42 million individuals were enrolled in Medicaid in 2003. Medicaid covers approximately one-fourth of the Nation's children and is the largest single purchaser of maternity care and nursing home/long-term care services in the United States. In 2003, the elderly and those with disabilities represented approximately 30 percent of Medicaid beneficiaries but accounted for two-thirds of its spending. Total Medicaid spending will be an estimated \$322 billion (\$182 billion Federal share) in 2005.

State Children's Health Insurance Program (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. Since the beginning of the Administration, enrollment in SCHIP has grown by over 1 million children, to approximately 5.3 million in 2002.

SCHIP Enrollment



Source: Centers for Medicare and Medicaid Services.

The SCHIP redistribution law (P.L. 108-74), signed by the President in August 2003, prevented over \$2 billion in unspent SCHIP funds from expiring and helped alleviate the effect of declining SCHIP funding allocations between 2002 and 2004 for States ramping up their programs. This law will allow States to continue coverage for children who are currently enrolled.

Medicaid and SCHIP Modernization. Over the past year, the Administration has held productive discussions with stakeholders on ways to modernize the Medicaid and SCHIP programs based on an Administration proposal included in the 2004 Budget. A common

complaint among States is that the complex array of Medicaid laws, regulations, and administrative guidance is confusing, overly burdensome, and serves to stifle State innovation and flexibility. The creation of the SCHIP program created new opportunities for States, but because rules governing Medicaid and SCHIP differ in significant respects, coordination of the two programs has proven difficult. As a result, States frequently request waivers to tailor their Medicaid and SCHIP programs to their specific insurance markets or to expand eligibility to the uninsured beyond mandatory groups.

States' years of experience with implementing home- and community-based waiver programs, waiver programs to extend Medicaid coverage to higher income and non-traditional populations, and the SCHIP program provide States with a wealth of knowledge and a multitude of strategies to design more efficient and effective programs. Further, in August 2001, the Administration introduced the Health Insurance Flexibility and Accountability (HIFA) demonstration initiative. Eight States currently have HIFA waivers. Approximately 175,000 people are currently covered under these waivers with another 585,000 people anticipated to be enrolled. These experiences give States knowledge of the flexibility they need to design tailored, innovative approaches to increase access to health insurance coverage for the uninsured. The Administration remains committed to enacting legislation, which will reform Medicaid and SCHIP to give States as much flexibility as possible with predictable financing.



A mother accompanies her daughter to a doctor's visit.

As with last year, all Medicaid and SCHIP funding would be combined and provided to States selecting this option. The allotment option requires States to provide a specified benefit package for current Medicaid beneficiaries whose coverage is mandated by law.

Medicaid and SCHIP Program Integrity. One of the Administration's continuing priorities for Medicaid and SCHIP is ensuring their fiscal integrity. The 2005 Budget proposes to build on past efforts to improve Federal oversight of these programs and to ensure that Federal taxpayer dollars for Medicaid are going to their intended purpose.

- *Financial Management.* In 2005, HHS will continue to devote more resources to Medicaid and SCHIP financial management. This effort will include increasing the number of audits and evaluations of State Medicaid programs, measuring improper payments, and elevating the importance of financial management oversight at CMS. The Budget proposes to allocate \$20 million from the Health Care Fraud and Abuse Control program to help finance this initiative.
- *Intergovernmental Transfers and Upper Payment Limits.* Medicaid's open-ended financing structure encourages efforts to draw down Federal matching funds in any way possible, some of which are not appropriate. These financing practices undermine the Federal-State partnership and jeopardize the financial stability of the Medicaid program.

In 2001 and 2002, the Congress and the Administration took steps to curb the "upper payment limit" loophole. Through this loophole, States made excessive Federal Medicaid payments to local government-owned hospitals and nursing homes without a corresponding State contribution. In many cases, the providers returned all or a portion of the payments to the State via an intergovernmental transfer (IGT). IGTs are money transfers from one level of government to another; for example, from a county hospital to a State government. Once the funds are returned to the State they may be used for other purposes, such as paying for non-Medicaid or even non-health related activities.

The Administration proposes to further improve the integrity of the Medicaid matching rate system by proposing steps to curb IGTs that are in place solely to avoid the legally-determined State financing.

The Administration also proposes to cap Medicaid payments to individual government providers to no more than the cost of providing services to Medicaid beneficiaries. Under current law and regulation, States continue to have ample opportunities to make excessive payments to individual government providers far above their costs for the purpose of leveraging additional Federal dollars.

Limiting Federal reimbursement to no more than cost would curb excessive payments and still preserve a State's ability to pay reasonable rates to such providers. These actions would help promote fiscal integrity and ensure that Federal taxpayer dollars are being used appropriately to serve the important mission of Medicaid.

Improving Options for People with Disabilities and Long-Term Care Needs. The Budget includes several policies that promote home- and community-based care options for people with disabilities and appropriate planning for an individual's long-term care needs. Many of these policies build on the New Freedom Initiative announced by the President on February 1, 2001. The New Freedom Initiative is part of a nationwide effort to integrate people with disabilities more fully into society.

In July 2003, the Administration submitted the New Freedom Initiative Medicaid Demonstrations Act of 2003 legislation.



A senior goes for a walk.

- *New Freedom Initiative.* This initiative comprises four demonstrations to promote home- and community-based care for children and adults with disabilities. Two of the demonstrations provide respite care for caregivers of disabled children and adults. The third demonstration will test the effectiveness of providing home- and community-based alternatives to psychiatric residential treatment for children enrolled in Medicaid. The fourth demonstration will continue to test ways to alleviate workforce shortages of direct care workers in the community.
- *“Money Follows the Individual” Rebalancing Demonstration.* This five-year demonstration would finance Medicaid services for individuals who transition from institutions to the community. Federal grant funds would pay the full cost of home- and community-based waiver services for one year, after which the participating States would agree to continue care at the regular Medicaid matching rate.
- *Protecting Medicaid Coverage for Spouses of Certain Workers with Disabilities.* States would be given the option to continue Medicaid eligibility for the spouses of individuals with disabilities who return to work. Under current law, individuals with disabilities might be discouraged from returning to work because the income they earn could jeopardize their spouse's Medicaid eligibility. This proposal would extend to spouses the same Medicaid coverage protection offered to workers with disabilities.
- *Presumptive Eligibility for Home and Community Based Care Services.* This proposal establishes a State option allowing Medicaid presumptive eligibility for institutionally qualified individuals who are discharged from hospitals into the community.
- *Systems Change Grants.* The Budget proposes \$40 million to continue the Real Choice Systems Change grants to provide financial assistance for States to develop systems that support community-based care alternatives for people with disabilities who require an institutional level of care.
- *Consumer Direction.* In addition to the above proposals, the Budget includes a new proposal that would give States the option of allowing individuals who self-direct all of their community-based long-term care services to accumulate savings and still retain eligibility for Medicaid and Supplemental Security Income (SSI). Under current law, beneficiaries are discouraged from accumulating savings because it could jeopardize their eligibility for Medicaid or SSI.

- *Long-Term Care Options.* The Budget would promote the use of long term care (LTC) insurance by eliminating the ban on LTC Partnership programs. Through Partnership programs, consumers who purchase and use Partnership-approved insurance can become eligible for Medicaid services after their insurance coverage is exhausted without having to divest all of their assets, as is typically required.

Continuity of Coverage for Special Populations. The Budget includes policies to improve or continue health coverage already available through certain programs.

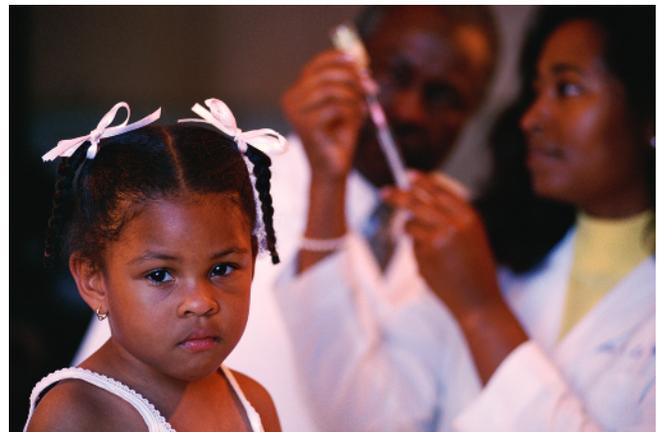
- *Transitional Medical Assistance (TMA).* TMA provides health coverage for former welfare recipients after they enter the workforce. TMA extends up to one year of health coverage to families who lose Medicaid eligibility because of employment earnings.

The Budget proposes to extend TMA for five years with statutory modifications, including a State option to eliminate TMA reporting requirements and provide 12 months of continuous eligibility regardless of changes in families' financial status. In addition, the Budget proposes a waiver of the TMA requirement for States that currently provide health benefits for families at 185 percent of the Federal poverty level, which is the statutorily mandated income eligibility level. These changes will allow for consistent enrollment of TMA beneficiaries while easing the administrative burden on States.

- *Premium Assistance for Low-income Medicare Beneficiaries.* Medicare beneficiaries whose income falls between 120 and 135 percent of poverty and who meet the asset test are eligible to have their Part B premiums covered by the Medicaid program. These premiums rose by 13.5 percent in 2004, to \$800 per year (\$66.60 per month), a considerable amount for these individuals. The Administration proposes to extend this program for one year. States receive 100 percent Federal funding for these benefits.

- *Vaccines for Children (VFC).* The VFC program provides free vaccine to four groups of categorically-eligible children: Medicaid recipients, American Indians and Native Alaskans, the uninsured, and the underinsured (those whose insurance does not cover vaccinations). VFC covers all childhood vaccinations recommended by the Advisory Committee on Immunization Practices.

The Administration is proposing legislation to change two provisions of VFC. Both changes will improve vaccine access for VFC-eligible children. First, the Administration proposes to lift the price cap on the tetanus-diphtheria booster, which will facilitate its availability at no cost to VFC-eligible children. Second, the Administration is proposing to allow underinsured children to receive VFC-funded vaccines at State and local health clinics, rather than only at Federally Qualified Health Centers and Rural Health Centers, as is currently required.



A young child waits for her vaccination shot.

Helping the Uninsured

The Administration has worked to give more Americans affordable, high-quality insurance coverage through a number of proposals.

Health Savings Accounts (HSAs). When the President signed the Medicare reform legislation into law, Americans gained access to health savings accounts. HSAs allow individuals to buy less expensive high-deductible plans and to save pre-tax dollars for out-of-pocket medical expenses. In addition to these savings, under a new Administration proposal, individuals participating in HSAs would be allowed to deduct their premiums for the high-deductible insurance plan from their taxable income. HSAs are available to everyone who has a high-deductible plan, which is defined as having an annual deductible of at least \$1,000 for individual coverage and at least \$2,000 for family coverage. Individuals, their employers, or both can contribute funds up to the amount of the deductible, subject to a cap of \$2,600 for individuals and \$5,150 for families. The money not spent would stay in the account and earn interest tax-free. People over age 55 can contribute additional money to the account without penalty. These accounts will help more American families get the health care they need at a price they can afford.

Trade Adjustment Assistance Reform Act of 2002 (TAA) Tax Credit. The Trade Adjustment Assistance Reform Act of 2002 provides assistance to Americans who lose their jobs because of trade. Individuals certified to receive TAA benefits and individuals between the ages of 55 and 64 receiving benefits from the Pension Benefit Guaranty Corporation are eligible for a tax credit to help them purchase health insurance for themselves and their families. The tax credit is equal to 65 percent of the premium. It is refundable, so even individuals paying little or no income tax can receive the credit to help purchase health insurance. The credit can be claimed on the income tax return at the end of the year, or paid in advance by the Internal Revenue Service each month directly to the health plan.

Health Care Tax Credit. The Administration again proposes a tax credit that will facilitate individuals' purchase of health insurance and health care. Individuals under age 65 who are not enrolled in public or employer-sponsored health plans would be eligible. The credit would pay for 90 percent of the cost of the premium, up to a maximum of \$1,000 for an individual and \$3,000 for a family of four. The percentage of the credit would depend on an individual's income level. The credit would be phased out at \$30,000 for an individual and \$60,000 for a family. Like the TAA tax credit, the Health Care Tax Credit is refundable and can be paid in advance directly to the health plan.

Enhancing Public Health

Indian Health Service. The Budget will continue to invest in Indian Health Service (IHS) health infrastructure and prevention activities to improve the health status of American Indians and Alaska Natives (AI/AN). The Administration will invest in completing the construction of new and replacement health care facilities and staffing and related operating costs for completed facilities. IHS has developed new long-term goals through PART reviews over the last two years to address obesity in AI/AN children served in IHS, tribal, and urban facilities. IHS will establish a national baseline of AI/AN childhood heights and weights and will target resources for healthy growth and development for prevention of diabetes and other chronic diseases.



A nurse checks the blood pressure of a child in an Indian Health Services clinic.

Changes in the HIV/AIDS Response. The Centers for Disease Control and Prevention (CDC) is responding to troubling indications of an increase in HIV/AIDS by building the capacity of community-based organizations and reaching out to high-risk individuals who may be unaware of their infection and more likely to spread the disease. CDC is reducing barriers to early diagnosis of HIV infection through rapid HIV testing and counseling, referring patients to quality medical care, and by enabling community organizations to support prevention services. By increasing the number of people who receive testing and reducing the time between testing and results, more individuals can obtain care early and take steps to limit the spread of this disease.

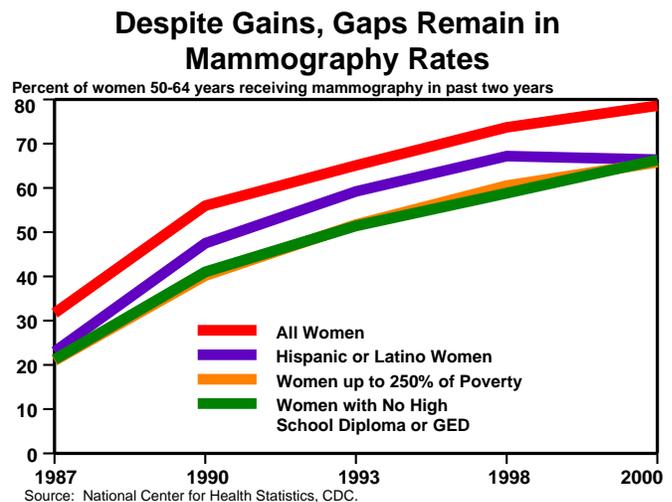
The Ryan White HIV/AIDS program is a comprehensive approach to ensuring medical care, provision of antiretroviral treatments, counseling and testing, and home health care for individuals living with HIV/AIDS. The Budget includes a \$35 million increase for the Ryan White AIDS Drug Assistance Program to help purchase drug treatments for those living with HIV/AIDS.

Health Care Providers. The Budget includes a \$40 million increase for the National Health Service Corps and the Nursing Education Loan Repayment and Scholarship Program to broaden access to health care by directing doctors, nurses, and other health care professionals into medically underserved areas. The Budget redirects resources from health professions grants for advanced nursing to health professions grants for basic nursing education to address nursing shortages.

Homelessness. In March 2003, HHS released a strategic plan for ending chronic homelessness, beginning with developing a department-wide, comprehensive approach. In response, the Budget includes \$390 million in HHS to provide health care, job training, substance abuse and mental health treatment, and other services to the homeless, a nine-percent increase over 2004. The Budget includes \$10 million in HHS for the Samaritan Initiative, a joint initiative with the Department of Housing and Urban Development and the Department of Veterans Affairs to provide grants for permanent housing linked with supportive services, including health care, life skills, job training, and substance abuse treatment, for the chronically homeless.

Breast and Cervical Cancer Screening and Treatment. Routine screening can prevent cervical cancer, and early detection of breast cancer increases the five-year survival rate to 97 percent. The number of women receiving mammograms has increased significantly over time, but there are still health disparities between groups, as shown in the accompanying graph. The CDC provides breast and cervical cancer screenings to underserved populations that are low-income, underinsured or uninsured. The Budget proposes a \$10 million increase to provide an additional 32,000 screenings and further the aims of this Administration priority.

Health Information. The Budget proposes an increase of \$22 million, or 17 percent, for the National Center for Health Statistics to strengthen the collection of information in areas such as the functioning of the health care system, rates of cholesterol in the U.S. population, and long-term care services. Current and accurate information in these and other areas plays a vital role to help policy-makers, health care workers, and the public make more informed choices.





CDC scientist Anthony Sanchez examines the purified structural proteins of the virus causing SARS. Working with scientists around the globe, CDC identified the SARS outbreak as caused by a previously unrecognized coronavirus.

Infectious Disease Detection and Control. The Budget proposes \$51 million, a \$28 million increase, for a new global disease detection effort that will strengthen the Nation's ability to rapidly detect, diagnose, and respond to infectious diseases wherever they occur. The CDC will enhance global disease surveillance; build partnerships with international health entities and other nations; and conduct the necessary training, laboratory science, and education to contain potential epidemics and protect the public's health.

Reforming Welfare

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 \$16.9 billion a year block grant with bonuses for performance. States have 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 considered one of the most successful federally funded domestic programs in decades. Nationally, the TANF caseload (number of cash recipients) has declined 60 percent since the program's inception, while average monthly earnings of those employed increased by 49 percent from 1996 to 2001. As a result, States are using an increasing portion of welfare dollars on services to help individuals retain and advance in their jobs.

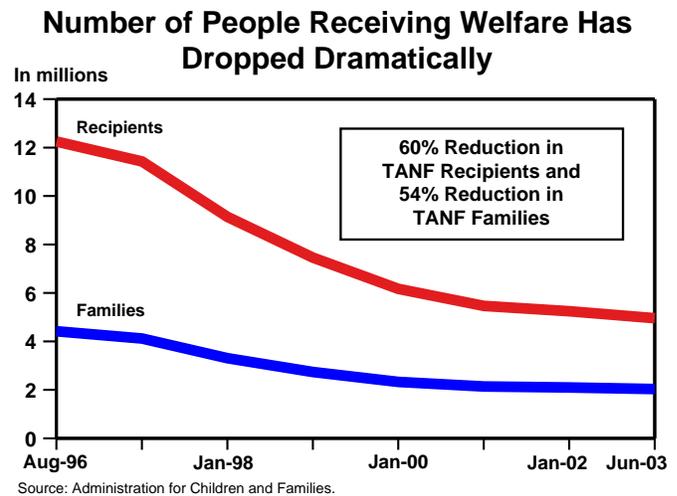
Building on these successes, the Administration continues to pursue its plan to extend the TANF program. The Administration's plan maintains funding, strengthens work participation requirements, supports healthy marriages and family formation, and provides a more accessible contingency fund.

Strengthening Programs for Children

Head Start. In April 2002, building on his Administration's emphasis on preschool programs, President Bush announced the Good Start, Grow Smart preschool education initiative with three goals:

- Strengthening Head Start;
- Partnering with States to improve early childhood education; and
- Providing information on child development and early learning to teachers, caregivers, parents, and grandparents and closing the gap between research and practice in early childhood education.

The initiative recognizes that for Head Start, achieving program goals means not only improving children's health and nutrition, but preparing them to succeed in kindergarten and beyond. Research shows that Head Start can achieve better school-readiness for its children by specifying particular skills and abilities to be taught in pre-reading, language, mathematics, cognitive skills,



Improving Head Start

As we raise educational standards, which we must do, each of our children needs an equal opportunity to meet those standards. And creating that opportunity must begin early, even before school starts. On the first day of school, children need to know letters and numbers. They need a strong vocabulary. And they need to love books. These are the building blocks of learning, and this nation must provide them.

President George W. Bush

April 2002

and social/emotional competencies. The Budget increases Head Start by \$169 million, including \$45 million to support State implementation of a demonstration authority to promote better coordination of existing programs, to improve services for families and children, and to achieve better results with the resources already being used.



In the five years from 1998 to 2002, more than 230,000 children in foster care were placed in adoptive homes—nearly the same number that had been adopted in the previous 10 years combined. Despite this progress, more than 126,000 foster children still need an adoptive family. To learn how you, too, can become an adoptive parent, go to www.adoptuskids.org.

Promoting Safe and Stable Families. To fortify States' ability to strengthen families and to promote child safety, permanency, and well-being, the Budget maintains funding at \$505 million, a \$130 million increase over 2002 enacted levels. This program also helps to promote adoption and provides post-adoption support to families.

Education Assistance for Older Foster Children. The Budget includes \$60 million in the Foster Care Independent Living Program to help older foster care youth transition to adulthood and self-sufficiency after leaving foster care. This initiative provides vouchers of up to \$5,000 for education or vocational training to help youth aging out of foster care to develop the skills to lead independent and productive lives.

Child Welfare Program Option. The President's 2005 Budget seeks legislation to introduce an option for all States to choose an alternative system for foster care that will better meet the needs of the child welfare population. States choosing to participate will face fewer administrative burdens and will receive funds in the form of flexible grants. This will serve as an incentive to create innovative child welfare plans with a stronger emphasis on prevention and family support, and increased flexibility in services provided and population served.

State flexibility will be coupled with accountability—by holding States to high standards of performance—to ensure the best outcomes for vulnerable children and families. Participating States will be required to continue to maintain the child protections outlined in the Adoption and Safe Families Act, agree to maintain existing levels of State investment in child welfare programs, and conduct an independent third party evaluation of their programs.

Services for Children, Families and the Elderly

The 2005 Budget continues the President's commitment to the economic and social well-being of children, families, and the elderly. The Budget provides \$2 billion to help low-income households cover home heating and cooling costs. This amount includes a contingency fund of \$200 million for unanticipated needs that may arise. The President's 2005 Budget proposes to fund the Community Services Block Grant (CSBG) at \$495 million for 2005. CSBG provides funds to States for social services to reduce poverty and increase self-sufficiency. The Administration has been developing a set of national outcome-based goals for the CSBG program. CSBG's upcoming reauthorization should incorporate a similar set of goals and ensure that they are met by all Community Action Agencies (CAAs) that receive CSBG funds. Underperforming CAAs should be subject to competition with community and faith-based groups.

The President's 2005 Budget also proposes \$1.4 billion for Administration on Aging programs. As the number of older Americans increases, one of the major challenges the Nation faces is the current bias in the long-term care system toward institutional care. Despite the fact that seniors express an overwhelming preference to remain at home and in the community for as long as possible, and that community-based services are more cost effective than institutional care, approximately 71 percent of public funding for long-term care still goes to institutional care. For these reasons, the Administration supports efforts to create a more balanced system of long-term care. Thus, the 2005 Budget includes an increase of \$7 million over the 2004 Budget level to support increased funding for the Aging and Disability Resource Centers and to focus on community-based and citizen-centered systems of care, integrated access to care, and assisting family caregivers. The 2005 Budget also includes an increase of \$1.7 million to fund the White House Conference on Aging.



Rebalancing the long-term care system provides people of all ages with choices and opportunities for independence, including the opportunity to receive support at home and in the community.

PERFORMANCE EVALUATION OF SELECT PROGRAMS

The Budget continues to focus on improving program performance. Eighteen of HHS' programs were assessed using the Program Assessment Rating Tool (PART), which evaluated the programs' design and purpose, strategic planning efforts, how well they are managed, and whether they are generating positive results for taxpayers. Below are some of the highlights and recommendations from the PART evaluations. For further details on HHS' performance assessments, see the White House budget website at www.whitehouse.gov/omb/budget/.

| Program | Rating | Explanation | Recommendation |
|--|----------------------|---|---|
| Office of Child Support Enforcement (CSE) | Effective | The program has strong management practices with financial incentives and penalties awarded to States based on meeting the specific performance measures. This has allowed for the demonstration of progress toward meeting its long-term and annual performance goals, including improved efficiencies and cost effectiveness. Independent evaluations indicate the program's effectiveness in achieving results. | <p>Re-propose the child support provisions included in the President's 2003 and 2004 Budgets.</p> <p>Support new proposals to improve the establishment of medical support for the children without health insurance in the CSE system.</p> |
| Food and Drug Administration (FDA) | Moderately Effective | The program has a clear mission and a unique Federal role in protecting public health. FDA has a challenging set of annual performance goals to allow for measurement of performance results. In general, FDA does a good job of meeting its annual performance goals. Financial management at FDA is sound. The agency is working to improve collaborative efforts with interested parties and other Federal agencies. | Monitor progress in meeting new long-term outcome goals. The FDA's long-term outcome goals were developed for the Budget during the PART process, and address agency performance in a wide range of activities. |
| National Institutes of Health: HIV/AIDS Research | Moderately Effective | The program is a flexible and cross-cutting program designed to give the NIH Office of AIDS Research the responsibility to plan, coordinate, fund, and evaluate AIDS research priorities across many institutes. | <p>Adopt the revised goal by extending the timeline for developing an AIDS vaccine from 2007 to 2010, to more realistically reflect the state of the science.</p> <p>Develop targets for the revised goal.</p> |

| Program | Rating | Explanation | Recommendation |
|---|----------|--|--|
| Developmental Disabilities Grant Programs | Adequate | The programs have a clear purpose and complement other public and private efforts to support individuals with developmental disabilities. As the Administration for Developmental Disability grants are not used to provide direct services, it is difficult to link budget and performance. | Strengthen performance measurements and explore, in 2004, the feasibility and design of a comprehensive, independent evaluation of the grant programs. |
| Children's Hospitals Graduate Medical Education Payment Program | Adequate | The program fulfills the statutory requirements, but is duplicative of other Federal, State, and private efforts. Children's hospitals are more likely to be financially secure than other hospitals. | Contingent upon the results of pilot studies, verify 100 percent of hospitals' reported data on bed counts, case-mix index, and number of discharges by 2008. Examine whether the program can improve efficiency by paying hospitals on a quarterly basis. |

UPDATE ON THE PRESIDENT'S MANAGEMENT AGENDA

The table below provides an update on HHS' implementation of the President's Management Agenda as of December 31, 2003.

| | Human Capital | Competitive Sourcing | Financial Performance | E-Government | Budget and Performance Integration |
|-----------------|---|---|---|---|---|
| Status |  |  |  |  |  |
| Progress |  |  |  |  |  |

Arrow indicates change in status rating since evaluation as of September 30, 2003.

HHS implemented performance-based employment contracts for all SES and managers, as well as for more than 70 percent of its workforce. HHS also completed some large competitive sourcing studies, including studies of real property management and extramural support services studies, each involving 700 employees. Based on NIH's preliminary estimates, these competitions are expected to generate savings of \$196 million over the next five years and were both won by in-house teams and were conducted within 12 months.

HHS accelerated the preparation of its Performance and Accountability Report to November 15, one year in advance of the Government-wide deadline, while maintaining a clean audit opinion and making progress in resolving internal control weaknesses. HHS made strong progress in calculating the full cost of program performance and working to improve the results of about 30 percent of its programs that have been rated ineffective or have been unable to demonstrate results because they lack performance measures or adequate data.

In E-Gov, HHS' greatest challenges are improving information technology systems' security and implementing standard tracking of costs, project schedules, and performance. In December 2003, HHS unveiled a single comprehensive website, *Grants.gov*, that contains information about all Federal grant programs, including the ability to make electronic applications.

| Initiative | Status | Progress |
|---|--------|----------|
| Broadening Health Care Coverage Through State Initiatives | ● | ● |
| Faith-Based and Community Initiative | ● | ● |

Broadening Health Care Coverage Through State Initiatives. The Administration has developed several model Medicaid demonstrations in three areas to foster State innovation in reducing the number of uninsured. The Health Insurance Flexibility and Accountability Initiative (HIFA) emphasizes the coordination of currently available Medicaid and SCHIP funding with private insurance. The Pharmacy Plus initiative encourages States to extend Medicaid drug-only coverage to certain low income elderly or disabled. Finally, the Independence Plus initiative gives families and individuals direct choice, control, and responsibility for their home care and personal care services. To date, the Administration has approved eight HIFA demonstrations, five Pharmacy Plus demonstrations and four Independence Plus demonstrations. In addition, the Urban Institute is in the process of conducting a study which will assess the impact on HIFA demonstrations on rates of uninsurance.

Faith-based and Community Initiative. HHS has promulgated regulations for charitable choice legislation and made other regulatory and administrative changes to eliminate barriers to the full participation of grassroots faith-based and community-based organizations (FBCOs) in the delivery of services. HHS is also implementing a series of pilot projects that involve mentoring children of prisoners, supporting marriage and fatherhood, providing access to substance abuse recovery programs and supporting networks of HIV care. As part of its outreach and technical assistance efforts, HHS has awarded grants to umbrella organizations to assist small and novice grantees in navigating the grant application process and is providing training directly to grassroots organizations. HHS is working to ensure that FBCOs have full access to formula grant programs administered by State and local agencies.

DEPARTMENT OF HEALTH AND HUMAN SERVICES
(In millions of dollars)

| | Actual | | Estimate | |
|---|--------|--------|----------|--------|
| | 2001 | 2003 | 2004 | 2005 |
| Spending | | | | |
| Discretionary Budget Authority: | | | | |
| Food and Drug Administration | 1,097 | 1,242 | 1,386 | 1,495 |
| <i>Program Level</i> | 1,268 | 1,652 | 1,695 | 1,845 |
| Health Resources and Services Administration ¹ ... | 5,588 | 6,444 | 6,677 | 6,039 |
| <i>Program Level</i> | 5,650 | 7,031 | 7,200 | 6,591 |
| Indian Health Service..... | 2,629 | 2,850 | 2,921 | 2,967 |
| <i>Program Level</i> | 3,205 | 3,510 | 3,639 | 3,685 |
| Centers for Disease Control and Prevention ² | 3,938 | 4,351 | 4,589 | 4,181 |
| <i>Program Level</i> | 4,082 | 6,058 | 6,052 | 5,941 |
| National Institutes of Health..... | 20,368 | 26,971 | 27,878 | 28,607 |
| <i>Program Level</i> | 20,468 | 27,079 | 28,041 | 28,805 |
| Substance Abuse and Mental Health Services | | | | |
| Administration..... | 2,964 | 3,138 | 3,234 | 3,429 |
| <i>Program Level</i> | 2,963 | 3,212 | 3,351 | 3,550 |
| Agency for Healthcare Research and Quality..... | 105 | — | — | — |
| <i>Program Level</i> | 270 | 309 | 304 | 304 |

DEPARTMENT OF HEALTH AND HUMAN SERVICES—Continued

(In millions of dollars)

| | Actual | | Estimate | |
|---|---------|---------|----------|---------|
| | 2001 | 2003 | 2004 | 2005 |
| Centers for Medicare and Medicaid Services ³ | | | | |
| Program Administration | 2,242 | 2,565 | 2,637 | 2,541 |
| <i>Program Level</i> | 2,332 | 2,626 | 2,696 | 2,805 |
| MedPAC/OCR/GDM/AHRQ Administration | 17 | 18 | 18 | 19 |
| Administration for Children and Families | 12,389 | 12,999 | 13,286 | 13,880 |
| Administration on Aging | 1,103 | 1,309 | 1,374 | 1,377 |
| Office of the Inspector General | 34 | 37 | 39 | 40 |
| Office of the Secretary | 344 | 386 | 385 | 464 |
| <i>Program Level</i> | 378 | 490 | 501 | 588 |
| Public Health and Social Services Emergency Fund ⁴ | 195 | 2,144 | 2,164 | 2,225 |
| Subtotal, Discretionary budget authority | 53,013 | 64,454 | 66,589 | 67,264 |
| Medicare Reform Administrative Expenses ³ | — | — | 1,000 | — |
| Medicare/Medicaid Offsets | — | — | — | -494 |
| Total, Discretionary budget authority | 53,013 | 64,454 | 67,589 | 66,770 |
| Total, Discretionary outlays | 45,936 | 59,615 | 64,094 | 66,555 |
| Mandatory Outlays: | | | | |
| Medicare | | | | |
| Existing law | 211,357 | 242,660 | 262,685 | 286,263 |
| Legislative Proposals | — | — | — | 136 |
| Medicaid/SCHIP | | | | |
| Existing law | 133,073 | 165,048 | 182,339 | 188,496 |
| Legislative Proposals | — | — | 175 | -753 |
| All other programs | | | | |
| Existing law | 32,201 | 33,716 | 33,964 | 33,889 |
| Legislative proposals | — | — | -12 | 128 |
| Total, Mandatory outlays | 376,631 | 441,424 | 479,151 | 508,159 |
| Total, Outlays | 422,567 | 501,039 | 543,245 | 574,714 |

¹ For comparability, program levels reflect exclusion of abstinence education funding, because these activities have been transferred to the Administration for Children and Families in 2005.

² For comparability, program levels reflect the creation of the Global AIDS Coordinator, the shift of the National Vaccine Program Office, and a childhood immunizations legislative proposal.

³ Amounts appropriated to the Social Security Administration (SSA) from Hospital Insurance and Supplementary Medical Insurance accounts are included in the corresponding table in the SSA chapter.

⁴ For comparability, the 2001 data reflect transfers related to the creation of the Department of Homeland Security.

DEPARTMENT OF HOMELAND SECURITY

Since 2001, the Administration:

- Created the Department of Homeland Security (DHS) by merging 22 separate agencies into a cohesive department with a primary mission of protecting the homeland;
- Provided \$11 billion in DHS to support State and local preparedness through 2004;
- Leveraged detection technology and deployed additional personnel to enhance border and transportation security—increasing spending by nearly \$9 billion;
- Protected the Nation’s aviation system by deploying a well-trained screener workforce and state-of-the-art screening equipment; and
- Secured \$5.6 billion as part of the President’s Project BioShield to buy cutting-edge drugs, vaccines, and other medical supplies for biodefense.

The President’s Budget:

- Provides \$3.6 billion more than in 2004 for DHS programs—a doubling of funding since 2001;
- Targets first-responder grants to high-threat areas facing greatest risk; and
- Improves biosurveillance by expanding air monitoring for biological agents in high-threat cities and high-value targets such as stadiums and transit systems.

Department of Homeland Security

Tom Ridge, Secretary

www.dhs.gov 202-282-8000

Number of Employees in 2004: 183,000

2005 Discretionary Budget Authority:
\$33.8 billion

Key Components: Five Directorates: Border and Transportation Security, Emergency Preparedness and Response, Information Analysis and Infrastructure Protection, Science and Technology, and Management; Three mission agencies: Coast Guard, U.S. Citizenship and Immigration Services, and U.S. Secret Service.



Secretary Ridge at the launch of the US VISIT entry-exit program that will collect and match information on selected visitors to our country.

OVERVIEW



President Bush signs the first appropriations bill for the Department of Homeland Security.

The primary mission of the Department of Homeland Security (DHS) is to secure the homeland and protect it against conventional and unconventional attacks in the United States. DHS also leads response efforts to natural disasters, administers our Nation's immigration system, ensures the safety of America's waterways, and helps stop illegal drugs from crossing our borders. Effectively performing these functions requires coordination and a focused effort across all levels of government and throughout our country.

DHS confronts many challenging transitions in the coming year. It will pursue its crucial mission of ensuring that our country is

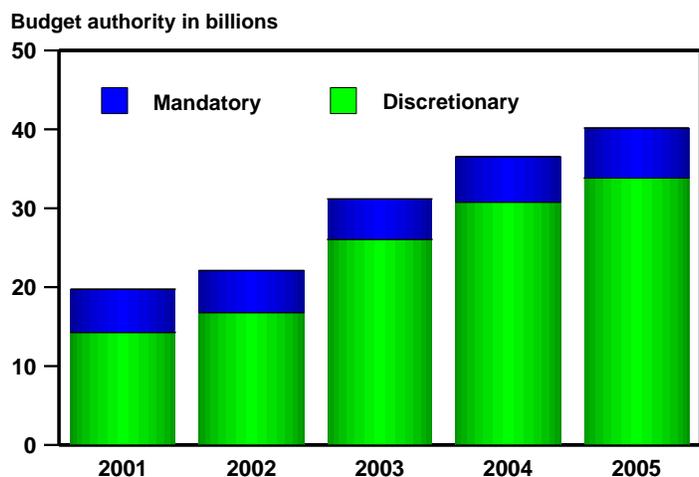
protected and prepared by pushing resources from the backrooms to the front lines, coordinating government efforts, and allocating resources to meet the greatest vulnerabilities. Simultaneously, DHS will work to implement a next-generation human resources system for the entire Department—serving as a model for the Federal Government. The Department will also continue the difficult task of merging nearly two dozen disparate agencies and programs into an effective, efficient organization that minimizes unnecessary redundancy and promotes accountability.

In 2005, the President's Budget builds on the significant investments to date to enhance homeland security while sustaining the Department's many important activities unrelated to terrorism. The 2005 Budget provides a \$3.6 billion increase for the Department over the 2004 enacted level—including Project BioShield. Further, the Budget substantially increases funding for DHS over 2003—the year that the Department was created—and continues the dramatic growth for agencies that are now part of DHS. The President's 2005 request is \$9.0 billion (29 percent) over the 2003 level and \$20.4 billion (103 percent) over the 2001 level.

Highlights for 2005 include:

- Over \$890 million, a 20-percent increase, to support aviation security and other transportation security activities, including funds to improve integration of explosive detection system equipment into individual airports' baggage processing to increase security effectiveness and promote greater efficiency;
- Nearly \$450 million in new funding to maintain and enhance border security activities, including the expansion of the Container Security Initiative to pre-screen cargo containers in high-risk areas and improvements in DHS' Detention and Removal Program;

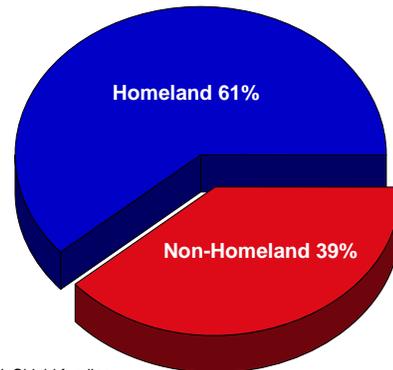
DHS Total Funding



Note: DHS was created in 2003. 2001 and 2002 data are for comparison purposes based on budgets from the incoming 22 components. Data excludes supplemental funding.

- Roughly \$490 million in additional funding for the Coast Guard, about a nine-percent increase, including upgrading its port security efforts and implementing the Maritime Transportation Security Act;
- \$3.6 billion to support first-responder grants and assistance with better targeting to high-threat areas facing the greatest risk and vulnerability;
- The availability of an additional \$2.5 billion for Project BioShield, an initiative that encourages the development and purchase of necessary medical countermeasures against weapons of mass destruction, compared with \$0.9 billion in 2004; and
- Over \$130 million to implement the new DHS human resources system that is mission-centered, fair, and flexible by rewarding top performers and ensuring that the Department can manage and deploy its resources to best address homeland security threats.

Ensuring Support for Homeland and Non-Homeland Activities



Note: Excludes BioShield funding.

REALIZING THE VISION FOR THE DEPARTMENT

In 2003, we have seen a dramatic change in the Federal Government's approach to protecting our Nation. With the largest reorganization effort in more than 50 years, the Administration has accomplished the President's goal of creating a single department with the primary mission of protecting the American people.

Within its First Year, the Department of Homeland Security:

- Quickly established a headquarters operation to lead DHS, manage change, develop policy, merge and use resources most effectively across all 22 component agencies;
- Launched Operation Liberty Shield in anticipation of the U.S. led military campaign in Iraq—the first comprehensive, national plan to increase protections of America's citizens and infrastructure;
- Established the Homeland Security Command Center, a national 24-7 watch operation; and
- Completed transition of the 22 component agencies into the Department in the largest Federal reorganization since World War II.

Working with the Congress, the Administration successfully reorganized 22 separate programs and agencies into a unified department with four mission-focused organizations, as well as the Coast Guard, U.S. Secret Service, and the U.S. Citizenship and Immigration Services. The Department established a headquarters operation and successfully began operations on March 1, 2003—bringing together the legacy agencies and programs that now make up DHS.

Much has been done but more remains to realize the President's vision to improve homeland security by realigning missions, eliminating duplication, and reorganizing current activities to better use resources. The Department is aggressively pursuing this vision.

Organizing to Enhance Mission Focus

We're meeting our goals by reorganizing to better mobilize the people and resources of the Department to make America more secure.

Secretary Tom Ridge
September 2003

Bringing many of our homeland security agencies together under one roof was just the first critical step to establish a more focused and coordinated Federal homeland protection strategy. The next step is ensuring that the roles and missions of each organization are clear and that the Department's organizational structure is optimized for the long term.



Federal Air Marshals in training.

To this end, in December 2003 DHS moved the Federal Air Marshal Service (FAMS) into the U.S. Immigration and Customs Enforcement (ICE). Working as part of ICE offers the FAMS multiple investigative resources, such as broader training opportunities, additional access to intelligence, and improved coordination with other law enforcement agencies. In addition, the Federal Air Marshals will receive supplementary training and have opportunities to rotate into land-based agent assignments, further refining their law enforcement skills.

In September 2003, DHS established a new U.S. Customs and Border Protection (CBP) in-

spection officer position to interact with the traveling public and facilitate the entry of legitimate goods at the Nation's ports-of-entry. Previously, there were three different government officers performing three different inspection duties on the frontline. The new CBP inspection officer will be trained to carry out the functions previously performed by the three distinct inspectional workforces. By combining the resources, skills, and best practices of the separate workforces into a single position, DHS can maximize efficiency and focus on their priority mission of preventing terrorists and terrorist weapons from entering the country.

The Department is also consolidating State and local assistance and preparedness programs into a one-stop shop. This will help coordinate similar efforts at the Federal, State, and local levels, and ease the interactions of States and localities with the providers of Federal assistance.

In 2005, the Department will continue to take steps to unify the defense of our homeland. This requires coordinating and integrating Federal, State, tribal, local, and private-sector homeland security functions to create synergy and new capabilities at the regional and local levels, close to the action. The Department will create a regional field structure that will unify the existing regional structures of DHS components, and harmonize Federal, State, tribal, local, and private-sector homeland security resources, building on the strengths that come from each partner working together.

The DHS regional structure will provide a unified voice to coordinate interagency homeland security activity at all levels of government. Within DHS, the new regional structure will facilitate

harmonization of effort and tools to target risks, threats, and vulnerabilities and take appropriate action. The regional structure will also improve the ability of DHS components to work together. In the future, the Information Analysis and Infrastructure Protection Directorate will be able to provide intelligence to an ICE aircraft, which then locates a suspect vessel, and hands off to a Coast Guard cutter to intercept and seize. Each component will fill roles best suited to their skill sets and capabilities, in a unified effort with a common operating picture and using the same or compatible operating procedures, communications, and tactics.

Reforming Human Capital

In creating the new Department, the Homeland Security Act provided an historic opportunity to design a modern human resources management system that is mission-centered, fair, effective, and flexible. DHS launched an ambitious, collaborative effort last year that may be used as a model for future Government reform. The collaboration involved input from managerial and non-managerial employees at all levels, employee unions, academia, and Government service reform experts. This endeavor will culminate with the publication later this spring of final regulations establishing the system. The 2005 Budget specifically provides additional resources that will be used for training supervisory personnel to administer a performance-based pay system and to create the information technology framework for the new system. There will be a phased rollout of the new system scheduled to begin later this year. Full adoption will be completed in calendar year 2005.

SECURING THE NATION'S BORDERS, PORTS, AND TRANSPORTATION SYSTEMS

Securing our border and transportation systems continues to be an enormous challenge. Ports-of-entry into the United States stretch across 7,500 miles of land border between the United States and Mexico and Canada, 95,000 miles of shoreline and navigable rivers, and an exclusive economic zone of 3.4 million square miles. Each year more than 500 million people, 130 million motor vehicles, 2.5 million railcars, and 5.7 million cargo containers must be processed at the border. Conditions and venues vary considerably, from air and sea ports-of-entry in metropolitan New York City with dozens of employees to a two-person land entry point in North Dakota.

Deploying Effective Screening Methods for Goods and People

In order to secure our borders while also maintaining their openness to trade and travel, DHS must leverage technology to establish an effective, layered, risk-based security program. The use of advance information about people and cargo bound for the United States is the cornerstone of our strategy for managing risk. DHS is building upon programs that use advance information to identify high-risk shipments and travelers before they reach our shores in order to focus inspection efforts, and facilitate throughput of legitimate cargo and travelers. It is imperative that dangerous people and materials be detected and intercepted before they reach our shores.

For example, the Container Security Initiative (CSI) focuses on pre-screening cargo before it reaches our shores. The first phase of CSI focused on implementing the program at the top 20



Inspectors drill into the bottom of a seaport container after discovering an anomaly through an X-ray.

foreign ports, which ship approximately two-thirds of the containers to the United States. Foreign governments from these 20 ports have already agreed to implement CSI, including the governments of Thailand and China.

As CSI has evolved, CBP has developed Phase II to expand the program to additional ports based on volume, location and strategic concerns. Strong support from countries on the European, Asian, and African continents ensure that CSI Phase II will continue to expand in those areas. Göteborg, Sweden was the first Phase II CSI port to be implemented in Europe, while CSI Phase II expansion ports in Asia will soon include the two major ports of Kelang and Tanjung Pelepas, Malaysia. Very recently, the governments of Sri Lanka and South Africa also joined CSI. This Budget continues support for both Phase I and Phase II, as well as Phase III of CSI, which will focus on capacity building at higher risk ports-of-entry.

Also essential to cargo security are partnerships with some of the biggest American importers as part of the Customs Trade Partnership Against Terrorism (C-TPAT), which began in November 2001. These partnerships improve security along the entire supply chain, from the factory floor, to foreign vendors, to land borders and seaports. To date, nearly 3,000 importers, 600 carriers, and 1,000 brokers and freight forwarders are participating in C-TPAT. This surpasses the Department's original goal of participation of the top 1,000 importers.

As well as continuing development for secure trade programs, the Budget also supports improvements for the National Targeting Center and multiple targeting systems that focus on people and/or goods. These systems use information from diverse sources to provide automated risk assessments for arriving international air passengers, shipments of goods to our country, and land border passenger traffic.

Another such effort is the United States Visitor and Immigrant Status Indicator Technology program (US VISIT), an automated entry-exit system. The first phases of US VISIT are being deployed at airports and seaports. US VISIT will expedite the arrival and departure of legitimate travelers, while making it more difficult for those intending to do us harm to enter our Nation. The system will be capable of scanning travel documents and taking fingerprints and pictures of foreign nationals, which then could be checked against databases to determine whether the individual should be detained or questioned concerning possible terrorist or criminal involvement. The Budget provides \$340 million in 2005—continuing the commitment to deploy US VISIT at land border crossings and strengthening security through identity verification of visitors. Through 2005, over \$1 billion will be used to support this initiative.

DHS will work to better leverage the existing targeting and screening programs, including US VISIT, Computer Assisted Passenger Pre-screening Systems II, and the Transportation Worker Identification Credentialing Initiative, to enhance development and deployment of new technologies in this area.

Securing the Nation's Ports

With 95 percent of all U.S. overseas trade passing through the Nation's 361 ports, port security is a top priority of DHS. The 2005 Budget provides a total of \$1.9 billion to ensure the security of ports, including \$1.7 billion for Coast Guard port, waterway, and coastal



The 2005 Budget supports 13 Coast Guard Maritime Safety and Security Teams, maritime SWAT units specially trained to prevent and respond to port security incidents.

security activities, over \$160 million for CBP container security programs, and nearly \$50 million for port security grants through the Office for Domestic Preparedness. Funding for the Coast Guard includes a \$100 million initiative to implement the Maritime Transportation Security Act, which sets security standards for certain vessels and port facilities in the United States and around the world.

Securing Aircraft from Terrorism

Our infrastructure to protect aircraft passengers, crews, and cargo from terrorist acts has never been stronger than it is today. The Transportation Security Administration (TSA) workforce, comprised of tens of thousands of professional screeners, has been deployed at the 429 commercial airports across the Nation. The more than 7,000 new screening devices currently in use ensure that the latest technology is helping to keep dangerous weapons off aircraft. Federal Air Marshals are protecting tens of thousands of air passengers in aircraft cabins each day. DHS has also trained hundreds of pilots as flight deck officers to provide a last line of defense in the cockpit. Enhanced intelligence and tracking efforts throughout DHS are keeping high-risk passengers off aircraft and out of the country.

Because aviation continues to be an attractive terrorist target, we must continue to strengthen our aviation security system. The 2005 Budget provides nearly \$5.3 billion for TSA, an increase of nearly \$900 million over last year. The additional funds will be used to continue to improve the quality and efficiency of screening operations through a combination of additional screener training, stronger management controls of screener performance, and technology automation. The Budget also provides \$400 million to continue deploying more efficient baggage screening solutions at our Nation's busiest airports to improve security while increasing operational efficiency. Another \$25 million is provided to train pilots as flight deck officers.

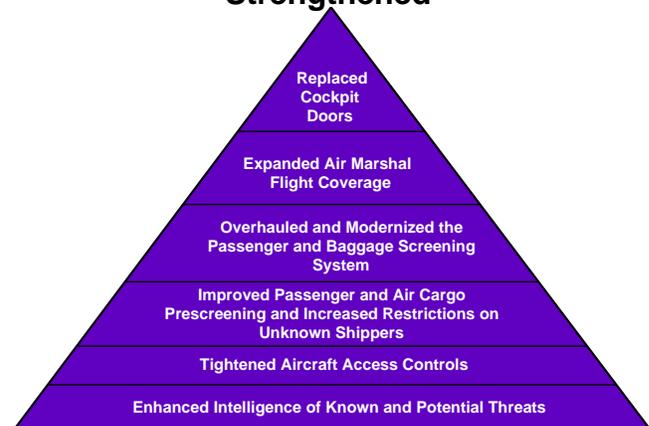
DHS implemented a substantially improved air cargo security and screening program last year, and the Budget provides another \$85 million to continue program deployment and screening technology research. The 2005 Budget also provides another \$61 million to accelerate development of more effective technologies to counter the threat of portable anti-aircraft missiles.

Improving Detention and Removal Capabilities

Effective detention and removal of illegal aliens present in the United States is critical to improved enforcement of our immigration laws. The fugitive population of illegal aliens ordered removed from the country, but who have not departed now numbers approximately 400,000. Critical improvements in detention and removal capabilities are needed to address this problem and to enhance the integrity of the immigration system.

As a result of the positive rating in the Program Assessment Rating Tool (PART) conducted for the 2005 Budget, the Budget supports an increase of over \$100 million for the Detention and Removal Program. This includes an additional \$50 million to expand the program to apprehend alien fugitives

Each Layer of Aircraft Security has been Strengthened



and \$30 million to increase efforts to ensure that aliens convicted of crimes in the United States are deported directly from correctional institutions after their time is served. This will prevent their release into our communities.

Alternatives to conventional detention methods are also essential to improving performance in this area. Non-criminal aliens—particularly asylum seekers—are provided alternative custody arrangements. Lower and less costly supervision requirements are used which still ensure the alien's appearance at immigration proceedings. Initial pilot efforts of this program have been successful and the Budget requests \$11 million in additional funding to expand them. This will allow DHS to focus its resources on more dangerous criminals.

The Administration is also committed to stronger workplace enforcement in support of the President's temporary worker program announced on January 7, 2004. Therefore, the 2005 Budget includes an additional \$23 million to more than double the number of worksite investigations currently performed by ICE—providing an additional 200 investigators.

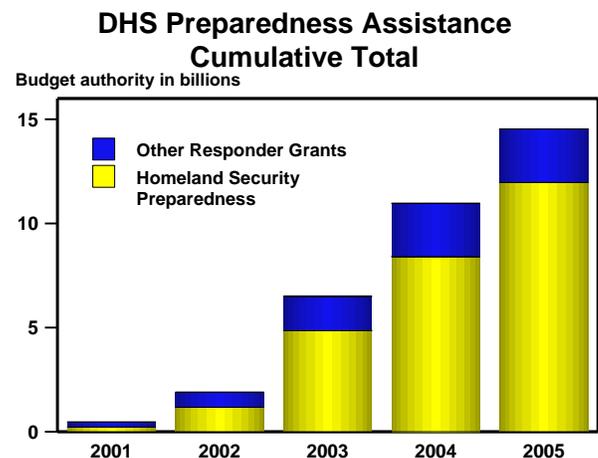
PREPARING AND RESPONDING TO NATIONAL EMERGENCIES

An effective response to a major terrorist incident—as well as a natural disaster—rests on being well prepared. DHS is working to better prepare and coordinate the Nation's capabilities to improve the speed and efficiency of our response. The Budget supports critical preparedness, response, and recovery efforts at all levels of government.

Since homeland security is a national challenge, not just a Federal one, State, local, regional, and tribal governments are vital to fighting terrorism and safeguarding our homeland. From 2001 through 2004, DHS has provided \$11 billion for State and local first responders, including \$8.4 billion focused on homeland security needs. When combined with related grants in DHS, and the Departments of Health and Human Services (HHS) and Justice, including non-homeland security programs, State and local assistance has totaled nearly \$16 billion since 2001.

This funding has allowed unprecedented investments in critical equipment, hundreds of coordinated exercises, training for over 500,000 responders, and development of a homeland security strategy for States and major cities. These funds have also enabled the dramatic expansion of Citizen Corps initiatives, enabling community-based volunteers to support front-line responders. Yet a major challenge for the Department is to ensure that such grant funds are used effectively and targeted to leverage State and local resources to meet terrorist threats. States and localities will continue to have the primary responsibility for maintaining their public safety operations. Federal assistance should not supplant this funding, but rather emphasize preparedness for and response to those major incidents that exceed State and local capabilities.

To that end, DHS is developing national domestic preparedness goals that will establish measurable targets that encompass readiness for various hazards, including terrorist attacks and major disasters. As a part of this effort, DHS is developing a comprehensive training program utilizing lessons



TOPOFF: Testing America's Readiness

In May 2003 DHS led the Nation's TOPOFF exercises in the Seattle and Chicago metropolitan areas—allowing Federal, State, and local “top officials” and response agencies to test their preparedness for extreme, mass-casualty events. Protection against terrorism requires that organizations at every level of government and in the private sector work together in partnership to prepare for events, deal with their consequences, and improve our response. The Seattle and Chicago exercises enabled agencies to practice different courses of action, gain and maintain situational awareness, and deploy appropriate resources—all in real time. The President's Budget includes funding for the next TOPOFF exercise in 2005.



learned from TOPOFF exercises that will support basic terrorism preparedness for all first responders, and a national exercise program to better target, coordinate, and distribute lessons learned from preparedness exercises.

The 2005 Budget requests \$3.6 billion in the Office for Domestic Preparedness to continue these enhancements and achieve national preparedness goals—including a doubling of the Urban Area Security Initiative, providing \$1.4 billion for terrorism preparedness in “high-threat” urban areas. This increase is made possible by reducing dependence on arbitrary formulas, enabling the Department to reinvigorate its commitment to providing homeland security funds based on terrorism risks, threats, and vulnerabilities. DHS will also continue grants for law enforcement terrorism prevention efforts, and direct grants to improve fire departments' response to terrorism and other major incidents.

Enhancing Public Health Response

The 2005 Budget continues implementation of the President's Project BioShield initiative that allows the Federal Government to buy critically needed vaccines and medications for biodefense as soon as experts agree that they are safe and effective enough to be added to the Strategic National Stockpile. The program seeks to encourage the development of necessary medical countermeasures against a chemical, biological, radiological, or nuclear attack. BioShield is a shared responsibility, joining the threat assessment capabilities of DHS with the medical expertise of HHS. Last year in response to the President's call, Congress provided \$5.6 billion in multi-year funding for Project

Project BioShield

Project BioShield will give our scientific leaders greater authority and more flexibility in decisions that may affect our national security. Our labs will be able to hire the right experts, to buy the right equipment and to speed the construction of the right facilities to accelerate urgently needed discoveries.

President George W. Bush
June 2003

BioShield. For 2005, \$2.5 billion will be made available for BioShield, compared with \$0.9 billion in 2004. The Administration is moving forward in purchasing the most important countermeasures. High on the list are next-generation vaccines for both smallpox and anthrax.

DHS has also been working to fully incorporate public health programs transferred to the Department from HHS. For example, DHS' ability to respond to disasters is enhanced by the integration of the National Disaster Medical System (NDMS). NDMS is responsible for managing and coordinating the Federal medical response to major emergencies and federally declared disasters. Additionally, DHS is taking the lead role in planning for response to a major medical disaster. For 2005, the Budget includes \$20 million for planning and exercises associated with medical surge capabilities.

The 2005 Budget transfers the Strategic National Stockpile to HHS where it will be better aligned with HHS' medical expertise. The stockpile contains drugs, vaccines, and other medical supplies and equipment that can be delivered to anyplace in the country within 12 hours. As a result of the transfer, \$400 million is moved to HHS to maintain the stockpile and strengthen its future capacity with new and needed medical products as soon as they become available. (For more information, see the Department of Health and Human Services chapter.)

IMPROVING INFORMATION ANALYSIS AND INFRASTRUCTURE PROTECTION

As a result of the Homeland Security Act of 2002, the responsibility for coordinating the protection of the Nation's critical infrastructure rests with the DHS' Information Analysis and Infrastructure Protection (IAIP) Directorate. IAIP coordinates infrastructure protection activities across Federal agencies and directs resources and efforts to reduce the vulnerability of our Nation's infrastructure to terrorism. The 2005 Budget includes \$864 million for IAIP activities, a seven-fold increase in funding from pre-September 11th levels.

Protecting Critical Infrastructure

Since its establishment in February 2003, IAIP has sought to implement the *President's National Strategy for the Protection of Critical Infrastructures and Key Assets* and the *National Strategy to Secure Cyberspace*. Critical infrastructure includes: banking and finance, energy, chemical sites, transportation, telecommunications, Government facilities, dams, national monuments and icons.

In 2004, IAIP is focusing on identifying key assets, determining vulnerabilities, performing risk analysis, and implementing protective measures. Most critical infrastructures are not federally owned or operated, requiring cooperation from all levels of government and private industry for effective protection. Therefore, IAIP works with State homeland security advisors, owners and operators of critical infrastructures, public safety personnel and other Federal agencies.

In 2005, IAIP will continue to identify and map critical assets. IAIP teams will conduct site visits to assist operators and owners in identifying and reducing vulnerabilities. IAIP personnel will also continue to recommend measures to protect critical assets better against a terrorist attack. For example, in 2003 IAIP developed a comprehensive vulnerability assessment methodology that has been distributed across the petroleum industry.

Cybersecurity is another key element of infrastructure protection. The consequences of a cyber attack could cascade across multiple infrastructures and the resulting disruption could damage our economy as well as imperil public safety. The 2005 Budget increases funding for IAIP's National Cyber Security Division (NCSA)—which was established to improve security across the Federal Government and work with industry to secure the Nation's major networks. NCSA will deliver a 30-minute

investigative response time to cyber threats and improve coordination of warning and response information.

Enhancing Intelligence Sharing

IAIP serves as the lead intelligence arm in DHS. On a daily basis IAIP compiles and synthesizes terrorist-threat information into briefings and analyses for the Secretary and DHS leadership. IAIP also leads DHS efforts in

sharing relevant information and recommended protective actions with State, local, and private entities. As part of its anti-terrorism mission, DHS will continue to be a partner in the Terrorism Threat Integration Center, a joint-effort aimed at reducing the potential of intelligence gaps. In addition, IAIP will also be a partner in the Terrorist Screening Center (TSC). The TSC, established in December 2003, will maintain a single, consolidated watchlist of terrorist suspects to be shared with Federal, State, local, and private entities in accordance with applicable law.

Our responsibility at the Department of Homeland Security is equally clear... we must create new ways to share information and intelligence both vertically, between governments, and horizontally, across agencies and jurisdictions.

Secretary Tom Ridge
October 2003

Enhancing Public Warning

Currently, information is disseminated through the Homeland Security Advisory System and other public and private sector warning systems. IAIP has issued over 50 advisories and information bulletins covering physical and cyber threats. DHS has been studying ways to better coordinate these multiple systems so that notification occurs at the Federal, State, or regional level in a matter of minutes. While some warning systems in place are based on older technologies, such as television and radio, modern technologies such as personal digital assistance equipment and cell phones have not been integrated into our public warning efforts. DHS is determining which systems could be effectively used to improve public warning. The 2005 Budget provides funds to enhance existing systems and to continue linking different systems to better target warning information towards persons at risk as quickly as possible.

ADVANCING AND HARNESSING SCIENCE AND TECHNOLOGY

New technologies to detect and counter potential chemical, biological, radiological, nuclear, and cyber threats and attacks, as well as analyze threats and share information, are critical to help prevent and minimize the damage from future terrorist attacks. With over \$1 billion requested, the 2005 Budget almost doubles the 2003 budget of the Science and Technology Directorate.

Improving Biosurveillance

In 2005, the Administration will launch a biosurveillance initiative that will bring together information across the Federal Government to improve surveillance and its capability to identify a bioterrorist attack. Within DHS, IAIP and the Science and Technology (S&T) Directorate will expand monitoring and improve analysis tools that are used to detect and respond appropriately to possible attacks.

A component of this initiative is the expansion of BioWatch, which currently protects many large U.S. cities by continually monitoring the air for biological agents that could be released by terrorists.

The 2005 Budget provides an additional \$47 million to expand BioWatch by adding scores of sensors in the top threat cities and at high-value targets such as stadiums and transit systems to increase the chances of detecting the release of biological pathogens. The Budget also includes \$31 million in new resources to develop the next-generation of biological sensors.

In addition, IAIP will collect and analyze data from many Federal agencies—not only DHS, but also HHS and the U.S. Department of Agriculture. In conjunction with the expansion of BioWatch, the 2005 Budget provides \$11 million to enable IAIP to integrate, in real-time, biosurveillance data collected from sensors throughout the country and fuse this data with information from health and agricultural surveillance and other terrorist-threat information from the law enforcement and intelligence communities. This will enhance homeland security decision-making and the Federal response in the event of an attack by minimizing the gap between the time the event occurs and the time when Federal, State and local response protocols are implemented.

Another element of the biosurveillance initiative, funded within the S&T Directorate, is the research and development of next-generation biological sensors and the development of a model to enable better synthesis of biological incident data when assessing the extent of an actual attack.

Investing in Research and Development Priorities to Create Revolutionary Capabilities

As a component of the S&T Directorate, the Homeland Security Advanced Research Projects Agency engages existing capabilities to identify and develop revolutionary technologies and satisfy DHS's operational needs for advanced technology. Additionally, it works to solicit proposals and seeks to engage our Nation's research and development communities, including academia, not-for-profit organizations, and industry in the fight against terrorism. S&T has separate

program areas dedicated to addressing each major category of weapons of mass destruction, such as chemical, biological, radiological, nuclear, and high-explosives.

Homeland Security Centers of Excellence

The first Homeland Security Center of Excellence was recently established at the University of Southern California, known as the Homeland Security Center for Risk and Economic Analysis of Terrorism Events. The new center will study the targets and methods of terrorism, with emphasis on protecting the Nation's critical infrastructure systems, such as electrical power, transportation and telecommunications. It will also develop tools for planning responses to emergencies, to minimize the threat to human lives, and reduce the economic impact in the event of an attack.

SUPPORTING ADDITIONAL RESPONSIBILITIES

Though its primary mission is to protect the Nation from terrorism, DHS' responsibilities are diverse. The ships that interdict threats to our homeland are also used to help mariners when they are in distress and protect our marine resources from polluters. Our Nation's immigration system must be administered to ensure that those who legally come to this country are welcomed. And while we must be prepared to respond to terrorist attacks, we are more often called upon to respond to natural disasters.

Maintaining Effective Maritime Search and Rescue and Upgrading Key Assets

The Coast Guard has maintained its commitment to the accomplishment of the full range of its missions, including traditional missions such as search and rescue, aids to navigation, fisheries enforcement and environmental protection. Over 50 percent of Coast Guard's 2005 budget funding is dedicated to these traditional missions. Building on the 2005 PART of the search and rescue program, the Budget continues support for Coast Guard's initiative to increase staff for search and rescue boat stations. Funding is also provided for "Rescue 21," the modernized maritime 911 system to enable Coast Guard to receive and respond to calls for help.

The 2005 Budget also continues support for the Deepwater acquisition program, through which Coast Guard is modernizing and replacing its ships, aircraft, and communications systems. The Budget includes \$678 million for Deepwater in 2005. As new assets are delivered during this long-term acquisition, Coast Guard's capacity to fulfill its homeland security and traditional missions will increase.

The Coast Guard's work to protect the homeland extends beyond port security. Over 1,100 Coast Guard men and women served in the Persian Gulf and the Mediterranean in Operation Iraqi Freedom, representing the service's largest overseas deployment in support of military operations since the Vietnam War. Closer to home, Coast Guard cooperates with CBP and ICE to prevent illegal drugs and undocumented migrants from reaching U.S. shores.



The Coast Guard is recognized worldwide as a leader in search and rescue.

Providing Quality Services to the Nation's Immigrants

The Administration is committed to maintaining America's cherished identity as a Nation of immigrants. Within DHS, the U.S. Citizenship and Immigration Service (CIS) has improved the administration of immigration benefits to the more than seven million annual applicants. The mission of CIS is to provide information and benefits in a timely, accurate, consistent, courteous, and professional manner while ensuring national security and preventing ineligible individuals from receiving benefits.

The President has proposed a new temporary worker program to match willing foreign workers with willing U.S. employers when no Americans can be found to fill the jobs. The Administration will work with the Congress to achieve these goals. As outlined by the President on January 7, 2004, the Administration is committed to achieving significant immigration reform that:

- protects the homeland by controlling the borders;
- serves America's economy by matching a willing worker with a willing employer;
- promotes compassion for unprotected workers;
- provides incentives for temporary workers to return to their home countries and families; and
- protects the rights of legal immigrants while not unfairly rewarding those who came here unlawfully or hope to do so.

For more information on the President's proposal, see the White House website at www.whitehouse.gov.

Reducing the Application Backlog

The 2005 Budget proposes an increase of \$60 million for backlog reduction as part of the President's multi-year initiative to reduce the backlog of applications and ensure a six-month processing standard for all applications. By 2006, the Department will achieve the President's six-month processing goal by eliminating the application backlog. In addition to its focus on the backlog, CIS will work over the coming year to transform the application process with its emphasis on service. DHS will also establish clear performance milestones, actively monitor progress, and ensure integrity by establishing comprehensive quality assurance measures.

Over the last year, CIS has continued the focus on quality improvements and expanded national security checks, such as performing background name checks on all applications before approval. Although the checks have initially meant longer processing times, enhanced security will help ensure that only eligible applicants are approved. In addition, CIS began implementing significant information technology improvements including electronic filing (E-Filing) for certain immigration applications.

Securing the Immigration System

In September 2003, Secretary of State Powell and Secretary Ridge signed an agreement under which Department of State and DHS employees will work together to process visa applications. The agreement established the framework to improve cooperation in creating and maintaining an effective and efficient visa process that secures our Nation's borders from external threats while maintaining open borders for legitimate travel to the United States. Both Departments will work to ensure that the policies for issuing visas to visitors are consistent with national security and foreign policy interests. DHS employees are now stationed in the Kingdom of Saudi Arabia to work with State Department Consular Officers in screening visa applications. In 2004, the Department will establish a plan for furthering its role at selected posts overseas.

Providing a Place to Turn

In spite of efforts underway to improve immigration services, applicants continue to wait in limbo for months and, in some cases, years. Because applicants need an advocate when something goes wrong in the process, the Homeland Security Act established the Office of Citizenship and Immigration Services Ombudsman to aid immigrants throughout the application process. In 2004, the Ombudsman's office will work in assisting individuals and employers to resolve problems with CIS, identify areas where individuals and employers have problems dealing with CIS, and, to the extent practicable, propose changes in the administrative practices of the CIS to resolve or mitigate problems. The Ombudsman will assist in meeting the Administration's goals of changing the character of CIS to be more welcoming to new immigrants and their families, improving CIS customer service and performance, and reducing unacceptable processing times for services.

Providing Assistance in Times of Need

When a major disaster strikes, assistance is necessary to meet the emergency needs of families and individuals, and to help pay for the rebuilding and repair of critical community infrastructure. DHS has continued to assist States in response and recovery after a disaster. In 2003, there were 62 major disasters and 19 emergencies, in addition to the continued response to previous disasters. This included recovery of the Space Shuttle *Columbia*, response to the Northeast blackouts, and relief



Listening to those in need.

from Hurricane Isabel and the California wildfires. The 2005 Budget provides \$2.9 billion for disaster relief—a level consistent with the average non-terrorist disaster costs over the past five years. This includes over \$2 billion in new funds, which is over \$300 million more than the 2004 appropriation, as well as money expected to remain available from prior years.

The Department continues to work towards protecting people and property from damage due to disasters. The Pre-disaster Mitigation program, which helps to minimize the devastation caused by natural disasters, will continue to support well-designed mitigation projects through a competitive grant process. Additionally, DHS is working to replace and modernize the Nation's Flood Insurance Rate Maps.

Ensuring Protection of Our Leaders

The U.S. Secret Service plays a unique and critical role in DHS by protecting the President, the Vice President, their families, candidates campaigning for the offices of President and Vice President, visiting heads of state, and other designated individuals. It also provides security for the White House, the Vice President's residence, foreign missions and other buildings within the Washington, D.C. area, and designs, plans, and implements security for designated events of national significance. In addition, the Secret Service protects our Nation's currency and financial system integrity through its investigation of counterfeiting, electronic crimes, and identity theft. The 2005 Budget supports the Secret Service in accomplishing these core missions by providing \$1.2 billion for the organization.



The U.S. Secret Service protects the President and our Nation's leaders.

PERFORMANCE EVALUATION OF SELECT PROGRAMS

The Budget continues to focus on improving program performance. Nine of DHS' programs were assessed using the Program Assessment Rating Tool (PART), which evaluated each programs' design and purpose, strategic planning efforts, how well they are managed, and whether they are generating positive results for taxpayers. Below are some of the highlights and recommendations from the PART evaluations. For further details on DHS' performance assessments, see the White House budget website at www.whitehouse.gov/omb/budget.

| Program | Rating | Explanation | Recommendations |
|---|--------------------------|--|--|
| U.S. Immigration and Customs Enforcement: Detention and Removal | Moderately Effective | The program aims to ensure the departure from the U.S. of all removable aliens. The assessment found that the program has struggled to remove subject aliens, but has recently reorganized operations and engaged in significant strategic and performance planning efforts. | The Budget proposes to expand the program's initiatives to improve performance in removing all removable aliens. In 2004, ICE will work to develop cost effectiveness measures for the program. |
| Coast Guard: Fisheries Law Enforcement | Moderately Effective | The program enforces fisheries laws at sea to help the U.S. reach national goals for living marine resource conservation and management. The assessment found that the program is strong overall, but shows some deficiencies in strategic planning. | In 2004, the Coast Guard will develop long-term goals that demonstrate annual performance improvement in preventing foreign fishing vessel incursion. In addition, the Coast Guard will start a comprehensive evaluation of this program. |
| U.S. Customs and Border Protection: Border Patrol | Results Not Demonstrated | The program detects and apprehends illegal aliens and smugglers of aliens at or near the land border. The assessment found a need for improving outcome and cost effectiveness based measures. | In 2004, the Border Patrol will work to develop outcome measures, as well as establish timeframes and milestones to measure progress. It will also make certain that managers are held accountable for both performance and budget execution. |

| Program | Rating | Explanation | Recommendations |
|--|--------------------------|--|---|
| U.S. Immigration and Customs Enforcement: Federal Air Marshal Service (FAMS) | Results Not Demonstrated | The FAMS program provides an on-board security presence on U.S. commercial passenger aircraft. The assessment found that the program does not yet have measurable results, but has established a useful set of short and long-term performance measures with targets. | In 2004, the program will conduct an independent evaluation seeking to validate program elements and related performance targets. The 2005 Budget provides stable funding given current uncertainty over needed output performance. |
| Office for Domestic Preparedness: Assistance to Firefighters Grant Program | Results Not Demonstrated | The program provides fire departments with grants to protect the health and safety of the public and firefighting personnel. The assessment found that the program is unfocused and has not been able to demonstrate its impact on public safety, though the grant administration process is generally well-managed. | In 2004, ODP will strengthen performance measures and place greater emphasis on the unique role of Federal funds, particularly for terrorism preparedness. In addition, \$250 million is shifted to grants for "high-threat" urban areas. |

UPDATE ON THE PRESIDENT’S MANAGEMENT AGENDA

The table below provides an update on the Department of Homeland Security’s implementation of the President’s Management Agenda as of December 31, 2003.

| | Human Capital | Competitive Sourcing | Financial Performance | E-Government | Budget and Performance Integration |
|-----------------|---|---|---|---|---|
| Status |  |  |  |  |  |
| Progress |  |  |  |  |  |

Arrow indicates change in status rating since evaluation as of September 30, 2003.

DHS’ progress ratings reflect the emphasis the Department has placed on implementing the President’s Management Agenda as it stands-up its new organization. Particular progress has been made in the area of competitive sourcing, including the announcement of one of the largest civilian competitive sourcing studies within the Federal Government involving over 1,100 immigration information officers and contact representatives. DHS is also on-track to publish final regulations in the spring of 2004 establishing a new human resources management system. This new system may be used as a model for future Government reform. DHS is moving aggressively toward unifying the legacy financial management systems within the Department. Relating to E-Government, DHS continues to be a managing partner of two initiatives, Disaster Management and SAFECOM. Lastly, the Department is using the Program Planning and Budgeting system to develop linkages between budget and performance measures in formulating the 2005 Budget.

Department of Homeland Security
(In millions of dollars)

| | Actual | | Estimate | |
|---|--------|--------|----------|---------|
| | 2001 | 2003 | 2004 | 2005 |
| Spending | | | | |
| Discretionary and BioShield Budget Authority: | | | | |
| Border and Transportation Security | 5,864 | 13,245 | 13,238 | 14,496 |
| U.S. Coast Guard | 3,816 | 5,156 | 5,780 | 6,250 |
| Emergency Preparedness and Response (gross) ... | 2,881 | 3,520 | 3,774 | 5,585 |
| <i>Project BioShield (non-add)</i> | | | (885) | (2,528) |
| Science and Technology | 110 | 553 | 913 | 1,039 |
| Information Analysis and Infrastructure Protection .. | 108 | 185 | 834 | 864 |
| Office for Domestic Preparedness | 217 | 1,961 | 4,366 | 3,561 |
| Other Department of Homeland Security | 1,256 | 1,408 | 1,854 | 2,036 |
| Total (gross) | 14,252 | 26,028 | 30,759 | 33,831 |
| Less Fee-Funded Activities | -258 | -2,681 | -2,811 | -2,988 |
| Less Project BioShield | | | -885 | -2,528 |
| Total (net) | 13,994 | 23,347 | 27,063 | 28,315 |
| Total, Discretionary outlays (net) | 15,030 | 27,477 | 29,219 | 30,782 |
| Mandatory Spending: | | | | |
| Total, Mandatory budget authority (gross) | 5,492 | 5,154 | 5,782 | 6,336 |
| Less Mandatory receipts and Flood Insurance | | | | |
| Collections | -5,725 | -5,072 | -5,263 | -5,765 |
| Total, Mandatory budget authority (net) | -233 | 82 | 519 | 571 |
| Total, Mandatory outlays (gross) | 5,370 | 3,950 | 5,207 | 6,007 |
| Less Mandatory receipts and Flood Insurance | | | | |
| Collections | -5,725 | -5,072 | -5,263 | -5,765 |
| Total, Mandatory outlays (net) | -355 | -1,122 | -56 | 242 |
| Total, Budget Authority (gross) ¹ | 19,744 | 31,182 | 36,541 | 40,167 |
| Total, Outlays (net) | 14,675 | 26,355 | 29,163 | 31,024 |
| Credit activity | | | | |
| Direct Loan Disbursements: | | | | |
| Disaster Assistance | 2 | — | 25 | 25 |

¹ 2003 excludes funding provided in P.L. 108-11, the Wartime Supplemental Appropriations Act, 2003; 2004 excludes funding provided in P.L.108-106, the Emergency Supplemental Appropriations Act, 2004.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Since 2001, the Administration:

- Set a goal in June 2002 to achieve 5.5 million new minority homeowners by 2010. Since the President announced this goal, over one million new minority families have become homeowners. The Congress' recent approval of the President's American Dream Down Payment Initiative will help expand homeownership opportunities to 40,000 low-income, first-time homebuyers each year;
- Established policies that helped achieve record high homeownership rates and the highest level of single-family housing affordability in 30 years;
- Established a goal to end chronic homelessness by 2012 by encouraging collaborations at the local level, and awarded grants to support innovative strategies in 16 communities. Already 41 States have created interagency councils to combat homelessness and 80 cities and counties have agreed to develop 10-year plans; and
- Developed a comprehensive proposal to simplify the home buying process, make it easier to shop for the best-priced mortgage, and reduce closing costs.

The President's Budget:

- Increases minority homeownership through the American Dream Down Payment Fund, Self-Help Homeownership Opportunities Program, a single-family homeownership housing tax credit, and new mortgage products;
- Continues and strengthens the commitment to end chronic homelessness by proposing the Samaritan Initiative, a competitive grant program; and
- Strengthens housing assistance by permitting more flexibility to tailor assistance to local needs, and better coordinates and leverages community development programs.

Department of Housing and Urban Development

Alphonso Jackson, Acting Secretary

www.hud.gov 202-708-1112

Number of Employees: 10,600

2005 Discretionary Budget Authority:
\$31.3 billion

Organization: Six Major Offices: Community Planning and Development; Public and Indian Housing; Federal Housing Administration/Office of Housing; Government National Mortgage Association; Fair Housing and Equal Opportunity; and Policy Development and Research.



President Bush thanks HUD employees across America with former HUD Secretary Mel Martinez and Acting Secretary Alphonso Jackson.

OVERVIEW



The Ingram family, first-time homeowners, in front of their home purchased with downpayment and housing counseling assistance provided by their local Neighborhood Reinvestment Corporation affiliate.

The Department of Housing and Urban Development (HUD) subsidizes housing costs for approximately five million low-income households through various forms of rental assistance and construction grants. It also helps revitalize over 4,000 localities through community development programs and offers housing and services to help families and homeless persons move toward self-sufficiency. HUD also encourages homeownership by providing mortgage insurance for five 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.

The President's 2005 Budget offers new strategies to: 1) meet aggressive goals for increasing minority homeownership; 2) end chronic homelessness; 3) strengthen housing assistance; 4) pilot improved community development programs, and 5) continue to improve HUD's performance and provide better stewardship of funds.

The Administration has a multi-part strategy to expand homeownership with a special focus on increasing opportunities for minority households. The strategy combines homebuying simplification, new lending options, targeted assistance, a single-family homeownership tax credit, and education.

The 2005 Budget continues and strengthens the Administration's commitment to end chronic homelessness by proposing the Samaritan Initiative, a competitive grant program. As part of this initiative, HUD will work with the Departments of Health and Human Services (HHS), Veterans Affairs (VA), and others to support innovative local strategies to end chronic homelessness.

The Budget proposes funding for housing choice vouchers in a form that offers communities greater predictability and flexibility to administer the program to address local needs while continuing to help the same number of low-income families as are currently assisted.

This year, a Program Assessment Rating Tool (PART) found that the Community Development Block Grant (CDBG) program had several areas of weakness. The program is limited by an unclear mission, loose targeting requirements, and lack of focus on results. To address this, the Administration has laid out several components needed for a successful local CDBG program. The Budget also proposes \$10 million to test ways to better coordinate, target, and leverage existing Federal community and economic development programs in a few communities.

HUD has made several improvements in management: it continues to make progress in developing clean financial audit results and more efficient management systems; it provided more rigorous oversight of low-income housing assistance; and it took regulatory and enforcement steps to combat deceptive or fraudulent home lending.

America's "Social Entrepreneurs"

I say 'social entrepreneurs' because, in many of our faith institutions, we find people who are willing to reach out in the neighborhood in which they exist to help those who hurt and those who are in need.

President George W. Bush
Remarks to Urban Leaders, July 2003

HUD has been working to increase the participation of faith and community-based organizations in its programs. The Memorial AME Zion Church in Rochester, New York decided to do something about the housing need of low-income families in its community. Memorial AME Zion started the Frederick Douglass Community Development Corporation and put together a housing project that used more than \$5 million in HUD funds to build the Frederick Douglass Village. These projects will allow 50 senior households to gain an affordable place to live, community meals and a medical screening program. The Village also included new single-family homes, which provided over 20 low-income families with their first homes.



HOMEOWNERSHIP

Homeownership in America is at an all-time high of 68.4 percent. HUD has an important role in promoting equal opportunity for homeownership. While minority homeownership is also now at an all time high of 49.3 percent, it still significantly lags behind the national average for all Americans. In June 2002, the President set a goal to add 5.5 million minority homeowners by 2010. Since then, over one million minority families have become homeowners, setting a pace to exceed this goal. HUD is providing financial assistance through the American Dream Down Payment Fund, Self-Help Homeownership Opportunities Program, Section 8 Homeownership Vouchers, and the Section 32 Public Housing Homeownership option. The Administration also proposes to increase affordable housing for low-income Americans by offering a tax credit for the development of single-family homes. (See the Federal Receipts chapter in *Analytical Perspectives* for an additional description.) HUD proposes new mortgage insurance products and reforms to make it easier to shop for a mortgage and real estate settlement services. HUD and the Neighborhood Reinvestment Corporation are educating and counseling potential homebuyers. These efforts, described in the accompanying diagram, are essential components to increasing homeownership opportunities for all Americans.

Supervising Government-Sponsored Enterprises' Efforts to Promote Affordable Homeownership. The Administration has proposed broad reform of the supervisory system for Government-sponsored enterprises (GSEs) in the housing market. Part of this reform includes establishing a new national home purchase goal for Fannie Mae and Freddie Mac to enhance minority and low-income homeownership. This portion of the reform is designed to ensure that Fannie Mae and Freddie Mac lead, not lag behind, the market in providing financing to low and moderate-income homebuyers, particularly first-time buyers. Other important reforms have also been proposed. (See the Department of the Treasury chapter for discussion of GSE regulation and reforms and the Credit and Insurance chapter in *Analytical Perspectives* for a background discussion.)

HUD Doesn't Want this to Happen to You

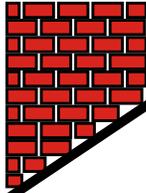
A homebuyer obtained a loan to renovate his property. A mortgage broker promised him a 30-year fixed rate at 8.625 percent with \$12,000 cash out. The Good Faith Estimate did not disclose a broker fee.

The borrower closed on the loan in April 2002, but discovered after signing that he had inadvertently agreed to a 10.89 percent interest rate on a 15-year loan with a balloon payment and a prepayment penalty for 36 months. He also learned for the first time that the mortgage broker charged him a \$3,500 "broker fee."

HUD was not able to enforce this complaint involving the Good Faith Estimate because the Real Estate Settlement Procedures Act (RESPA) provides no penalty for a substantial variance between the amounts given on the Good Faith Estimate and the actual charges at settlement. In addition, the current RESPA regulations do not require the disclosure of all pertinent mortgage loan information, such as prepayment penalties, on documentation provided to the borrower prior to settlement.

The incident described above is a particularly egregious example of behavior that the Administration seeks to curtail through regulation. HUD's proposed regulations would prohibit this type of abuse, and would facilitate guaranteed-price packaging to help borrowers shop for the cheapest loan (saving, on average, as much as \$700 per loan settlement) and be assured that the price will not change at the settlement table.

Buying a Home



The process for buying a home is too complicated and too costly for many. The Administration has proposed to reform real estate settlement procedures to make the mortgage-origination process more consumer friendly. This would simplify shopping for a mortgage and settlement services by facilitating industry packages with a guaranteed price. By empowering the consumer, this competition is expected to reduce the average initial cost of buying a home by as much as \$700.

5.5 million new minority homeowners!

Financing

The Administration proposes two new mortgage programs that remove the biggest barriers to homeownership -- the down payment and impaired credit. The Zero Down Payment mortgage allows first-time buyers with a strong credit record to finance 100 percent of the purchase price and closing costs. For borrowers with limited or weak credit histories, Payment Rewards initially charges a higher insurance premium and reduces premiums after a period of on-time payments.

Down Payment and Closing Costs

The Budget funds the President's American Dream Down Payment Fund, providing \$200 million to help approximately 40,000 low-income families with the down payment on their first home.

Homeownership Assistance

The Housing Choice Voucher and Public Housing programs have traditionally been rental assistance programs for low-income Americans. Families now have the opportunity to become homeowners through the Homeownership Voucher and Public Housing Homeownership programs. Instead of receiving a "rent" subsidy, the same subsidy helps families with their mortgage.

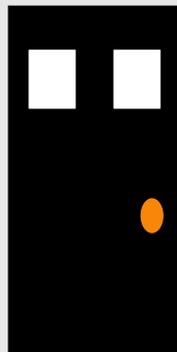
Single-Family Homeownership Tax Credit

To promote the development of affordable single-family homes for low-income homebuyers, the Administration proposes a tax credit of up to 50 percent of the cost of constructing or rehabilitating a home for eligible homebuyers.



Neighborhood Reinvestment Corporation

The Budget proposes \$115 million for the Corporation, which is pledging to provide direct assistance to over 160,000 families through affordable mortgage and rehabilitation products, comprehensive homebuyer education and counseling services, and other services to expand affordable housing opportunities and strengthen communities.



2005

Self-Help Homeownership Program

The Budget provides \$65 million in seed money to non-profit organizations, such as Habitat for Humanity, that reduce the costs of homeownership for low-income families.

Housing Counseling

\$45 million to help families manage their finances and improve poor credit ratings in order to achieve homeownership.

HOMELESSNESS



Secretaries Chao, Principi and Thompson, and former HUD Secretary Martinez with Philip Mangano presenting a grant award to Barbara Poppe from the Community Shelter Board of Columbus, Ohio. The grant is funded through the Collaborative Initiative on Chronic Homelessness.

HUD’s budget includes \$1.3 billion for Homeless Assistance Grants. Altogether, the Administration requests over \$3 billion in 2005 for programs directly addressing this need. Other broader housing and social programs also serve homeless individuals and families.

Ending Chronic Homelessness

The Administration continues the commitment made in 2002 to end chronic homelessness within a decade. Innovative local strategies are being funded through a variety of interagency initiatives to move chronically homeless individuals from the street to permanent supportive housing, and

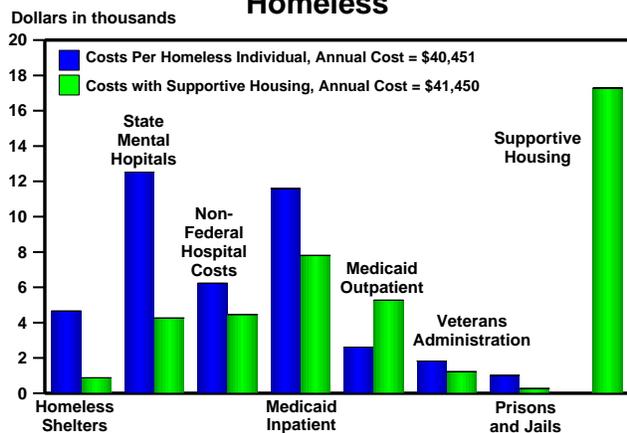
to prevent such people from falling into homelessness in the first place.

The chronically homeless are a sub-population of perhaps 150,000 individuals who often have an addiction or suffer from a disabling physical or mental condition. They are homeless for extended periods of time or experience multiple episodes of homelessness. Research indicates that although these individuals may comprise less than 10 percent of the homeless population, they consume a disproportionately large amount of emergency homeless services because their needs are not comprehensively addressed. Thus, they remain in the homeless services system or on the street.

How Much Does it Cost to House the Homeless?

A study of nearly 5,000 homeless persons with severe mental illness in New York City found that these individuals used an average of \$40,451 per person per year in publicly funded shelters, inpatient health care, emergency rooms, and correctional services. The same study found that placement in permanent supportive housing at a cost of \$17,280 per unit per year, reduced other public costs by \$16,282 per unit per year. The overall public cost of housing these individuals was slightly more than allowing them to remain on the streets or in shelters. The Administration supports innovative local efforts to move chronically homeless individuals from streets and shelters to permanent supportive housing.

Costs of Providing Housing to the Homeless



Source: “The Impact of Supportative Housing for Homeless Persons with Severe Mental Illness on the Utilization of the Public Health, Corrections and Emergency Shelter Systems: The New York-New York Initiative” by Dennis P. Culhane, Stephen Metraux and Trevor Hadley, Housing Policy Debate, Volume 13, Issue 1, 2002.

To help realize the Administration's goal, the U.S. Interagency Council on Homelessness has been working closely with communities across the country to create local plans. Already, 41 States have created State interagency councils to combat homelessness, and 80 cities and counties have agreed to develop 10-year plans.

The Administration proposes the Samaritan Initiative to advance its goal of ending chronic homelessness. It will be jointly administered by HUD, HHS and VA. Grants will support the most promising local collaborative strategies to move chronically homeless persons from the streets to safe, permanent housing with supportive services. HUD will provide \$50 million for the housing component of the initiative. To complement this grant for housing, VA and HHS will each provide \$10 million for services such as substance abuse treatment and primary health care.

REFORM LOW-INCOME HOUSING ASSISTANCE

Housing Choice Voucher Program—Dollar-Based versus Unit-Based Approach

The Housing Choice Voucher program provides two million low-income families with subsidies to help them afford a decent place to live. They contribute 30 percent of their income towards their rent; the Government pays the rest. In the past, funds have been appropriated for a specific number of units each year. These funds were then given to public housing agencies (PHAs) based on the number of vouchers they were awarded. HUD and the Congress are concerned that voucher costs have increased at a rate of more than double the average increase in the private rental market for the past two years. This rate of increase, combined with an extremely complex set of laws and rules that govern the program, has limited its effectiveness.

The Administration proposes to simplify the program and give more flexibility to PHAs to administer the program to better address local needs. Building on changes in the 2004 Consolidated Appropriations bill, the Administration proposes switching from a "unit-based" approach to a "dollar-based" approach. PHAs would receive a set dollar amount but would have the freedom to adjust the program to the unique and changing needs of their community, including the ability to set their own subsidy levels based on local market conditions rather than having people in Washington trying to predict and set these for every market in the Nation. These changes would provide a more efficient and effective program by eliminating large balances of unused resources (a concern noted in the 2004 PART review) and helping low-income families more easily obtain decent, safe, and affordable housing.

COMMUNITY DEVELOPMENT BLOCK GRANTS

The Community Development Block Grant (CDBG) program provides annual grants totaling \$4.3 billion each year to over 1,000 eligible cities, counties, and States to help develop viable urban communities in our Nation's distressed areas. The primary strength of the program is the flexibility each community has to spend funds on the areas of greatest local need such as housing, economic development, and public facilities. A corresponding weakness, however, is that local governments often spread CDBG funds across many different areas, which reduces the ability to achieve the program's primary objective—revitalizing distressed neighborhoods.

This year, the Administration rated the CDBG program as needing improvement based on several areas of weakness:

- lack of clarity in the program's purpose and design;
- weak targeting of funds by the CDBG formula and by grantees to areas of greatest need;

- lack of transparent program and performance information; and
- lack of annual output and long-term outcome performance measures.

Many of these issues result from an ambiguous mission, loose targeting requirements, and local pressure to spread funds across many groups. To address this, the Administration wants to clarify that the purpose—and only meaningful measure of a successful local CDBG program—is a city’s ability to transform distressed neighborhoods. The Administration plans to work with stakeholders to identify ways to increase local accountability, improve targeting of funds, and demonstrate results, including legislative reforms.

Several cities, such as Richmond, Virginia, have begun to strategically target a few neighborhoods for revitalization. Richmond’s process highlights many of the principles CDBG communities will have to adopt to improve neighborhoods (see accompanying illustration).

Principles of a Successful CDBG Program: An example from Richmond, Virginia

(Based on average annual investment in the target neighborhood received)

Prior to 1999—Status Quo:

- Prior to 1999, Richmond stretched \$7 million of CDBG and HOME funds over 20 neighborhoods.

1999-2002—Steps Richmond took to improve:

Select Target Neighborhoods

- The City Council worked with neighborhood associations to select six target neighborhoods, based on neighborhood condition and revitalization potential. By targeting certain areas, average neighborhood funding increased to \$880,000.

Leverage the Private Sector

- The Federal dollars leveraged investments from over 15 housing providers such as Habitat for Humanity, the Interfaith Housing Corporation, and other community development corporations. City capital improvement funds also demonstrated the city’s commitment, and average neighborhood funding was increased by \$500,000 to \$1.38 million.



Before



After



Before



After

Focus on Results:

Safe Neighborhood: 17-percent drop in crime from 2000–2002 (versus five percent for the rest of the city).

Increased Property Values: 19-percent increase in assessed real estate values from 1998 to 2002.

Safe Housing: 68-percent decrease in properties with code violations from 1999 to 2002.

Development Pilot Programs: A Challenge to Succeed

The Administration is proposing a Development Challenge Pilot to test ways to better coordinate, target, and leverage existing Federal community and economic development programs. An inter-agency group will advise on standards for awarding \$10 million in competitive capital grants to a few communities prepared to set and meet a limited number of clear, measurable community development goals. In addition, the group will work to develop a common framework of performance measures and accountability for Federal community and economic development investments.

PERFORMANCE EVALUATION OF SELECT PROGRAMS

The Budget continues to focus on improving program performance. Twelve of HUD's programs have been assessed using the Program Assessment Rating Tool (PART), which evaluated each programs' design and purpose, strategic planning efforts, how well they are managed, and whether they are generating positive results for taxpayers. Below are some of the highlights and recommendations from the PART evaluations. For further details on HUD's performance assessments, see the White House budget website at www.whitehouse.gov/omb/budget/.

| Program | Rating | Explanation | Recommendation |
|---|--------------------------|---|--|
| Lead Hazard Control Grants | Moderately Effective | The program has become more efficient and meets its annual targets, but it needs more aggressive production targets to successfully address its long-term outcome goals. | Seek higher production targets. |
| HOPE VI | Ineffective | HOPE VI has achieved its primary goal to demolish 100,000 severely distressed public housing units. However, the program is slow at completing the job and more costly than other alternatives. | Terminate the HOPE VI program in response to these findings. |
| Community Development Block Grants | Ineffective | The program suffers from unclear purpose, loose targeting requirements, and lack of results. | Clarify the program purpose, concentrate resources, and demonstrate change in distressed neighborhoods. |
| Housing Opportunities for Persons with AIDS | Results Not Demonstrated | The program demonstrates strong program purpose, design, and management, and annually measures the amount of housing assistance provided to the target population. However, the program must establish clear long-term outcome goals. | Develop long-term outcome goals and update annual grantee reporting requirements to include reporting on outcome measures. |

UPDATE ON THE PRESIDENT’S MANAGEMENT AGENDA

| | Human Capital | Competitive Sourcing | Financial Performance | E-Government | Budget and Performance Integration |
|-----------------|---|---|---|---|---|
| Status |  |  |  |  |  |
| Progress |  |  |  |  |  |

HUD’s financial performance and overall stewardship of taxpayer funds is better today than four years ago. HUD earned its fourth “clean” audit opinion this year. The auditor, after assessing HUD’s internal and other controls, eliminated one material weakness and three reportable conditions from its report. New systems enabled HUD to close its books in record time this year and more systematically than in prior years. HUD manages its staff of 10,600 employees with a reliable workload measurement system, enabling the allocation of staff where needed and away from underutilized areas. New electronic systems are re-engineering how HUD hires new employees and providing better management of the very large Federal Housing Administration insurance programs. HUD is just beginning its competitive sourcing efforts with a formal announcement of the first competition expected in early 2004.

| Initiative | Status | Progress |
|--------------------------------------|---|---|
| HUD Management and Performance |  |  |
| Faith-Based and Community Initiative |  |  |

HUD Management and Performance. HUD made inroads on its longstanding management problems. HUD has taken aggressive action to assure tenants are properly housed by taking over poorly managed housing authorities and correcting problems. In the Virgin Islands, for example, HUD took over a housing authority unable to account for millions in Federal funds and where many families lived in substandard conditions. HUD has also worked with the U.S. Department of Justice to enforce a prompt eviction policy for those who engage in drug activity on or near public housing properties. HUD successfully reduced erroneous payments attributed to program administrator and processing errors by roughly 30 percent from the 2000 baseline estimate of \$2.3 billion, as efforts continue to assure that the right benefits go to the right persons. HUD stepped up efforts to combat predatory lending by targeting unscrupulous lenders, increasing enforcement staff and resources and coordinating with other Federal Government agencies to fight abusive lending practices. The result was the highest number of prosecutions and convictions and settlements in the agency’s history. HUD implemented a number of new rules to address deceptive or fraudulent lending practices. Working with State and local governments, HUD is close to streamlining the requirements for consolidated community plans to make them more meaningful and useful for localities.

Faith-Based and Community Initiative. Rules to help increase participation among faith-based organizations for eight major programs took effect on September 30, 2003. HUD also developed an outreach and technical assistance plan to increase the quality of grant applications from such grassroots organizations. HUD will work to streamline the grant application process to match the capabilities of small and first-time grant applicants and establish pilot programs for these organizations. The Budget proposes \$5 million for a multi-city pilot program aimed at increasing the participation of faith-based and community organizations in the cities’ community development strategies.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

(In millions of dollars)

| | Actual | | Estimate | |
|---|---------|---------|----------|---------|
| | 2001 | 2003 | 2004 | 2005 |
| Spending | | | | |
| Discretionary Budget Authority: | | | | |
| Community Development Block Grant..... | 5,113 | 4,905 | 4,934 | 4,618 |
| HOME Investment Partnerships..... | 1,796 | 1,987 | 2,006 | 2,084 |
| <i>American Dream Down Payment Initiative</i> | | | | |
| <i>(non-add)</i> | — | (75) | (87) | 200 |
| Homeless Assistance Grants..... | 1,023 | 1,217 | 1,260 | 1,332 |
| <i>Samaritan Housing Grant—Legislative proposal</i> | | | | |
| <i>(non-add)</i> | — | — | — | (50) |
| Housing Opportunities for Persons with AIDS..... | 257 | 290 | 295 | 295 |
| Housing Certificate Fund (net of rescissions)..... | 11,970 | 15,512 | 16,413 | 16,909 |
| Public Housing..... | 6,228 | 6,289 | 6,275 | 6,247 |
| Native American Housing Block Grant | 649 | 645 | 650 | 647 |
| Revitalization of Severely Distressed Public | | | | |
| Housing (HOPE VI) | 574 | 570 | 149 | — |
| Housing for the Elderly | 754 | 778 | 774 | 773 |
| Housing for Persons with Disabilities | 243 | 249 | 250 | 249 |
| Federal Housing Administration (FHA)..... | -2,349 | -3,584 | -3,545 | -2,627 |
| Lead Hazard Reduction | 100 | 175 | 174 | 139 |
| All other HUD programs..... | 1,999 | 1,134 | 867 | 448 |
| Total, Discretionary budget authority | 28,357 | 30,092 | 30,415 | 31,264 |
| Total, Discretionary outlays | 33,018 | 37,221 | 39,830 | 40,843 |
| Mandatory Outlays | 921 | 253 | 6,347 | -1,900 |
| Total, Outlays..... | 33,939 | 37,474 | 46,177 | 38,943 |
| Credit activity | | | | |
| Direct Loan Disbursements: | | | | |
| FHA..... | 2 | — | 53 | 53 |
| All other programs..... | 24 | 4 | — | — |
| Total, Direct loan disbursements | 26 | 4 | 53 | 53 |
| Guaranteed Loan Commitments: | | | | |
| FHA..... | 122,687 | 170,655 | 168,310 | 180,512 |
| All other programs..... | 356 | 370 | 425 | 432 |
| Total, Guaranteed loan commitments..... | 123,043 | 171,025 | 168,735 | 180,944 |

DEPARTMENT OF THE INTERIOR

Since 2001, the Administration:

- Provided \$2.8 billion over three years toward the President's funding commitment of \$4.9 billion over five years to address the national parks' maintenance backlog;
- Began a systematic review of all National Park facilities, roads, and trails that is now 96 percent complete, and started tracking improvements;
- Identified the "vital signs" in 125 national parks used to monitor ecosystem health;
- Funded 19 new Bureau of Indian Affairs replacement schools and 25 major facility improvement and school construction repair projects;
- Brokered important changes in Colorado River water allocation among users; and
- Increased funding for cooperative conservation programs to \$507 million, which is 43 percent above the 2001 level.

The President's Budget:

- Continues commitments to:
 - fund \$900 million from the Land and Water Conservation Fund;
 - reduce the maintenance and construction backlog in national parks and at Bureau of Indian Affairs schools; and
 - complete the Natural Resource Challenge in national parks.
- Reforms the Abandoned Mine Land program and targets more funding to environmental clean-up projects in States where it is needed;
- Implements the President's Healthy Forests Initiative and provides a \$25 million increase in the Department's fuels treatment budget;
- Strengthens on-going Indian Trust reforms through reorganization and improved management systems, information security, and land consolidation;
- Establishes specific goals to improve priority National Park Service buildings to good condition by 2006;
- Proposes oil and gas exploration and, if discovered, development of resources in a small portion of the Arctic National Wildlife Refuge in an environmentally responsible manner; and
- Establishes a constructive framework for preventing future water use conflicts in the West.

Department of the Interior

Gale A. Norton, Secretary

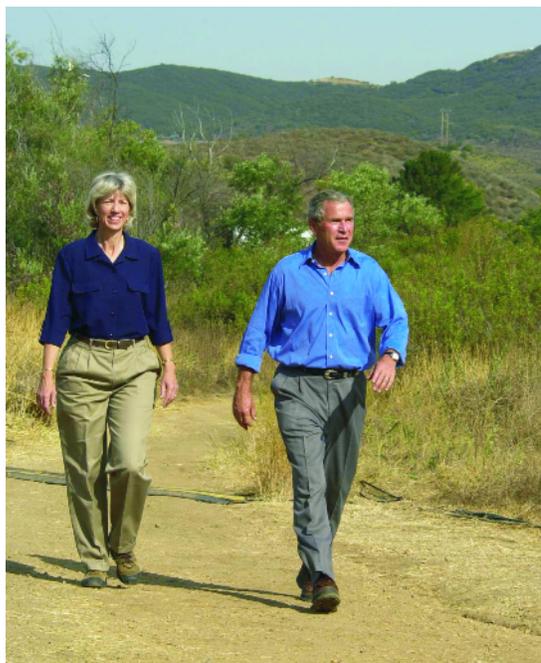
www.doi.gov 202-208-7351

Number of Employees: 71,436

2005 Discretionary Budget Authority: \$10.8 billion

Key Components: 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.

Major Assets: Manages over 500 million acres of land, 700 million acres of subsurface minerals, the Nation's Outer Continental Shelf, 388 national park units, 542 national wildlife refuges, 70 national fish hatcheries, and 406 hydroelectric power facilities and reservoirs.



Secretary Norton and President Bush hiking in the Santa Monica Mountains National Recreation Area.

OVERVIEW

The Department of the Interior (DOI) manages about one-fifth of the land area of the United States and all of the Nation's Outer Continental Shelf. DOI protects much of the Nation's natural and cultural resources, and serves as the largest supplier and manager of water in the 17 western States. DOI is accountable for meeting many of the Government's trust responsibilities to Indian tribes and handling its relationships with U.S. affiliated island communities. The agency also generates and disseminates U.S. Earth science information and research findings to the public.

The President's Budget provides funding to operate national parks, refuges, public lands, and other facilities and assets. It also continues the transition to performance-based management in order to better protect and operate these facilities and assets. In addition to protecting resources for future generations, these expenditures help the economy by promoting tourism and outdoor recreation. The National Park Service estimates that its \$2 billion annual appropriations generate over \$10 billion annually in visitor spending in the communities around national parks.

The Budget increases resources for the Department to improve its performance in providing trust services. This includes providing for 165 newly established trust positions throughout Indian Country. It continues funding the five-year historical accounting plan, while substantially increasing funds to consolidate fractional interests in Indian lands, thereby allowing for economic development of these lands. Together these initiatives represent a concerted effort to improve the lives of Native Americans.

The Budget targets selected increases to allow programs to achieve their goals. For example, substantial increases for the Abandoned Mine Land Reclamation (AML) program are coupled with legislative reform proposals that will allow most of the AML grants to be spent in the States with

the greatest reclamation needs. This will significantly increase environmental clean-up, health and safety, and land reclamation.

DOI's activities largely fall within four broad mission components: Resource Protection, Recreation, Resource Use, and Serving Communities. These activities support the President's vision of protecting America's environment while also promoting the economic welfare of people across the country.

RESOURCE PROTECTION

The Interior Department is responsible for protecting the cultural and natural resources of a large portion of the United States. These resources include the priceless beauty of such places as the Yosemite Valley and the Great Smoky Mountains. They include areas vital to wildlife such as the Everglades. They include invaluable artifacts and structures of historical significance such as the Statue of Liberty and Washington Monument. And, they include a vast area of federally owned land—over 500 million acres or about one-fifth of the land in the United States. The conservation and careful use of these precious resources protects them for current and future generations and sustains an array of opportunities for the public, including resource use and recreation. These activities contribute to the livelihood of those living in these areas and enhance the quality of life for the public.

Recognizing that conservation of such resources extends beyond Federal land, the Department also partners with State and local governments and individuals to promote cooperative conservation throughout the Nation. The President's 2005 Budget supports Interior's resource protection goals, including investments to sustain biological communities, preserve America's cultural and heritage resources, and improve the health of watersheds, landscapes and marine resources. Expected results include:

- Fish and Wildlife Service (FWS) programs will help prevent two additional species from becoming listed under the Endangered Species Act;
- The Bureau of Land Management (BLM) will restore 230,000 acres of public lands by treating areas infested with invasive weeds and remediating 66 abandoned hardrock mines; and
- The National Park Service (NPS) will identify in 200 national parks the "vital signs" that best show ecosystem health, as part of the ongoing Natural Resource Challenge.

Gray Wolf—Species on the Rebound

Gray wolf populations are growing as a result of actions outlined in the Endangered Species Act Recovery plan. In fact, achieving recovery goals laid out in the plan resulted in the Fish and Wildlife Service moving these populations from the "endangered" category, or in danger of extinction, to the "threatened" category. The Service is working with States to remove the gray wolf from the Endangered Species Act list altogether in 2004 or 2005.

Nature knows no jurisdictional boundaries, so DOI can accomplish these and other results only by working with others. The following sections describe some of DOI's cooperative efforts with States, Tribes, local governments, private groups, and citizens.

Land and Water Conservation Fund

The President fulfills his \$900 million Land and Water Conservation Fund (LWCF) funding commitment by requesting this amount from the LWCF for a number of programs that promote cooperative conservation. Most of these programs are increased in the President's 2005 Budget. The LWCF State recreation grants program is held at last year's level, because a Program Assessment Rating Tool (PART) evaluation revealed that the program could not clearly measure or demonstrate performance.

When the LWCF was established in 1965, the goal was to "conserve, develop, and utilize outdoor recreation resources for the benefit and enjoyment of the American people." At that time, the focus was on Federal acquisition and management of lands. This Administration recognizes that a partnership-based approach is key to improving the health of lands and watersheds and can complement Federal land acquisitions. Conservation easements, for example, can protect wildlife habitat and safeguard natural resources while allowing private landowners to use their lands. As Federal agencies try to better manage these resources, maintaining and restoring public lands in partnership with States, Tribes, local communities, and private citizens allows others to be good stewards of the current land inventory and increases the oversight and protection of those lands and waters.

Cooperative Conservation Initiative: Enlisting Individuals to Care for the Land

DOI's Cooperative Conservation Initiative (CCI) consists of various volunteer, partnership, and challenge-cost-share programs in FWS, BLM, and NPS. The CCI allocates \$129 million in matching funds for resource conservation projects, but more importantly, it encourages citizens to take responsibility for care of the land. Projects range from FWS joint ventures on waterfowl habitat protection and NPS grants in support of the Lewis and Clark Bicentennial, to BLM coordination with volunteers to manage rangeland. All of the CCI efforts have a common goal—engage citizens in restoring natural resources and taking pride in America.

Endangered Species and Wildlife: Partnering for Conservation

The Department plays a leading role in the Federal Government's effort to conserve fish and wildlife. The Department's actions conserve species listed under the Endangered Species Act (ESA) and protect a wide range of other species.

Many of these actions occur through cooperative efforts with States and private landowners. The President's 2005 Budget provides \$129 million for the FWS endangered species program and \$892 million in grants and payments to help protect and manage plants and animals and their habitats. These funding levels include a 42-percent increase to address listing, including litigation-driven critical habitat designations, as well as a 44-percent increase for the North American Wetlands Conservation Fund. The 2005 President's Budget will help prevent two species from becoming listed under the ESA and maintain or improve the status of



"We'll take it from here." Grizzly Bear populations are increasing in the lower 48 States thanks to cooperative habitat protection.

roughly 385 listed species. The Budget will support achieving the target of recovering two species so that they may be removed from the ESA list—possibly the Virginia round-leaf birch and the gulf coast population of the brown pelican.

Healthy Forests Initiative: Protecting Our Forests and Woodlands

In August 2002, President Bush announced the Healthy Forests Initiative, a joint effort of DOI and the Department of Agriculture to reduce the threat of catastrophic wildfire and improve the health of our Nation's forests and rangelands, by expanding local collaboration and reducing unnecessary delays in forest health projects. In just over one year, the Administration completed its promised administrative steps and worked with a bipartisan coalition of Members of Congress to pass two new laws to help the agencies better protect communities and forests. The initiative culminated in the passage of the Healthy Forests Restoration Act, which President Bush signed into law on December 3, 2003.

While the Healthy Forests Initiative focuses on management improvements and making better use of existing resources, the Budget also supports the initiative by providing an additional \$25 million for DOI fire fuels reduction projects in 2005. (For more detail on this initiative, see the Department of Agriculture chapter.)

Abandoned Mine Land Restoration

The Congress passed the 1977 Surface Mining Control and Reclamation Act (SMCRA) to reclaim abandoned coal mine lands. The AML program uses coal fees to finance the reclamation. Authorization for the fee will expire in September 2004. Although the program has accomplished much, there remains more than \$3 billion in unfinished health and safety work to reclaim sites potentially affecting more than 3.5 million Americans who live less than one mile from the hazards created by abandoned coal mines.

A 2004 PART evaluation found that although the program is well managed and coordinated with coal mining States, the program's underlying authority hinders the rapid clean-up of abandoned coal mine lands and resulting water quality degradation. Because of SMCRA's funding allocation formula, some States and Tribes have completed reclamation on all their abandoned coal mine sites or are working on low priority sites, while others are still decades away from completing reclamation of the most critical high-priority sites.

To protect lives and improve public safety, the Administration is proposing to reduce and extend the coal fee and to modify SMCRA to direct dollars toward the most serious problems. The accompanying table compares average program accomplishments under current authority and the Administration's proposal. Under the proposal, certified States and Tribes will not receive any allocations from the extended coal fee, but over 10 years they will be repaid their share of existing AML fund balances. In addition to developing the proposal to reform the AML, the Administration will work to address the financial viability of the Combined Benefit Fund for retired coal mine workers.

AML Goals and Accomplishments

| | Current Program | Proposal |
|---|------------------------|-----------------|
| Acres reclaimed annually | 6,900 | 8,200 |
| People removed from risk annually | 76,000 | 140,000 |
| Years to eliminate health and safety problems | 47 | 25 |
| Corrects SMCRA allocation problem | No | Yes |

Conservation Tax Credit

The President’s Budget includes a cost-effective, market-based incentive for conservation. Private landowners who voluntarily sell land or water to a government agency or qualified organization for conservation purposes are eligible for a 50 percent capital gains tax exclusion. This proposal applies to conservation easements and similar sales of partial interests in land for conservation purposes, such as development rights and agricultural conservation easements. The Administration is committed to ensuring that taxpayers who qualify for the tax incentive are actively enhancing conservation efforts.

RECREATION

Outdoor recreation contributes to our quality of life and offers physical activity crucial for our health and well-being. The Department of Health and Human Services’ objectives for better health include increasing the proportion of adults who engage regularly in moderate physical activity for at least 30 minutes a day. There may be no better way to do this than by hiking in a national park, biking on public lands, hunting in a national refuge, water skiing on a recreational lake, or just taking a walk to a nearby historic site.

The Interior Department is working to make Federal lands more accessible for outdoor recreation. Along with other State and Federal agencies, it has built a user-friendly website (*www.recreation.gov*) to provide a single point of access for information on camping, hiking, and other activities. The Federal agencies are also consolidating their reservation systems to provide “one-stop shopping.” Through these and other efforts, Interior can make national parks, refuges, and other DOI lands more accessible for an increasingly diverse public.

Another way to improve services is to reinvest recreation fee receipts back into the sites that collect them. Since 1996, the Recreation Fee Demonstration Program has provided over \$1 billion for the Departments of the Interior and Agriculture to invest in better trails, campgrounds, and facilities. Grand Canyon National Park, for example, has constructed or restored picnic areas, backcountry trails, water and wastewater systems, and relocated maintenance facilities away from the core visitor area along the South Rim. Surveys show that the public overwhelmingly supports paying a modest recreation fee when they can see better services in return. The Administration urges the Congress to provide permanent recreation fee authority, so that agencies can use fee receipts to improve services.

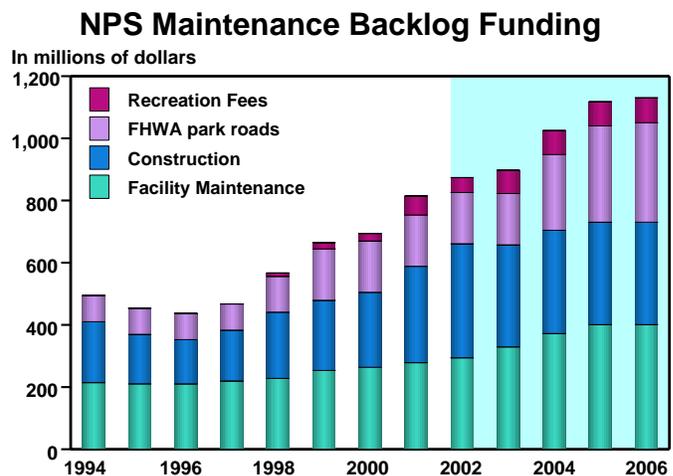
Over 90 percent of visitors to DOI sites rate their experience as good or very good. Interior will continue this level of service by investing wisely to maintain an aging infrastructure. DOI bureaus are working to measure changes in facility conditions, but none has done more in this area than the National Park Service.

National Park Service Maintenance Backlog

I tasked [the National Park Service] with the idea of setting up a national database that will track maintenance needs on an asset-by-asset basis And then when you get an assessment of what is needed, we can set priorities. And when you set priorities, it is more likely that the \$5 billion will be spent wisely on behalf of the American people to maintain their park system.

President George W. Bush
 Santa Monica Mountains National Recreation Area
 August 2003

This Budget keeps the Administration on track to meet the President’s commitment to provide \$4.9 billion over five years for park facility maintenance and construction. As the accompanying chart shows, the proposed annual funding level is now double the level in the first years of the last Administration. When this funding commitment was made in 2000, the best information available to NPS indicated that it should be sufficient to eliminate the deferred maintenance backlog. Since then, NPS has conducted—for the first time ever—a thorough assessment of facility conditions. These assessments show that, despite the success in meeting the funding commitment, more work will be needed to bring park facilities up to an acceptable condition.



Source: Department of the Interior.



Volunteers dig national parks. President Bush lends a hand in repairing the Old Boney Trail in the Santa Monica Mountains National Recreation Area.

NPS now has a maintenance management system to set results-oriented goals using a Facility Condition Index (FCI) as a performance measure. Unlike earlier NPS backlog estimates, these measures are reliable, reproducible, and based on actual conditions. NPS now has a performance-based system to track improvements in national parks. With this system, the Administration intends to:

- Improve priority buildings in national parks to good condition (as measured by the FCI average) with the funds expected through 2006; and
- Improve other assets in national parks to acceptable condition (as measured by the FCI average) with the funds expected through 2009.

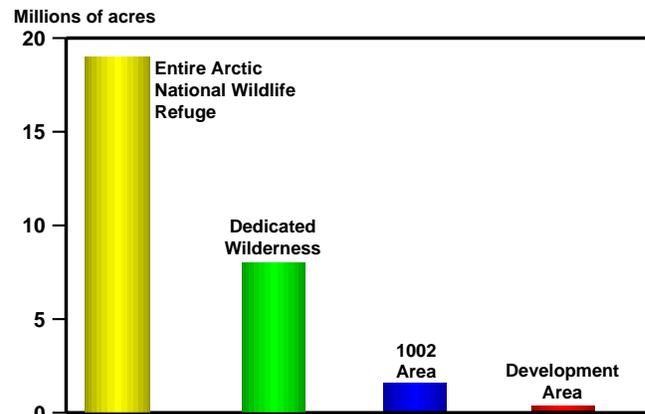
RESOURCE USE

Public lands and offshore areas contain abundant natural resources, such as oil, natural gas, coal, other minerals, water, timber, and grasslands. DOI manages these areas to enhance public benefit, promote responsible use, and ensure that American taxpayers receive fair value for the use of their national resources.

Oil and Natural Gas

The Administration continues to promote dependable, affordable energy while maintaining environmental protections. Federally managed lands and offshore areas supply about one-third of domestic oil and gas production. Currently, the United States uses about 20 million barrels of oil daily, approximately half of which is imported. Almost all of the natural gas used in the United States is domestically produced. However, because of growing demand and restrictions on developing public lands, such as the Outer Continental Shelf moratorium on new oil and gas leasing areas, the United States will have to import more natural gas in the future.

Oil and Gas Development Area in ANWR



To reduce the Nation's reliance on oil and natural gas imports, DOI is implementing the National Energy Policy by working with the Congress to authorize exploration and, if resources are discovered, environmentally responsible development of the most promising oil and natural gas reserve areas within a small portion of the Arctic National Wildlife Refuge (ANWR). DOI estimates that recoverable oil from ANWR, commonly referred to as the "1002 Area," is between 5.7 billion and 16 billion barrels of oil, and the development area would affect about one-tenth of one percent of the 1002 land area as the accompanying chart depicts. (For presentation purposes, the Development Area is shown oversized.)

To advance the goals of the National Energy Policy, the President's 2005 Budget also includes funding to enable Interior agencies to respond to the growing national need for increased access to other non-renewable energy resources, with particular emphasis on coalbed natural gas.

Renewable Resources

The President's 2005 Budget includes \$1.7 million to facilitate the development of renewable energy resources such as geothermal and wind power on public lands. This will enable BLM to administer 30 wind energy rights-of-way and 75 geothermal leases, and conduct additional feasibility and environmental studies needed for wind energy applications. These efforts are yielding tangible results. Geothermal power production from BLM lands has increased 17 percent from 2001 to 2003.

For over a decade, wind energy has been the fastest growing energy technology worldwide, achieving an annual growth rate of over 30 percent. Wind energy currently accounts for six percent of renewable electricity generation. In the United States, an estimated 1,300 MW of new wind projects were installed in 2003, bringing total U.S. installed capacity to approximately 4,700 MW, of which roughly 500 MW is located on BLM lands. In addition, developers are evaluating the potential for offshore wind energy production on the Nation's Outer Continental Shelf.

Coal

Coal is the most abundant fuel source in the United States and is expected to remain the dominant fuel in meeting electricity demand through 2025 and beyond. DOI plays a key role in domestic coal production. In 2003, coal mined on lands controlled by BLM accounted for about 40 percent of domestic coal production. Since the demand for coal is projected to continue to rise, BLM will continue to provide appropriate access for development, and will work to reduce the cycle times of operating plan reviews and permitting processes while ensuring adequate environmental protection.

Rural Water

Communities in many rural areas of the country either have inadequate water supplies, or have serious water quality problems. Domestic water is primarily a State and local responsibility, yet 11 Federal programs help rural communities with their water supplies.

The President's 2005 Budget requests \$67.5 million for the Bureau of Reclamation's (Reclamation) rural water projects, which provide municipal, residential, and industrial water supplies to mostly rural communities in the western States. The Administration is convening an interagency working group this winter to study areas of overlap among the 11 different Federal programs that address rural water infrastructure needs, looking for potential efficiencies that can be gained from streamlining and consolidating program operations in order to improve service in these communities. Recommendations from this review will be incorporated into the President's 2006 Budget. Concurrently, the Administration will coordinate a cross-cutting PART effort on rural water to facilitate program comparisons. In the interim, the Administration is submitting legislation that will formally establish a Reclamation rural water program, addressing many of the flaws identified in the 2004 PART evaluation of these projects.



There are 10 more like it. Eleven different Federal programs help rural communities build water infrastructure.

Water 2025: Preventing Crises and Conflicts in the West

The Water 2025 initiative proposed in the President's 2005 Budget builds on the foundation laid by the Western Water Initiative in the 2004 Budget. It expands opportunities to better focus existing resources on preventing conflicts between water users, and to develop and employ tools to better conserve and more efficiently use this scarce resource. As the western population grows, Reclamation will work with State and local water users to establish a framework and process for identifying potential areas of conflict, and specific actions to facilitate cooperation.

Water 2025 will better anticipate potential water conflicts, help to stretch or increase water supplies, and provide added environmental benefits to many watersheds. This collaborative effort will minimize water crises in critical watersheds by improving the environment and addressing the effects of water shortages in high-risk areas, and provide a balanced, practical approach to water management for the next century. By planning and making up-front investments to improve water management, Water 2025 should help avoid expensive and disruptive crisis management of water conflicts,

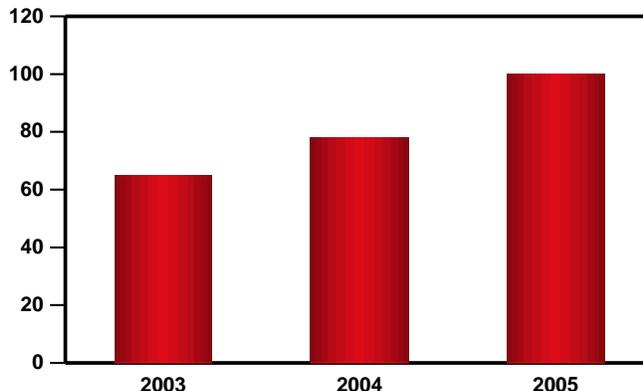
such as experienced recently in the Klamath Basin of Oregon and California, and the Middle Rio Grande of New Mexico. More information on Water 2025 is available at www.doi.gov/water2025.

Klamath River Basin: Water 2025 Will Address the Need for Long-Term Planning to Avoid Similar Conflicts

Water 2025 will utilize Secretary Norton’s Four C’s (Consultation, Cooperation, and Communication, all in the service of Conservation), to proactively address looming water conflicts in the West, not just in drought years, but in all years. Reclamation’s Klamath Project in Oregon has in recent years been at the center of a conflict over competing water needs for farmers, tribal governments, commercial fisheries, endangered species, and national wildlife refuges. The President’s 2005 Budget requests more than \$100 million across nine agencies to help find a sustainable balance between the many competing needs, while continuing to meet its commitments to World War I and World War II veterans, who were enticed to settle the Klamath Basin with the promise of irrigation water. The work in the Klamath is an example of the Administration’s commitment to address these issues. Water 2025 will help to identify similar problems and avoid conflict in critical areas across the West.

Federal Funding for Klamath River Basin

Budget authority in millions of dollars



Source: Department of the Interior.

SERVING COMMUNITIES

DOI is responsible for fulfilling the Federal Government’s trust responsibilities to Native Americans and promoting self-governance and self-determination on behalf of tribal governments. In addition, DOI provides scientific knowledge, information, and tools to inform decision-making and community-based programs.

Carrying Out Indian Trust Responsibilities

The Indian Land Consolidation Program encourages the use of consolidated lands for economic and social development by the Tribes and reduces Federal trust management expenses by purchasing small ownership interests. Over 10 million acres of Indian trust lands are split (fractionated) into millions of ownership interests distributed among 400,000 individuals. A large number of these ownership interests represent only two percent or less of an allotted tract and, as ownership interests are handed down to children and other heirs, fractionation of the ownership interests continues to expand exponentially.

The accompanying table shows an example of the results of fractionation on an actual tract of land. Two-thirds of the owners of this tract receive less than \$1.00 annually. Nonetheless, DOI has a responsibility to manage every account and associated real property no matter how small the amount.

Example of the Effect of Fractionation

(Tract No. 1305—40 acres)

| | 1987 | 2003 |
|---|------------------------|-------------------------|
| Number of Owners..... | 439 | 505 |
| Annual Income | \$1,080 | \$2,000 |
| Value of Land..... | \$8,000 | \$22,000 |
| Largest Accountholder Annual Income | \$83 | \$153 |
| Smallest Accountholder Annual Income..... | $\$0.3 \times 10^{-9}$ | $\$0.9 \times 10^{-11}$ |
| Annual Federal Cost to Administer | \$17,560 | \$42,800 |

Since 1999, a pilot land consolidation program has acquired 63,869 ownership interests representing 37,750 acres. During this same period, however, the number of ownership interests has grown even larger and will continue to grow and cost more money to administer unless an aggressive approach to reducing fractionation is taken.

The President's Budget funds the program at \$75 million, a significant increase over the \$9 million 2001 level, as a major step toward addressing the problem. Funding alone, however, is not the answer. The Administration is working with the Congress to pass legislation to address other important areas such as unclaimed property and expedited, less cumbersome probate. This effort to address land fractionation in Indian Country and turn the land into a useful commodity will help restore full economic viability to trust lands.

Conducting Historical Accounting

The 2005 Budget provides a total of \$109 million—this amount may be revised as legal issues pending before the courts are resolved—to continue a historical accounting of approximately 260,000 Individual Indian Money (IIM) accounts and 1,400 tribal accounts, a high priority for the Department. At the end of the historical accounting process, the Department intends to be in the position to provide each individual beneficiary with a statement with sufficient information to determine whether Interior has faithfully carried out its fiduciary responsibilities. The historical accounting reconciliation separates the IIM accounts into three distinct types: 42,200 Judgment and Per Capita accounts; 200,000 Land-Based accounts; and 21,500 Special Deposit accounts. The Office of Historical Accounting was established in 2001 to handle the task, and as of October 2003, nearly 18,000 Judgment and Per Capita accounts and 3,500 Special Deposit Accounts have been fully reconciled. As of mid-December 2003, a pilot project in Alaska has completed imaging more than 1.4 million pages and coded more than 22,500 IIM documents to assist in the retrieval of records for the historical accounting.

Enhancing Native American Educational Opportunities

Top quality education for Native Americans remains a high priority for the Administration. Education is the cornerstone of a viable and prosperous future for tribal governments and Native Americans. The vast majority of Native American children attend local public schools. However, the Bureau of Indian Affairs (BIA) administers an elementary and secondary education system, and is working in partnership with tribal representatives to fully implement the No Child Left Behind Act with the goals of increased accountability and student achievement. The BIA also supports two universities and 27 tribally controlled community colleges.

BIA operates, either directly or through tribal contracts and grants, 170 K–12 schools serving approximately 46,000 instructional students and 13 dormitories serving 2,000 resident-only boarders, or approximately seven percent of all Native American children. Since 2001, the Administration has made a substantial investment to provide students and teachers in BIA schools with a safe physical environment in which to learn and grow. Nineteen new BIA schools, along with 25 major improvement and repair projects have been funded to sustain President Bush's Indian school construction funding commitment.

The President's Budget provides funding for five additional replacement schools, as well as several major improvement projects to support this effort. As a result of a 2004 PART, the BIA established a goal to reduce its September 2001 overall FCI assessment of 0.266 (rated poor) to less than 0.100 (rated fair or good) by September 2007. School construction funding for the past three years will result in an overall FCI of 0.124 with 56 percent of the schools having an FCI of 0.100 or less.

Informing Decision-Making Through Scientific Information and Knowledge

The U.S. Geological Survey (USGS) makes natural science information easier to access, integrate, and apply for management of the Nation's biological, water, geographical and geological resources. To fulfill this mission, USGS will work with the Federal Geographic Data Committee and the Geospatial



Ring the bell. The new state-of-the-art Baca-Dlo'ay Azhi School in Prewitt, New Mexico opened for the 2003–2004 school year.

The Baca-Dlo'ay Azhi School was opened to nearly 400 K–6 students at the start of the 2003–2004 school year. The 80,000 square foot state-of-the-art facility recently dedicated by Secretary Norton replaced two deteriorated BIA schools with a modern structure incorporating the latest in 21st Century computer technology and environmentally sustainable design features. The opening marked a major accomplishment in the effort to replace or improve all of BIA's aging schools with modern structures that are safe, comfortable, ecologically friendly and equipped with the most modern technology.

One-Stop E-Gov initiative to fund \$7 million for 43 partnerships with State and local governments to maintain high-resolution imagery for urban planning, infrastructure maintenance, and emergency response. Biological and water resource scientists will integrate their knowledge in the Klamath river basin to provide critical information about water quality and quantity and fish ecology that is necessary for management of the basin. As a result of the 2005 PART findings, Geologic Hazard scientists will work with Federal partners to measure the effectiveness of national efforts to decrease the loss of life and property due to earthquake, volcano, and landslide hazards.

PERFORMANCE EVALUATION OF SELECT PROGRAMS

The Budget continues to focus on improving program performance. Twelve Department of the Interior programs were assessed for 2005 using the Program Assessment Rating Tool (PART), which evaluated the programs' design and purpose, strategic planning efforts, how well they are managed, and whether they are generating positive results for taxpayers. Below are some of the highlights and recommendations from the PART evaluations. For further details on Interior's performance assessments, see the White House budget website at www.whitehouse.gov/omb/budget/.

| Program | Rating | Explanation | Recommendation |
|---|----------|---|--|
| National Park Service Facility Management (NPS) | Adequate | Program has assessed the condition of 96 percent of assets, built a maintenance management system to track changes in conditions; and set performance targets using a Facility Condition Index (FCI). | Verify initial assessments, validate FCI targets, and confirm priorities using an Asset Priority Index (API); and use FCI and API to make budgetary decisions. |
| Energy and Minerals Management (BLM) | Adequate | Program has a clear purpose, but lacks good long-term performance goals and does not properly charge users for identifiable costs. | Revise BLM's regulations to increase cost recovery; develop baseline data and targets for newly developed performance measures; and identify additional efficiency measures. |
| Indian Forestry Program (BIA) | Adequate | The program has a clear purpose to ensure the sustainability of Indian forests. However, only 40 percent of the 275-forested reservations have plans to guide forest management practices. | Provide for additional forest management plans; develop long-term measures; and develop baseline data and targets to measure performance. |

| Program | Rating | Explanation | Recommendation |
|--|--------------------------|--|--|
| Land and Water Conservation Fund—State Grants | Results Not Demonstrated | The State grants portion of the program has a clear purpose, but an inadequate process for measuring performance and accomplishments. | Coordinate with State partners to identify appropriate performance measures; establish baselines and set targets for performance measures; and establish a process for independent program evaluations. |
| Regulation of Surface Coal Mining Activities (OSM) | Results Not Demonstrated | Program has a clear purpose, but lacks adequate strategic planning outcomes and annual performance measures to guide the future management and improvement of the program. | Collaborate with the regulated States and Indian Tribes to review performance and agree on appropriate program performance measures and data collection and reporting; develop baseline data and targets; and establish a process for independent program evaluations. |

UPDATE ON THE PRESIDENT’S MANAGEMENT AGENDA

The table below provides an update on Interior’s implementation of the President’s Management Agenda as of December 31, 2003.

| | Human Capital | Competitive Sourcing | Financial Performance | E-Government | Budget and Performance Integration |
|-----------------|---|---|---|---|---|
| Status |  |  |  |  |  |
| Progress |  |  |  |  |  |

The Department of the Interior is devoting notable management attention to the implementation of the President’s Management Agenda, but work remains for this decentralized agency. DOI financial performance has improved, although challenges remain in Indian Trust reform. Interior received an unqualified audit opinion this year and reduced from 34 to 12 the number of outstanding material weaknesses. DOI has drafted a human capital workforce plan, but has been delayed in implementing a Department-wide strategic approach to managing diversity.

Interior remains a leader in competitive sourcing, with analysis completed on 85 percent of the 3,000 FTEs identified in the approved competition plan. The Department has strengthened its Information Technology portfolio management through its new capital planning and investment control process. It has also promoted “one-stop shopping” for recreational services by working with other agencies on an integrated campground reservation system and a consolidated website, www.recreation.gov. To support budget and performance integration, activity-based costing has been introduced throughout the Department. DOI has also created for the first time a single Department-wide strategic plan.

DEPARTMENT OF THE INTERIOR

(In millions of dollars)

| | Actual | | Estimate | |
|--|--------|--------|----------|--------|
| | 2001 | 2003 | 2004 | 2005 |
| Spending | | | | |
| Discretionary Budget Authority: | | | | |
| Bureau of Land Management | 1,851 | 1,837 | 1,645 | 1,737 |
| Minerals Management Service | 139 | 176 | 170 | 179 |
| Office of Surface Mining | | | | |
| Existing law | 316 | 329 | 296 | 300 |
| Legislative proposal | | | | 53 |
| Bureau of Reclamation/Central Utah Project | 811 | 910 | 943 | 926 |
| U.S. Geological Survey | 884 | 919 | 938 | 920 |
| Fish and Wildlife Service | 1,313 | 1,263 | 1,324 | 1,326 |
| National Park Service | 2,289 | 2,272 | 2,331 | 2,361 |
| Bureau of Indian Affairs | 2,146 | 2,254 | 2,341 | 2,254 |
| Office of the Special Trustee | 119 | 148 | 209 | 323 |
| All other | 397 | 437 | 446 | 471 |
| Total, Discretionary budget authority | 10,265 | 10,545 | 10,643 | 10,850 |
| Total, Discretionary outlays | 8,977 | 10,820 | 10,680 | 11,088 |
| Total, Mandatory outlays | -1,826 | -2,860 | -1,678 | -2,205 |
| Total, Outlays | 7,151 | 7,960 | 9,002 | 8,883 |
| Credit activity | | | | |
| Direct Loan Disbursements: | | | | |
| American Samoa direct loan | 13 | 4 | 1 | 1 |
| Bureau of Reclamation direct loans | 25 | 9 | — | — |
| Total, Direct loan disbursements | 38 | 13 | 1 | 1 |
| Guaranteed Loan Commitments: | | | | |
| Indian guaranteed loan program | 52 | 56 | 66 | 67 |
| Total, Guaranteed loan commitments | 52 | 56 | 66 | 67 |

DEPARTMENT OF JUSTICE

Since 2001, the Administration:

- Reorganized to eliminate duplication and to target resources to counterterrorism efforts;
- Prosecuted and gained convictions in more than 1,000 terrorism-related and anti-terrorism cases; and
- Increased Federal prosecutions for gun violations by 68 percent over the past three years to record levels.

The President's Budget:

- Provides \$2.6 billion within the Department to combat terrorism, which is an increase of 19 percent over last year's counterterrorism funding level, and supports the new Terrorist Screening Center;
- Targets the 40 most significant drug organizations and their financial infrastructure;
- Provides resources to increase drug agents above pre-September 11th levels;
- Ensures adequate prison capacity for dangerous and violent offenders; and
- Provides additional funding to combat child exploitation and obscenity, domestic violence, and support victim services.

Department of Justice

John Ashcroft, Attorney General

www.usdoj.gov 202-514-2000

Number of Employees: 112,557

2005 Discretionary Budget Authority:

\$18.7 billion

Key Components: The Department is comprised of 39 separate organizations and is headquartered in Washington, D.C., although it conducts much of its work throughout the country and overseas.



Attorney General Ashcroft addresses law enforcement officers.

OVERVIEW

Defending our Nation and the citizens of America against terrorist attack is now our first and overriding priority.

Attorney General John Ashcroft
February 2003

The Department of Justice (DOJ) protects our Nation against terrorists, criminals, and drug-traffickers; ensures healthy business competition; and represents the interests of the American people in legal suits. Since September 11, 2001, the Department's emphasis on law enforcement has dramatically shifted to countering

terrorism. Using the critical tools provided by the USA PATRIOT Act, the Department has improved intelligence sharing and is in a better position to deter, detect, and disrupt terrorists and terrorist plots aimed at the United States. DOJ carries out this vital work while protecting civil liberties and freedoms. The President's 2005 Budget offers new strategies to combat terrorism and fight crime.

Components of DOJ include the Federal Bureau of Investigation (FBI), which investigates and apprehends terrorists and other Federal criminals; the Drug Enforcement Administration (DEA), which targets and disrupts drug trafficking organizations; the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF), which enforces the Nation's firearms and explosives regulations; the U.S. Marshals Service (USMS), which protects the Federal judiciary and apprehends fugitives; the Bureau of Prisons (BOP), which confines Federal prisoners and prepares them for re-entry into society; the U.S. Attorneys and other litigating divisions, which enforce Federal criminal and civil laws, including civil rights, tax, antitrust, environmental, and civil justice statutes; and the Office of Justice Programs (OJP), which administers State and local criminal justice assistance.

Countering the Threat of Terrorism. The Budget includes \$2.6 billion, a 19-percent, increase, to combat terrorism. A new interagency Terrorist Threat Integration Center is analyzing intelligence gathered from multiple sources to develop more comprehensive threat assessments, and a new Terrorist Screening Center is screening individuals seeking to access Government services, such as applicants for visas to enter the United States.

Reinvigorating Drug Enforcement. Following the September 11th attacks, DOJ shifted resources from fighting drugs to combating terrorism. To reinvigorate drug enforcement, the Budget provides resources to restore the pre-September 11th drug agent staffing level.

"Thinking Outside the Box." More than \$4.6 billion is provided for BOP, including an initiative that places a moratorium on new construction, and urges DOJ to make maximum use of available State, local, and private prison space to meet its prisoner incarceration requirements.

Protecting Our Neighborhoods and Children from Crime. The Administration leads efforts to protect our neighborhoods and children from crime, including Project Safe Neighborhoods, AMBER (America's Missing: Broadcast Emergency Response) Alert, DNA testing, and programs to combat Child Exploitation and Obscenity and Violence Against Women.

Performance Evaluation of Select Programs. In the past two years, half of the programs within DOJ have been evaluated using the Program Assessment Rating Tool (PART), which uses formal criteria to assess program performance and management. The PART analysis is designed to improve programs by focusing on results.

Update on the President's Management Agenda. The President's Management Agenda focuses on five areas of management across Government. The Department's progress on implementing the President's Faith-Based and Community Initiative is also evaluated. Overall, DOJ has demonstrated significant progress over the last two quarters, but still faces challenges.

COUNTERING THE THREAT OF TERRORISM

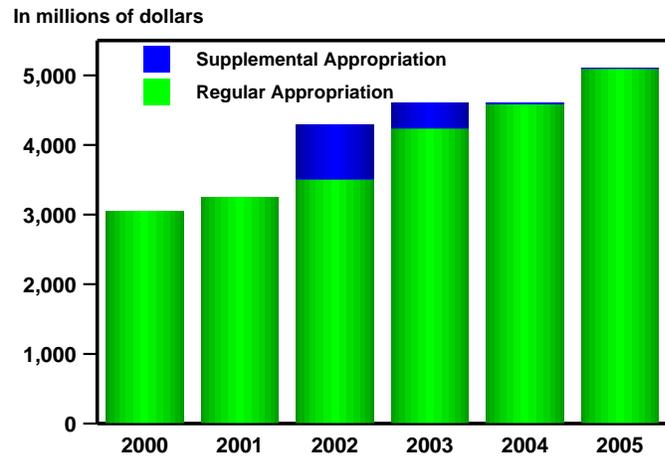
DOJ's top priority continues to be the prevention, investigation, and prosecution of terrorist attacks against U.S. citizens and interests. In the past year, the Department has arrested 1,283 individuals on counterterrorism-related charges and prosecuted and obtained convictions in 661 terrorism-related and anti-terrorism cases.

The President's 2005 Budget would further strengthen these counterterrorism efforts. In particular, it proposes counterterrorism/counterintelligence enhancements of \$357 million for the FBI.

The FBI is the lead agency within DOJ for combating terrorism. Since September 11th, the FBI has made preventing terrorist attacks its number one priority and has instituted a number of organizational, procedural, and resource allocation changes to support this goal. In addition, it has received significant resource increases in recent years, with funding rising from \$3.0 billion in 2000 to approximately \$4.5 billion in 2004, plus over \$1 billion in supplemental funding in 2002 and 2003. The Budget proposes \$5.1 billion for the FBI in 2005. Among the principal increases are:

- \$38 million to improve the FBI's intelligence capability, including a new Office of Intelligence to coordinate intelligence requirements and collection, additional language translators, and additional surveillance staff;
- \$60 million for counterterrorism investigations;
- \$55 million to combat cybercrime; and

Growing FBI Funding



Exploiting Intelligence Information



Stacks of seized documents from Iraq.

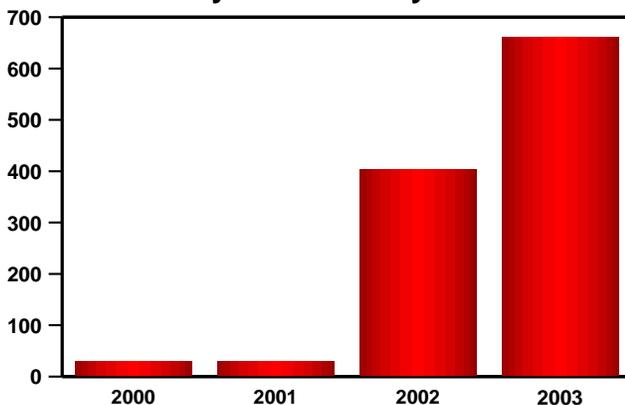
The war in Iraq and counterterrorism efforts in Afghanistan and other locations have yielded a treasure trove of potential investigative and intelligence information. Millions of pages of documents, as well as videotapes, photographs, and electronic media, have been seized. The FBI participates with other members of the intelligence community to translate and analyze these materials. This effort is yielding valuable information about possible threats to U.S. interests at home and abroad, including terrorist identities, networks, and finances.

- \$52 million to protect the United States from foreign government intelligence operations and espionage.

Many other DOJ components play a major role in counterterrorism. For example, the U.S. Attorneys have taken on new responsibilities to coordinate with State, local and Federal agencies prosecuting terrorist acts. Since the September 11th attacks, the U.S. Attorneys have prosecuted and obtained convictions in over 1,000 terrorism-related cases, including both international and domestic terrorism, terrorist financing, and other anti-terrorism cases.

The President's 2005 Budget includes an additional \$5 million for ATF to enforce the Safe Explosives Act. ATF's enforcement of this Act protects the public from hazardous explosives incidents and aims to keep terrorists from acquiring bombing and explosives materials.

Soaring Terrorism-Related Convictions by U.S. Attorneys



Source: Department of Justice.

While DOJ has a significant role in combating terrorism, a successful counterterrorism effort requires partnerships with other government agencies. Last year, the Budget reported on some of the efforts, such as the Joint Terrorism Task Forces (JTTFs), which are coordinated efforts between the FBI field offices and their counterparts in Federal, State, and local law enforcement to prevent terrorist attacks. The number of JTTFs has grown to 84. Another effort is the Foreign Terrorist Tracking Task Force, a multi-agency partnership that collects and analyzes information to track and detect foreign terrorists and their supporters. DOJ also provides financial and technical assistance to State and local governments for counterterrorism efforts.

The Budget includes two new Presidential initiatives in which the Department plays a major role:

- The Terrorist Threat Integration Center (TTIC), an interagency partnership supervised by the Director of Central Intelligence, is the Nation's first integrated center responsible for merging and analyzing terrorist-related information collected domestically and abroad in order to form the most comprehensive threat picture.
- The Terrorist Screening Center (TSC), supervised by the Attorney General, will ensure that Government screeners are using a consolidated watchlist of known or suspected terrorists when considering granting benefits to individuals, such as visas to enter the country. The Departments of Justice, Homeland Security, and State are the primary participants in the TSC. Funding for the TSC will be centralized in the FBI (\$29 million increase).



FBI Director Mueller, CIA Director Tenet, Attorney General Ashcroft and Homeland Security Secretary Ridge share information on the terrorist threat.

Explosive Regulation

An average of 20,000 pounds of explosives are reported stolen annually, creating a threat to public safety. ATF works to prevent criminal and terrorist use of explosives through enforcement, regulation, and industry outreach.

In enforcing the Safe Explosives Act, ATF oversees licensing of people who receive explosive materials and conducts background checks on employees handling explosives on the job in order to eliminate access to explosives by felons. The Explosives Detection Canine Program trains dogs to support bombing investigations and to prevent bombings around the world.



ATF Agents investigate an explosion.

THINKING OUTSIDE THE “80-SQUARE-FOOT” BOX

The average Federal prison cell is 80 square feet—yet it costs taxpayers roughly \$170,000 to build and activate and another \$24,500 per year to confine a Federal inmate. At present, BOP incarcerates over 174,000 inmates, of which nearly 27,000 are in contract beds. This represents a \$25-billion investment and almost \$4 billion in annual costs. It is time to start thinking outside of the 80- square-foot box and look at more cost-effective approaches to confinement, particularly contracting out for prisoner bed space.

The BOP is committed to contracting out bed space for low and minimum security inmates. This will yield cost savings and represents a more flexible approach than additional prison construction. While this has been the Administration’s policy, implementation has been slow due, in large part, to earlier decisions to meet additional bed space needs through new construction. For instance, BOP’s total prison population increased by 10 percent between 2002 and 2003, but its contract population remained largely static. The 2005 request is intended to help reverse this trend.



A prison cell.

The 2005 Budget places a moratorium on new prison construction while promoting more aggressive BOP contracting with State, local, and private sector prison providers. This approach is consistent with a PART assessment. While BOP’s program was found to be strong overall, the PART analysis suggested that BOP take greater advantage of public and private sector bed space to meet its capacity requirements. The President’s 2005 Budget provides partial funding for an additional 4,500 contract beds. In addition, the Budget provides that

Witness Security—It's all about who you know



A protected witness guarded by U.S. Marshals.

The Federal Witness Security program (WITSEC) protects witnesses and informants who assist the Federal Government in prosecuting criminals. Established in the USMS, the program was created to encourage those who feared for their lives if they cooperated with Federal prosecutors. WITSEC has grown into a law enforcement tool helping to hammer away at organized crime. The WITSEC program has been effective in helping break Omerta, the Mafia's code of silence, and has helped in dismantling organized crime in the United States.

This method is now being employed in the war on terrorism. WITSEC is working with other Federal agencies and departments to find a way to make suspected terrorists—or those who know them—talk to investigators. WITSEC has a special expertise in this area and will provide another weapon in the fight against terrorism.

DOJ will examine the use of up to \$150 million in prior year balances to contract out housing for low and minimum security inmates.

DOJ will evaluate low and minimum security facilities for potential upgrades to suit higher security inmates. This will help relieve crowding at the most critical security levels, while saving the taxpayers money.

REINVIGORATING DRUG ENFORCEMENT

In March 2002, the Attorney General announced a comprehensive six-part drug enforcement strategy for DOJ. The strategy combines the talent and expertise of numerous Federal law enforcement agencies to identify and target the most significant drug supply organizations and their related components. The central element of the strategy was the development of the first national list of priority drug trafficking targets, the Consolidated Priority Organization Target (CPOT) List, a unified list of international “command and control” drug traffickers and money launderers. These organizations and their related components, including the financial infrastructure supporting those enterprises, are targeted for investigations. Currently there are 517 active investigations linked to the 40 targets on the CPOT List.

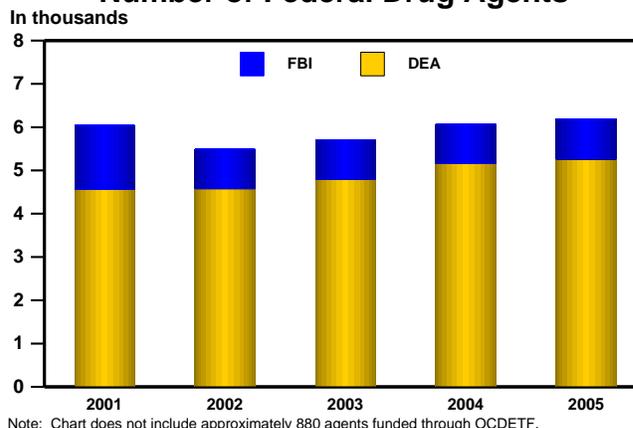
During 2003, Federal law enforcement successfully dismantled eight organizations identified on the CPOT List. Enforcement efforts in the past year also significantly disrupted the activities of seven other CPOT organizations. One of those organizations—the Ismael Zambada-Garcia organization—is reputed to be one of the largest and most powerful cocaine and marijuana organizations in Mexico.

Restoring Drug Agents to pre-September 11th Levels

Following the terrorist attacks of September 11th, the FBI reassigned more than 500 agents from drug investigations to counterterrorism investigations. As a result, the number of DOJ-funded drug enforcement agents declined by eight percent. To carry out the Department's new drug enforcement strategy effectively, the number of drug agents is being increased.

The President's 2005 Budget includes \$35 million to add 100 agents and additional complementary support staff to restore the Department's drug enforcement strength. In addition, \$4 million is included for support staff to relieve approximately 77 agents of corollary duties (e.g., weighing, cataloging, storing, and evidence management of seized drugs) and free them to focus on drug investigations. With the President's 2005 Budget, the Department's total drug agent level will exceed the pre-September 11th level by more than 140 agents.

Rebuilding Drug Enforcement-- Number of Federal Drug Agents



DEA: A More Focused Approach

Last year, DEA was unable to demonstrate progress in reducing the availability of illegal drugs in the United States. A principal shortcoming was the lack of quantifiable targets and timeframes in DEA's strategic plan. This year, a follow-up review found that DEA has made significant progress in addressing these performance measurement shortcomings. Among the most significant changes were revisions to DEA's strategic plan to include appropriate long-term and annual performance measures. Because of the changes, the PART assessment of DEA changed from Results Not Demonstrated to Adequate.

The President's Budget enhances the DEA program by:

- Providing funding for 100 Special Agents and related support staff to investigate Priority Target Organizations, including their financial infrastructures (\$35 million increase);
- Improving the infrastructure essential to sustaining DEA's existing operational capacity (\$13 million increase);
- Enhancing DEA's international counter-narcotics training in strategic areas (\$1 million increase); and
- Redirecting existing DEA resources (\$21 million) to support these enhancements.

OCDETF: The Cornerstone of the Department's Drug Enforcement Strategy

To target trafficking networks effectively—including suppliers, distributors, couriers, and money launderers—law enforcement agencies must pool their resources and their expertise and work as a team. The Attorney General's Drug Enforcement Strategy restored the focus of the Organized Crime Drug Enforcement Task Force (OCDETF) program to facilitating coordinated investigations of major drug supply and money laundering organizations. OCDETF combines the resources and expertise of

International Narcotics Investigation Disrupts CPOT List Drug Trafficking Organization



9,291 kilograms of cocaine seized during Operation Trifecta that will never reach the street.

Operation Trifecta, a 19-month-long Organized Crime Drug Enforcement Task Force case involving more than 80 separate investigations into drug trafficking by the Zambada-Garcia drug organization, resulted in the indictment of Mexican drug lord Ismael Zambada-Garcia and the arrests of more than 400 associates in the United States and Mexico. Operation Trifecta involved seven Federal agencies, more than 60 State and local departments, the Colombian National Police, and Mexican authorities. More than 12 tons of cocaine, 16 tons of marijuana, 160 pounds of methamphetamine, and more than \$10.5 million in U.S. currency were seized during the Operation.

Federal, State, and local drug law enforcement agents and prosecutors to identify, disrupt, and dismantle the most serious drug trafficking and money laundering organizations. As a result, OCDETF investigations account for the vast majority (83 percent) of all CPOT List investigations.

OCDETF has placed renewed emphasis on expanding investigations beyond the original jurisdiction into neighboring districts, States, and regions where related components of the targeted organization may be operating. Nearly 90 percent of all OCDETF investigations are now multi-jurisdictional. In addition, more than 70 percent of OCDETF investigations initiated in 2003 utilize financial investigative techniques. The President's 2005 Budget enhances the OCDETF program by:

- Funding an additional 71 Assistant U.S. Attorneys and related support staff—the first increase for OCDETF-funded field attorneys since 1991 (\$10 million increase);
- Creating a dedicated fugitive apprehension unit of 26 U.S. Marshals who track down fugitives from OCDETF-funded investigations (\$4 million increase);
- Enhancing the Drug Intelligence Fusion Center by funding agents from FBI, DEA, and other Departments (\$6 million increase); and
- Strengthening financial investigations by funding 28 additional IRS agents to participate in OCDETF investigations (\$5 million increase).

State and Local Drug Abuse Demand Reduction Programs

The Budget proposes \$153 million for State and local demand reduction efforts to help those arrested or convicted free themselves from a cycle of perennial drug abuse and crime.

- During the 2000 campaign, the President promised to increase funding for Drug Courts, which divert drug abusers from the regular criminal justice system into special courts that use a variety of “carrot and stick” approaches to stem drug use and reduce the need for jail time. Studies suggest that the courts effectively stem drug crime recidivism. One recent evaluation shows that of 17,000 annual drug court graduates, 73 percent remained free of arrest for at least two

years. The Budget provides a total of \$70 million for Drug Courts, an increase of 84 percent over the 2004 funding level.

- Residential Substance Abuse Treatment (RSAT) provides funds to State and local governments to develop substance abuse treatment programs for incarcerated offenders. More than 6.7 million offenders were incarcerated (or under some form of home detention/monitoring) in 2002. There are more than 300 RSAT programs with almost 40,000 inmates participating. Evidence suggests that RSAT is useful—up to 79 percent of participants remain arrest-free for at least one year after prison release. The Budget provides a total of \$76 million for RSAT.

PROTECTING OUR NEIGHBORHOODS AND CHILDREN FROM CRIME

The Administration has led efforts to help State and local law enforcement protect our neighborhoods, our children and other innocent victims from crime with several key initiatives to:

- Reduce gun crime affecting our neighborhoods;
- Protect our children from obscenity and exploitation;
- Stop Internet crime against children;
- Create a nationwide AMBER Alert network to help find missing children;
- Reduce domestic violence and other crimes against women; and
- Increase use of DNA forensics to catch criminals and exonerate the innocent.

Project Safe Neighborhoods

The Project Safe Neighborhoods (PSN) initiative, announced by the President and the Attorney General in 2001, is a comprehensive strategy that brings together Federal, State, and local agencies to reduce violent crime in our communities. Working with the Department, each community tailors the program to target problems associated with the criminal misuse of firearms and to build on local capacities.

Since 2001, the Administration has dedicated over \$1 billion in Federal resources to PSN, including grants to State and local task forces through OJP, increased Federal prosecutors within U.S. Attorneys Offices, and additional agent and training resources within ATF.

Under the initiative, local task forces have been established or enhanced in each of 94 Federal judicial districts. Since 2001, Federal gun crime prosecutions have increased by 68 percent, while State and local prosecutions have also increased. Over 70 percent of the Federal convictions resulted in prison sentences of three years or more.

By bringing together Federal, State, and local law enforcement, Project Safe Neighborhoods will play a key role in reducing gun violence in America, and those who commit crimes with guns will find a determined adversary in my Administration.

President George W. Bush
November 2001

New crime mapping and additional tools are now available to State and local law enforcement agencies. ATF and other Federal partners provide substantial training and support for these tools.

Since 2001, DOJ has provided almost \$100 million in grants to States to improve criminal history records, which help prevent firearms sales to those with criminal backgrounds. The Department will

continue to implement the instant background check system by destroying, within 24 hours, identifying information of any person eligible to purchase a firearm, while also ensuring the legitimate interests of business owners and law enforcement are taken into account. Since 2001, DOJ has also provided \$80 million in funding for Project Childsafe, which makes gunlocks available to gun owners to help prevent the misuse of firearms, especially by children.

Fighting Child Exploitation and Obscenity

We are aggressively defending our children in a growing arena for predators—the Internet. As technology has evolved, so have the means of exploiting our children.

Attorney General John Ashcroft
October 2002

DOJ is committed to fighting child pornography and obscenity, and to protecting children from trafficking and other forms of exploitation. For example, during the last year, the Department worked with other law enforcement agencies to target, dismantle, and prosecute an international ring of organized and predatory child molesters. More than 100 child victims

were rescued. Thirteen of the 20 identified molesters were American. All have been indicted (except one who committed suicide), and six have already been convicted.

Signing the PROTECT Act to Enhance the Nationwide AMBER Alert System

As we take steps abroad to make the world a safer place for all, there are important steps we can take at home to make America a safer place for children.

President George W. Bush
March 2003

Child abductions that tear children from their families are among the most tragic of crimes. Yet, with the help of the growing AMBER (America’s Missing: Broadcast Emergency Response) Alert network, more children are being found and returned to their homes. AMBER Alerts are emergency alerts broadcast by local authorities when law enforcement discovers that a child has been abducted and is in imminent danger of harm. To date, more than 100 children have been recovered through the AMBER Alert network.

The President signed the PROTECT Act in 2003, which builds upon steps taken by the President to expand, enhance, and coordinate the AMBER Alert network across America. The Budget includes \$5 million for the continued development of AMBER Alert.



President Bush at the signing of the PROTECT Act.

In the past year, the Department has dramatically expanded its efforts to deter child victim and obscenity crimes through new and effective uses of technology. The Criminal Division's High Tech Investigative Unit (HTIU) is staffed with computer forensic experts, who bring technological expertise to bear against Internet-based child pornographers and adult obscenity offenders as they work in conjunction with Federal agents and prosecutors. The HTIU receives approximately 120 tips per month from the National Center for Missing and Exploited Children and the Federal Trade Commission. The Budget increases funding for the Criminal Division's efforts, the FBI's Innocent Images initiative, which investigates sexual predators who use the Internet to prey on children, and the Internet Crimes Against Children Task Forces, which links Federal, State, and local law enforcement efforts.

As a result of DOJ's emphasis, the number of child exploitation and obscenity investigations and prosecutions handled by the Criminal Division's Child Exploitation and Obscenity Section has increased by more than 300 percent since 2001. The President's 2005 Budget provides \$42 million for Justice Department programs to protect children from exploitation and to fight obscenity, which is double the funding level appropriated in 2001. This will increase the number of investigators, prosecutors, and computer forensic specialists.

Violence Against Women

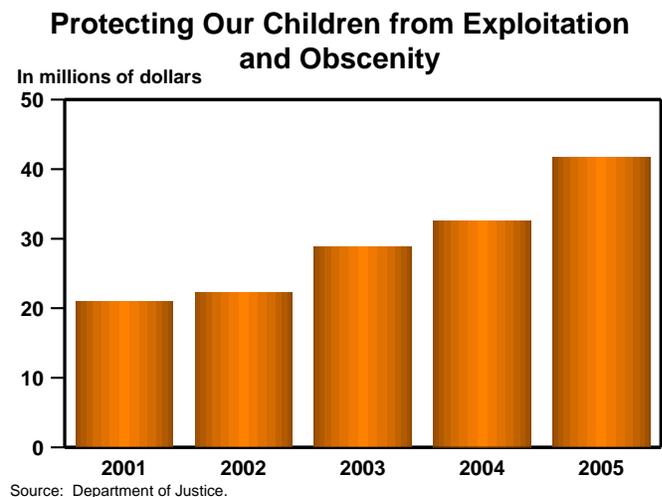
Almost 700,000 incidents of domestic violence were committed in the United States in 2001. Approximately one-third of women who are murdered each year are killed by their current or former husband or partner. Children who are subjected to domestic violence often grow up to inflict violence on others, creating a cycle of violence that must be stopped.

The Administration is requesting \$385 million in 2005 for Violence Against Women Act programs that target domestic violence and strengthen services for victims and their dependents.

DNA Funding

DNA technology is vital to ensuring the apprehension of criminals, as well as accuracy and fairness in the criminal justice system. Where there is biological evidence, DNA can be used to identify criminals with unmatched accuracy. DNA evidence can also clear suspects and exonerate persons mistakenly or convicted of crimes.

The President's DNA initiative, Advancing Justice Through DNA Technology, which was released in 2003, devotes over \$1 billion over five years to help realize the full potential of DNA technology in the criminal justice system. The initiative will help clear the backlog of unanalyzed DNA samples from the most serious violent offenders, invest in DNA analysis technology for crime labs, train criminal justice professionals to make better use of DNA evidence, and promote the use of forensic DNA to prosecute offenders and exonerate the innocent. The Administration proposes \$236 million in 2005 for the initiative.



Protecting Victims of Radiation Exposure

The Radiation Exposure Compensation Act (RECA) Trust Fund provides compensation to victims of disease or death following exposure to radiation released during atmospheric nuclear weapons testing and underground uranium mining from the 1940s to the 1970s. Exposure victims who are suffering from a compensable disease, including various types of cancer, and who meet statutory criteria regarding their radiation exposure, can qualify for awards of up to \$100,000.

Inadequate Trust Fund resources can cause delays in payment to victims who are often extremely ill and close to death. Based on current projections, the Fund will be exhausted in the middle of 2004 without the ability to pay eligible victims until 2005 funds become available.

The Administration believes that failing to provide timely compensation to cancer victims exposed to radiation during Cold War atmospheric testing is unacceptable. The President's 2005 Budget proposes \$72 million in additional funds to ensure that eligible cancer victims can receive their RECA awards on time.

FIGHTING CORPORATE FRAUD

The Administration strongly supports the fight against corporate fraud and understands the destructive effect that corporate misdeeds can have on investor confidence, workers' savings, and the economy. The President established a multi-agency Corporate Fraud Task Force by Executive Order in July 2002, which is headed by

the Deputy Attorney General, to combat corporate fraud and to help restore investor confidence. The President also signed the Sarbanes-Oxley Act, which significantly increased the penalties for white-collar criminals and helped expose acts of corruption. Significant resources have been used to investigate and prosecute fraudulent activities by corporations and their leaders.

These programs have been extremely successful, as evidenced by the increases in prosecutions and the positive economic indicators, which suggest that we are beating corporate fraud. Corporate leaders are being held to account. Within the first year, Task Force partners achieved over 250 corporate fraud convictions, and approximately 75 percent of these convictions led to prison sentences. FBI investigations of corporate fraud cases have increased by 80 percent over the past year as a result of the Administration's emphasis on fighting fraud.

In light of this success, the Administration proposes to continue its current level of funding within DOJ for these programs. This should continue to facilitate the identification, investigation and prosecution of corporate fraud.

It is time to reaffirm the basic principles and rules that make capitalism work, truthful books and honest people, and well-enforced laws against fraud and corruption.

President George W. Bush

July 2002

PERFORMANCE EVALUATION OF SELECT PROGRAMS

The Budget continues to focus on improving program performance. Fifteen of DOJ's programs have been assessed using the Program Assessment Rating Tool (PART), which evaluated each program's design and purpose, strategic planning efforts, how well they are managed, and whether they are generating positive results for taxpayers. Below are some of the highlights and recommendations

from the PART evaluations. For further details on DOJ's performance assessments, see the White House budget website at www.whitehouse.gov/omb/budget/.

| Program | Rating | Explanation | Recommendation |
|---|--------------------------|---|--|
| Bureau of Alcohol, Tobacco, Firearms and Explosives—Firearms Programs | Moderately Effective | The program has established long-term performance measures focused on outcomes, which will help improve targeting of areas with the largest firearms violence problems. | Increase implementation of the Project Safe Neighborhoods-Youth Crime Gun Interdiction initiative by targeting cities for program enhancement. Utilize performance-based approaches to prioritize the various firearms programs. |
| U.S. Marshals—Fugitive Apprehension | Adequate | The program is well defined but lacks independent program evaluations to achieve program performance improvement. Program partners are not held accountable for the achievement of performance results. | Support current funding levels for fugitive apprehensions. Conduct routine and periodic independent evaluations of the program and incorporate findings into a revised strategic plan and mission statement. Commit to performance goals, targets, cost and schedules. |
| FBI—Cybercrime | Adequate | The program continues to address a significant problem, but needs to address other deficiencies, such as holding managers accountable for results and conducting independent program evaluations. | Provide an additional \$55 million to fund increasing numbers of cases, especially those related to terrorism and espionage. Develop a capacity for program evaluation. |
| Drug Enforcement Administration | Adequate | The program has made significant progress toward correcting previously identified weaknesses. DEA has developed appropriate long term and annual performance measures and has implemented targeting and reporting systems to improve the allocation of investigative resources. | Provide an additional \$35 million for DEA's Priority Targeting initiative and related activities. Conduct an independent evaluation of DEA's drug enforcement responsibilities. Refine estimates of drug availability and validate the process to establish annual and long-term performance goals. |
| State Criminal Alien Assistance Program (SCAAP) | Results Not Demonstrated | The program lacks performance goals and metrics. Many correctional facilities do not benefit from SCAAP reimbursements, as the funds are provided to State general revenue funds and may be used for any purpose. | Eliminate funding for the program. In addition, conduct an independent evaluation that examines the accuracy of cost data. For 2004, States and localities will be asked to submit information and DOJ will review whether payments for inmates of "unknown" immigration status should continue. |

UPDATE ON THE PRESIDENT’S MANAGEMENT AGENDA

The table below provides an update on DOJ’s implementation of the President’s Management Agenda as of December 31, 2003.

| | Human Capital | Competitive Sourcing | Financial Performance | E-Government | Budget and Performance Integration |
|-----------------|---|---|---|---|---|
| Status |  |  |  |  |  |
| Progress |  |  |  |  |  |

DOJ has reorganized to make the fight against terrorism the number one priority for the Department. To accomplish this mission, DOJ has reduced or eliminated lower priority programs and activities and redirected resources to the programs that are most critical to the fight against terrorism. To improve further resource allocation and to ensure financial accountability, the Budget includes \$33 million for a unified financial management system that will link all components within DOJ. In addition, the agency has completed a comprehensive human capital plan and DOJ is in the process of incorporating workforce skills competency gap analysis into its human resources planning model. The Department continues to face challenges especially in its information technology development and deployment. The FBI, for instance, hopes to have a comprehensive information technology upgrade in place including an automated case management system by early 2004.

| Initiative | Status | Progress |
|--------------------------------------|---|---|
| Faith-Based and Community Initiative |  |  |

DOJ has developed a number of pilot programs incorporating faith-based and community organizations, which are in various stages of implementation. For example, the President’s 2005 Budget for DOJ provides \$15 million to support the multi-agency Prisoner Re-Entry Initiative, and DOJ will train program administrators on ways to further incorporate faith-based and community organizations within the program. Another pilot program, Helping Outreach Programs to Expand, offers “micro-grants” to local groups, including faith-based and community organizations, to help fund outreach and services to victims of crime while building organizational capacity. In the past year, the Department has established a grant tracking system that will allow comparative evaluation of grants provided to faith-based and community organizations. Additionally, DOJ has made considerable progress in expanding outreach efforts that provide grant announcements and updates to faith-based and community groups.

Department of Justice
(In millions of dollars)

| | Actual | | Estimate | |
|--|--------|--------|----------|--------|
| | 2001 | 2003 | 2004 | 2005 |
| Spending | | | | |
| Discretionary Budget Authority: | | | | |
| Federal Bureau of Investigation | 3,197 | 4,197 | 4,591 | 5,115 |
| Drug Enforcement Agency | 1,383 | 1,566 | 1,586 | 1,662 |
| Federal Prison System | 4,306 | 4,441 | 4,756 | 4,706 |
| U.S. Marshals Service | 592 | 690 | 726 | 743 |
| Alcohol, Tobacco, Firearms, and Explosives | 705 | 801 | 827 | 868 |
| Detention Trustee | 602 | 775 | 805 | 939 |
| U.S. Attorneys | 1,263 | 1,497 | 1,525 | 1,548 |
| General Legal Activities | 539 | 607 | 614 | 657 |
| State and Local Assistance | 4,420 | 3,490 | 3,022 | 2,063 |
| Organized Crime and Drug Enforcement Task Force | 325 | 368 | 550 | 581 |
| All other | 1,025 | 555 | 336 | 797 |
| Subtotal, gross discretionary budget authority | 18,357 | 18,987 | 19,338 | 19,679 |
| Less Crime Victims Fund Delay ¹ | — | — | — | -931 |
| Total, Discretionary budget authority ² | 18,357 | 18,987 | 19,338 | 18,748 |
| Total, Discretionary outlays | 17,691 | 19,251 | 18,158 | 20,683 |
| Mandatory Outlays: | | | | |
| September 11 th Victims Compensation | — | 709 | 3,928 | 714 |
| Asset Forfeiture Fund | | | | |
| Existing law | 425 | 469 | 466 | 514 |
| Legislative proposal | — | — | — | 251 |
| All other | 146 | 787 | 854 | 1,540 |
| Total, Mandatory outlays | 571 | 1,965 | 5,248 | 3,019 |
| Total, Outlays | 18,262 | 21,216 | 23,406 | 23,702 |

¹ Savings from the Crime Victims Fund were \$1,261 million in 2003 and \$1,088 million in 2004.

² For comparability, the 2001 data reflect transfers related to the creation of the Department of Homeland Security.

DEPARTMENT OF LABOR

Since 2001, the Administration has:

- Launched a High-Growth Job Training Initiative to help train workers for jobs in the career fields of the 21st Century;
- Signed into law stronger protections for workers' retirement savings;
- Enacted a major expansion of the Trade Adjustment Assistance program and health insurance tax credits, increasing benefit spending by three-fold from 2001 to help trade-displaced workers and certain retirees;
- Posted the strongest ever enforcement results: reduced workplace fatalities to historic lows and secured pension and health benefits and assets totaling a record \$1.4 billion;
- Revised outdated and burdensome regulations to better protect workers, including regulations to improve the accountability of larger labor unions; and
- Removed barriers to the participation of faith-based organizations in grant programs.

The President's Budget:

- Provides innovative Personal Reemployment Accounts to help unemployed workers return to work, engages community colleges to train workers for high-demand occupations, calls on faith-based and community organizations to help ex-offenders find work and avoid crime, and reforms existing job training programs to meet employers' and workers' needs;
- Protects workers' pensions and promotes the security of workers' retirement savings;
- Reinforces critical worker protections, including worker safety and health; and
- Increases resources to deter and detect fraud and corruption in pension and health plans and union finances.

Department of Labor

Secretary of Labor: Elaine L. Chao

www.dol.gov 1-866-4-USA-DOL**Number of Employees:** 17,347**2005 Discretionary Budget Authority:**

\$11.9 billion

Key Components: Six main regions, 962 offices in all 50 States; Washington, D.C.; Puerto Rico; and Guam.

Secretary Chao lends a hand at the Treasure Island Job Corps Center in San Francisco, California.

OVERVIEW

America's economy cannot thrive without a vibrant and secure workforce. The Department of Labor (DOL) promotes the welfare of the Nation's job seekers, wage earners, and retirees by: protecting worker safety and health; safeguarding workers' wages, leave rights, retirement and workplace health benefits, and equal employment opportunities; administering employment, training, and benefit programs; financing and overseeing the States' unemployment insurance systems; collecting and disseminating key labor and economic data; promoting the employment of workers with unique needs, such as disadvantaged youth, veterans, and individuals with disabilities; and protecting union members' rights.

DOL is adapting to meet these responsibilities in an ever-changing economy. Workforce demographics are changing, creating challenges in serving a more diverse workforce. The labor market is changing, demanding shifts in training resources to ensure that workers are prepared to compete in an increasingly global economy. The structure of jobs is changing, as employers make greater use of telecommuting and non-traditional methods for getting work done. New production processes, industries, and services may pose new occupational safety and health hazards, which may not be readily addressed through traditional enforcement approaches. The 2005 Budget recognizes DOL's evolving role, and ensures:

- *A Prepared Workforce.* The President's Budget prepares workers for high-demand jobs, proposes new ways to help unemployed workers and ex-offenders return to work, improves existing employment and training programs to better serve workers, and streamlines the process for employers to obtain foreign labor where necessary.
- *A Secure Workforce.* The Budget proposes reforms to strengthen the Unemployment Insurance safety net, to fortify protections of workers' retirement savings and wages, and to combat fraud in pension and health plans.
- *Quality Workplaces.* The Budget supports both strong enforcement and compliance assistance to ensure that workplaces are safe, healthful, and free from discrimination.
- *A Competitive Workforce.* The President's Budget enables DOL to play a leading role in helping workers and job-seekers succeed in a dynamic economy. DOL will track labor market trends and mobilize its resources to address them while also continually reviewing its regulations to ensure that they reflect the modern workplace and protect workers without stifling job growth.

TRAINING AMERICA'S WORKERS

There are a lot of Americans looking for work, and we need to do something about that in Washington, D.C. We've taken steps to get our economy growing again, and there are some very hopeful signs that progress is being made. I'm optimistic about the future of this country. Yet today's unemployment report shows we've got more to do. And I'm not going to be satisfied until every American who's looking for a job can find a job.

President George W. Bush
September 2003

The Nation is experiencing a rebound in economic growth and signs of an improving labor market. The President will not be satisfied, however, until every worker who wants a job can find one. A well-designed set of programs to assist workers preparing for new challenges is critical to accomplishing this goal. The President's 2005 Budget proposes a three-part strategy comprised of: 1) a Community College Initiative to train workers for jobs in high-growth fields, 2) a Personal Reemployment Account pilot program, and 3) reform of Federal employment and training programs. Taken together, these proposals will prepare workers for high-demand jobs, give job-seekers more control over their return-to-work strategy, and eliminate red tape and duplication in the job training system. In total, the President's Budget invests more than \$14 billion in helping workers train for and find jobs through employment and training grants to States, direct assistance to workers adversely affected by foreign trade, and Pell Grants. Student loans account for an additional \$7.6 billion (see the Department of Education chapter).

The President's Budget Invests Billions of Dollars in Training for America's Workers

(Budgetary resources in millions of dollars)

| | Actual | | | Estimate | |
|--|---------------|---------------|---------------|---------------|---------------|
| | 2001 | 2002 | 2003 | 2004 | 2005 |
| Department of Labor: | | | | | |
| Training and Employment resources ^{1, 2} | 7,486 | 7,275 | 7,140 | 7,310 | 7,700 |
| <i>Community College Initiative</i> | — | — | — | — | 250 |
| <i>Personal Reemployment Accounts</i> | — | — | — | — | 50 |
| Department of Education: | | | | | |
| Pell Grants for technical and two-year post-secondary schools ³ | 4,522 | 5,845 | 5,984 | 6,368 | 6,888 |
| TOTAL | 12,008 | 13,120 | 13,124 | 13,678 | 14,588 |
| Addendum: | | | | | |
| Student Loans for technical and two-year post-secondary schools ⁴ | 3,662 | 4,446 | 5,400 | 6,631 | 7,562 |

¹ Includes new budget authority for Workforce Investment Act (WIA) programs, the Employment Service, One-Stop Career Centers, and Community Service Employment for Older Americans; and spending for Trade Adjustment Assistance. Table does not show large balances of unspent WIA State grants that are carried in from prior years and remain available for providing training and employment services. In 2004, those balances are expected to exceed \$1,400 million.

² If all unspent balances of WIA State grants that are carried in from prior years are spent in 2005, current estimates indicate that Training and Employment resources in 2005 would exceed \$8.8 billion, a 21-percent increase above 2004.

³ Estimate of the portion of budget authority used at technical and two-year post-secondary schools (roughly 50 percent of total Pell Grants).

⁴ Loan volume.

Promoting Full Potential: Community Colleges Train Workers for High-Growth Jobs

Adaptable and accessible, community colleges are vital partners in workforce development. The partnership between industry, which is driving the identification of skills, and community colleges, which are developing curricula and delivering training to prepare individuals to meet employers' demand, is a powerful economic development tool. Community colleges are increasingly critical providers of job training, both for degree-seekers and for workers seeking to retool, refine, and broaden their skills. To date, however, their potential has not been fully realized. The President's Budget builds on this potential by strengthening the role of community colleges in workforce development, providing \$250 million for a new, employer-focused grant program for training in community and technical colleges. To receive funding, qualified applicants would be required to prepare a training plan with community colleges and employers, and certify that training would focus on industries with demonstrated labor shortages, such as health care and advanced manufacturing.



President Bush discusses job training at Northern Virginia Community College in Annandale, Virginia on June 17, 2003.

Emphasizing Jobs, Not Red Tape

Too often, traditional training programs fail to focus on what unemployed workers want most: to get back to work. To help people find good jobs more quickly, the Budget includes \$50 million for a pilot of Personal Reemployment Accounts (PRAs) for unemployment insurance recipients who need the most help in becoming re-employed. This flexible new program will give individuals more control over their return to work and reward them when they succeed. The proposal would support grants under which:

- States would offer accounts of up to \$3,000 to eligible unemployed workers;
- PRA recipients would choose whatever training and services, such as child care and transportation, they believe will help them get back to work;
- Recipients would keep the balance of the account as a cash bonus if they find a job within 13 weeks; and
- PRAs would be available in addition to regular unemployment insurance benefits.

The President supports passage of PRA legislation in the Congress as well as legislation to reauthorize and reform the Workforce Investment Act (WIA). PRAs will usher in a new era in unemployed worker assistance that emphasizes individual control and rewards moving quickly from unemployment to work.

Focusing on Success: Reform of Federal Job Training and Employment Programs

In addition to providing innovative training and speeding reemployment, the Administration will continue pressing in 2005 for significant improvements in existing Federal employment and training programs. The WIA's expiration presents an opportunity to eliminate redundancies, strengthen

resource allocation, improve accountability, enhance the role of employers in the national workforce system, and increase State flexibility. The Administration proposes to:

- *Clarify Roles and Eliminate Overlap.* The Administration proposes to target resources more effectively by increasing State flexibility.
- *Combine Three Programs into a Single Adult Training Grant.* The new grant consolidates the WIA adult and dislocated worker programs and Employment Service State grants into a single funding stream. This reform will give States and the Secretary greater ability to target resources where needed, promote coordination, and eliminate duplication among current services for adults.
- *Tap Unused Resources to Target Areas of Need.* For the past few years, large amounts of WIA State formula grants funding have remained unspent in the Federal Treasury. In 2004, these balances will exceed \$1.4 billion. While total unexpended balances remain high, some States and local areas have exhausted the resources available to them. The 2005 Budget uses unspent formula grant balances to maintain or increase service levels and provide more flexibility to DOL and States to reallocate and target funding where it is most needed.
- *Focus DOL's Role in Serving Youth.* The reformed program will minimize overlap between DOL and the Department of Education identified in the Program Assessment Rating Tool (PART). The Budget focuses DOL's resources on out-of-school youth and non-school programs that support academic achievement through targeted formula grants and competitive grants that will support programs to help youth acquire the skills, credentials, and experience they need to succeed in the labor market.
- *Forge Innovative Partnerships with Faith-Based and Community Organizations.* The Administration will expand its efforts to partner with faith-based and community organizations to harness their potential to offer new, results-driven training approaches. The Budget proposes a four-year, \$300 million Prisoner Re-Entry Initiative, involving the Departments of Justice, Labor, and Housing and Urban Development, to help individuals exiting prison make a successful transition to community life and long-term employment. These funds will supplement existing resources in DOL's budget for prisoner re-entry. As part of this initiative, in 2005 DOL will offer grants to faith-based and community organizations to help reduce recidivism among ex-offenders through mentorships, job training, and other critical services.
- *Continue Program Eliminations Proposed in the 2004 Budget.* The 2005 Budget continues to recommend serving all workers through the core WIA system and ending narrow-purpose programs identified as ineffective or duplicative. The Budget proposes the elimination of the Migrant and Seasonal Farmworkers Program deemed ineffective by the PART (see further discussion in the performance evaluation section of this chapter) and the H-1B Training Grants, which have not been proven successful in raising the skills of U.S. workers in specialty occupations.

REFORMING FOREIGN LABOR PROGRAMS

In addition to preparing U.S. workers for jobs, the Administration is committed to ensuring a labor supply for employers when no American worker is available and willing to take a job. On January 7, 2004, the President outlined his proposal to establish a new temporary worker program and significantly reform the current immigration system. To support this proposal, the Administration will develop a quick and simple system for employers to search for American workers by building upon an improved America's Job Bank (AJB), and otherwise facilitate the implementation of this program. (For additional information on the President's proposal, see www.whitehouse.gov.)

In addition, the Administration is streamlining its permanent labor certification program to help employers who cannot find domestic workers to fill specialized needs. Currently, applicants wait up to six years for permanent worker certifications. This has contributed to a backlog that now stands at over 300,000. The new process will help applicants by preventing backlogs while strengthening anti-fraud protections. DOL also is moving to eliminate significant backlogs in employer applications filed under the old process. The Budget proposes new permanent program application fee, which would finance the cost of processing new applications and partially support backlog reduction in State and regional offices.

STRENGTHENING THE UNEMPLOYMENT INSURANCE SAFETY NET

Unemployment Insurance (UI) is critical to workers' security, acting as a safety net during economic downturns by providing temporary, partial wage replacement for laid-off workers. Already, the Administration has taken concrete steps to fortify the UI system and reduce erroneous UI payments, which the DOL Inspector General has repeatedly identified as a top management challenge. Since 2001, the Administration has:

- Transmitted legislation to end manipulative practices used by some employers to avoid paying their fair share of State UI taxes—a practice known as “State Unemployment Tax Act (SUTA) dumping”—and allow State UI agencies to access the National Directory of New Hires. National directory access would allow quick detection of individuals who cheat the system by going back to work and continuing to collect UI. This change would reduce overpayments, saving an estimated \$370 million in UI benefits over 10 years for the workers who really need them.
- Signed legislation three times to extend unemployment compensation, giving laid-off workers who have exhausted their regular unemployment benefits additional support while they seek new jobs.
- Reduced erroneous payments by using Social Security records, implementing new performance measures, and training States in best practices.

The Administration is building on these reforms in the 2005 Budget by:

- Including a \$20 million increase to allow State staff in One-Stop Career Centers to conduct 50 percent more face-to-face beneficiary eligibility reviews. Research shows that increasing the number of periodic eligibility reviews will reduce erroneous payments and promote earlier return to work, resulting in annual savings of up to \$400 million.
- Proposing legislation to collect wasteful and fraudulent unemployment benefit overpayments by reducing the Federal income tax refunds of workers with such overpayments, saving an estimated \$281 million in the first year.

“Dumping” on the Taxpayers

The General Accounting Office estimates that States have lost over \$120 million in unemployment taxes in the last three years due to employers unscrupulously avoiding taxes through a practice known as “State Unemployment Tax Act (SUTA) dumping.” Employers' payroll tax rates are based, in part, on how much UI benefits are paid to their unemployed workers. To reduce their UI taxes—which are required under SUTAs—some employers create or buy corporations that have lower payroll tax rates, then transfer some or all of their payroll to that company. Called “SUTA dumping,” this practice has spawned a cottage industry of consultants who help dishonest employers exploit this tax loophole.

- Simplifying the way States' performance is measured to focus on the most critical aspects of service delivery, consistent with PART findings.

PROTECTING WORKERS

The Bush Administration has compiled a solid record of achievements in labor law enforcement. Over the past several years the Administration has: 1) targeted enforcement to punish those who disregard workers' safety and rights; 2) pursued compliance assistance through outreach and education; 3) enlisted unions and employers as partners in improving workplace safety; and 4) used electronic tools to help employers understand and fulfill their responsibilities and reporting obligations. The Administration has enacted stronger protections for workers' retirement savings; issued practical, industry-specific guidelines to prevent repetitive stress injuries; forged innovative alliances with employers, unions, and other organizations to improve workplace safety; made sense of decades-old overtime rules; enhanced accountability in union financial matters; and found new ways to reach a growing and vulnerable population of non-English-speaking and temporary workers.

Under the Bush Administration's stewardship, DOL's enforcement agencies have produced real results for workers. In 2003, DOL collected 21 percent more back wages for workers than in the previous year, representing an 11-year high; and recovered back wages for 30 percent more workers. In the same year, DOL recovered and secured pension and health benefits and assets totaling \$1.4 billion—a record high, and a 60-percent increase over the previous year. Workers are also safer. Workplace fatality and injury and illness rates have fallen to historic lows. In 2003, mine fatalities decreased by 14 percent, and mine injuries fell by 12 percent.

The Budget demonstrates the President's continued strong commitment to the more than 180 worker protection laws that DOL oversees. DOL will continue to fulfill its responsibilities through a combination of vigorous, targeted enforcement and compliance assistance. DOL uses enforcement to safeguard workers' benefits, wages, health, and safety. However, partnerships and compliance assistance are also effective because most employers want to meet their responsibilities under the law. In addition, the Administration will continue to update and improve regulations to reflect the modern workplace, make regulations more comprehensible to employers and workers, and reduce needless burden.

Safeguarding Workers' Retirement and Health Benefits Security

As the nature of retirement changes, the needs of retirees change as well. Americans who are retiring today can have decades of healthy life before them. The Administration is promoting a secure retirement and dependable health benefits for the Nation's retirees and workers through a combination of aggressive enforcement, compliance assistance, and legislative changes. The Administration will continue to press for enactment of the President's retirement security plan, which would give workers more and better information on their retirement savings, increase access to investment advice, and strengthen workers' ability to manage their investments by giving them more freedom to diversify their investments and sell company stock. The Administration will also renew its proposal to expand and encourage savings by replacing a variety of tax-preferred savings vehicles with Lifetime Savings Accounts and Retirement Savings Accounts that have higher contribution limits and more flexibility. Building on his success in strengthening health care security for seniors through landmark reforms to Medicare, the President remains committed to securing the enactment of Association Health Plan (AHP) legislation. By allowing small businesses to join together to purchase health coverage, AHPs would make it easier and more affordable for small employers to provide health insurance coverage for their employees and would give millions more working Americans access to health benefits.

The Employee Benefits Security Administration (EBSA) protects the integrity of pensions, health plans, and other employee benefits for more than 150 million people. The Budget includes \$132 million for EBSA, \$8 million, or seven percent, above the 2004 level. This increase will provide additional enforcement resources to safeguard workers' retirement savings and other benefits, and will provide expanded compliance assistance to educate employers, unions, and pension plan administrators on their legal responsibilities, including those under the new pension and health-benefit laws. In addition, to address its PART rating of "results not demonstrated," EBSA will develop more outcome-oriented performance measures to quantify its impact on protecting workers' benefits.

The Pension Benefit Guaranty Corporation (PBGC) insures defined-benefit pensions against employer bankruptcy or other pension plan failures. Estimated current and future liabilities in PBGC-insured pension plans now exceed current assets by an unprecedented \$350 billion. In order to avoid benefit reductions and help stabilize the defined-benefit pension system, the 2005 Budget proposes legislative reforms to:

- Give employers two years of relief from current pension plan contribution requirements—now tied to 30-year Treasury bond interest rates—and base requirements on more appropriate corporate bond rates.
- After the two-year transition period, base pension funding requirements on a "yield curve" (commonly used in corporate finance), which would better tie funding requirements to the timing of the payout of retiree benefits.
- Make additional changes to restrict promises of added benefits by severely underfunded plans and to provide better information on pension finances to workers, retirees, and stockholders.

Additionally, the Administration is developing a plan for comprehensive reform of the pension funding rules to: strengthen funding for workers' defined-benefit pensions; simplify funding rules; offer sponsors new, flexible approaches to finance their plans without the present yearly volatility; and make additional reforms to ensure PBGC's continued ability to safeguard pension benefits.

Protecting Union Members

DOL's Office of Inspector General (OIG) and Office of Labor-Management Standards (OLMS) collaborate with other Federal agencies to ensure that labor unions remain vibrant, financially secure, and free from fraud and corruption. OLMS oversees union compliance with financial disclosure requirements established by the Labor-Management Reporting and Disclosure Act of 1959, enacted by the Congress to ensure financial integrity and encourage a more informed and active union membership.

Protecting Union Members' Dues

In 2003, officials of the Washington Teachers' Union and their associates acknowledged diverting well over \$2.5 million from union coffers between 1995 and 2002 to buy personal luxuries including expensive clothing and furs; designer handbags; meals; travel; art; jewelry; sports tickets; a \$57,000 Tiffany tea set; a \$13,000 television; custom wigs; and dental implants. The latest admissions—in the form of a plea bargain to a Federal indictment—came just days after the Department of Labor published new regulations to strengthen union financial disclosure. The regulations improve the financial transparency of the Nation's largest labor unions, strengthen accountability, and prevent future abuses like those that victimized Washington's teachers.

DOL has made key revisions to the decades-old reporting process to increase transparency in the management of the Nation's largest unions and meet the real needs of union members. DOL's new rule updates the financial reporting form used by the largest and most sophisticated labor organizations to add greater

detail and more appropriate reporting categories, while using electronic filing to ease each union's compliance burden. Electronic filing will also improve transparency by making the reporting forms readily accessible, via the Internet, to all union members who seek information about their union's expenditures and disclosures. The Budget supports these changes by including \$44 million for OLMS—a 13-percent increase above 2004. This increase builds on the enacted 2003 and 2004 Budgets, which helped restore critical enforcement resources that had been stripped away during the 1990s. The OIG continues to combat organized crime's efforts to influence unions and employee benefit plans. In 2003, its labor racketeering program led to 182 indictments, 122 convictions, and nearly \$28 million in monetary accomplishments, including restitutions and forfeitures. The 2005 Budget includes an additional \$2.5 million for audits and investigations, allowing the OIG to step up investigation of those who jeopardize the financial security of workers by defrauding pension and health benefit plans.

Ensuring Safe and Healthy Workplaces

Nowhere are the objectives and consequences of DOL's work more tangible than in the area of workplace safety and health. Through the Occupational Safety and Health Administration (OSHA) and the Mine Safety and Health Administration (MSHA), DOL works to reduce employee injuries, illnesses, and deaths. Due in part to these agencies' activities, occupational injury, illness, and fatality rates have reached historic lows. In 2002, workplace fatalities dropped 6.6 percent, to the lowest level on record. Fatalities among Hispanic workers, which had been rising each year since 1995, were down six percent in 2002. Still, problems persist in certain industries, occupations, and demographic groups. The Budget provides a total of \$737 million for OSHA and MSHA, giving these agencies the resources they need to target problem areas and continue reducing workplace accidents.

Hole-in-One for Worker Safety

Employees gain when OSHA and employers work together. In October of 2003, OSHA recognized the Titleist Ball Plant II in Dartmouth, Massachusetts as the 1000th Voluntary Protection Program (VPP) "Star" site for excellence in workplace safety and health. VPP recognizes workplaces—like the Titleist Ball Plant II—where employers and employees have established strong safety and health programs. Star status is reserved for workplaces that have achieved the highest occupational safety and health standards, including having below-average three-year injury and illness rates. VPP worksites boast lost workday rates that are more than 50 percent below their industry average. That means greater safety for workers and greater profits for employers.

Enforcement remains a central part of DOL's strategy for improving workplace safety and health. OSHA will continue to target work sites where workers are most at risk, and MSHA will continue to inspect all underground and surface mines. Since most employers want to protect their workers, traditional enforcement is coupled with compliance assistance and industry partnerships. The 2005 Budget includes \$4.9 million to help OSHA meet employers' growing demands for assistance, expand the availability of compliance assistance in the field and web-based tools, and reach out to small businesses. OSHA will also expand the number of alliances and partnerships it has with employers, tapping into the vision and commitment of private industry to protect workers more effectively than it could alone. In addition, following the PART recommendation, OSHA will identify the monetary and net costs and benefits of its significant regulations and alternatives.

Raising Civil Monetary Penalties

The vast majority of employers want to provide safe, healthful, and fair workplaces, and voluntarily comply with Federal requirements. However, in some cases, employers' compliance hinges on the threat of enforcement and strong sanctions. In some areas, current civil monetary penalties are not high enough to deter repeated or egregious offenses. The Budget proposes to increase civil monetary penalties for violations of laws administered by the Employment Standards Administration (ESA) and MSHA. For example, ESA proposes to raise civil monetary penalties for the death or serious injury of youths caused by child labor violations from \$11,000 to \$50,000, and to \$100,000 for repeat and willful violations. MSHA proposes to raise the maximum penalty for egregious violations from \$60,000 to \$220,000, making its penalties more consistent with those levied by OSHA. The Budget also proposes to authorize the OLMS to impose civil monetary penalties on unions, employers, and others that fail to file their required financial reports on a timely basis. The authorizing of civil monetary penalties is intended to improve compliance with the filing requirement, not penalize inadvertent lapses.

Modernizing Regulations

DOL regulations must achieve their objectives of protecting worker rights, benefits, and safety while minimizing burdens that can impede the Nation's productivity and competitiveness. Regulations must also reflect current work conditions, issues, and hazards.

Many employment laws and regulations date back a generation and were based on traditional on-site, full-time, long-term worker-employer relationships. Technology has since revolutionized

the workplace. The Administration has made great strides in bringing its regulations into the 21st Century. In 2003, DOL proposed changes to outdated and complex "white collar" exemptions to the Fair Labor Standards Act's overtime requirements. Rank-and-file blue-collar workers, including first-responders and construction workers, will continue to qualify for overtime benefits under the new regulations. DOL will continue to review the laws and regulations in its jurisdiction to determine their appropriateness in the new workplace, harness technology, and reduce unnecessary burden.

Long Overdue Overtime Reforms

For years, DOL's enforcement of overtime protections has been undermined by the very rules meant to support it. The Fair Labor Standards Act includes exemptions to overtime pay for certain types of "white collar" employees. However, the rules implementing these exemptions have not been substantially updated in 40 years. DOL's own investigators have struggled to figure out which workers should qualify. Under DOL's simplified overtime rules, more than 1.3 million additional low-wage workers will be guaranteed overtime pay. Clear guidelines will mean workers and employers spend more time collaborating in the workplace, not battling for years in court.

SUPPORTING WORKING FAMILIES

Today's workers struggle daily with caring for their families and meeting their obligations at work. As the economy adds more jobs, and productivity gains drive exceptional improvements in Americans' standard of living, we can make better use of technology and flexible work arrangements to help individuals balance the demands of work and family. The 2005 Budget includes \$5 million to encourage greater use of scheduling flexibility under current law and telework options. In addition, the Administration supports efforts to provide new scheduling options to help ease the pressures faced by workers and their families.

PERFORMANCE EVALUATION OF SELECT PROGRAMS

The Budget continues to focus on improving program performance. Fourteen of DOL's programs were assessed using the Program Assessment Rating Tool (PART), which evaluated the programs' design and purpose, strategic planning efforts, how well they are managed, and whether they are generating positive results for taxpayers. Below are some of the highlights and recommendations from the PART evaluations. For further details on DOL's performance assessments, see the White House budget website at www.whitehouse.gov/omb/budget/.

| Program | Rating | Explanation | Recommendation |
|--|--------------------------|---|--|
| Black Lung Benefits Program | Moderately Effective | The program has a clear purpose and is well managed. Program stability, however, is threatened by the Black Lung Trust Fund's large and mounting debt. There is insufficient accountability for the performance of the claims adjudication entities outside the Employment Standards Administration. | Propose legislation to address the Trust Fund debt. Develop performance measures for key claims adjudication entities. Review performance targets to ensure they are challenging. Include productivity data in DOL's performance budget. Conduct a comprehensive program evaluation. |
| Migrant and Seasonal Farmworkers | Ineffective | The program's training and services duplicate other Federal efforts. The focus on training and employment is insufficient, and a congressional housing grants earmark further diverts the program from its primary purpose of improving employment and earnings. Performance accountability has historically been poor. | Re-propose the elimination of this ineffective and duplicative program. Other Federal programs (e.g., Rural Housing Service and Migrant Health Program) are better suited to provide the supportive services sought by most program participants, while training and employment programs can better be provided through the nationwide network of One-Stop Career Centers. |
| Davis-Bacon Wage Determination Program | Results Not Demonstrated | The program has implemented process redesign and technological improvements to remedy longstanding weaknesses, but lacks critical performance data. While program management is generally strong, the absence of specific performance measures hampers accountability. Recent program evaluations have been limited in scope. | Continue to implement multi-year effort to reform wage determination process. Develop quantitative (and, where appropriate, qualitative) performance measures that are clear, ambitious, and reflected in managers' performance appraisals. Begin an independently conducted review of the program in 2004. |

UPDATE ON THE PRESIDENT’S MANAGEMENT AGENDA

The table below provides an update on DOL’s implementation of the President’s Management Agenda as of December 31, 2003.

| | Human Capital | Competitive Sourcing | Financial Performance | E-Government | Budget and Performance Integration |
|--|---|---|---|---|---|
| Status |  |  |  |  |  |
| Progress |  |  |  |  |  |
| <p>DOL has institutionalized the President’s Management Agenda through strong, centralized oversight of management objectives; preparation of semi-annual management scorecards for DOL agencies; and effective, program-by-program implementation of recommendations made in PART assessments. On the human capital front, DOL has identified core skill sets for 27 mission-critical occupations and is building a solid, diverse talent pool through active recruitment and well-targeted leadership development programs. The Department has established a new Competitive Sourcing Office to guide agency progress and open an increasing number of functions to competition. To improve financial performance, DOL is implementing a new core accounting system, and is reducing erroneous payments through better data exchanges with other Federal agencies and legislation to improve the unemployment insurance benefits system. DOL’s <i>GovBenefits.gov</i> website, which supplies eligibility information on 419 Federal benefit programs, now includes links to 50 State programs. Since its April 2002 launch, the site has led to more than one million citizen referrals to Federal agencies.</p> <p>In support of the President’s Management Agenda, the 2005 Budget includes \$3.5 million to support additional program and performance evaluations, competitive sourcing studies, and human capital initiatives.</p> | | | | | |

| Initiative | Status | Progress |
|---|---|---|
| Faith-Based and Community Initiative |  |  |
| <p>DOL has taken significant steps to improve communications and outreach to faith-based and community-based organizations, including streamlining the grants application process for small and novice applicants and eliminating significant barriers to their participation in DOL programs. DOL is also establishing pilot projects to test innovative ways to improve services through faith-based and community organizations.</p> | | |

DEPARTMENT OF LABOR

(In millions of dollars)

| | Actual | | Estimate | |
|---|--------|--------|----------|--------|
| | 2001 | 2003 | 2004 | 2005 |
| Spending | | | | |
| Discretionary Budget Authority: | | | | |
| Training and Employment Services | 5,630 | 5,174 | 5,130 | 5,922 |
| Unemployment Administration ¹ | 2,434 | 2,634 | 2,688 | 2,711 |
| Employment Service/One-Stop Career Centers ² ... | 1,016 | 961 | 969 | 180 |
| Community Service Employment for Older Americans..... | 440 | 442 | 439 | 440 |
| Bureau of Labor Statistics | 450 | 492 | 518 | 534 |
| Occupational Safety and Health Administration..... | 425 | 450 | 458 | 462 |
| Mine Safety and Health Administration | 246 | 273 | 269 | 276 |
| Employment Standards Administration | 363 | 381 | 392 | 409 |
| Employee Benefits Security Administration..... | 107 | 116 | 124 | 132 |
| Veterans' Employment and Training | 212 | 212 | 219 | 221 |
| Bureau of International Labor Affairs | 148 | 147 | 110 | 31 |
| Information Technology | 37 | 55 | 48 | 34 |
| Office of Disability Employment Policy | 23 | 47 | 47 | 48 |
| Office of the Inspector General | 55 | 62 | 65 | 70 |
| Management Crosscut | — | — | 5 | 10 |
| All other | 342 | 385 | 251 | 400 |
| Total, Discretionary budget authority | 11,928 | 11,831 | 11,733 | 11,880 |
| Total, Discretionary outlays | 10,426 | 12,509 | 11,679 | 11,428 |
| Mandatory Outlays: | | | | |
| Unemployment Insurance | | | | |
| Existing Law | 27,989 | 54,564 | 45,320 | 40,198 |
| Legislative Proposal | — | — | — | -12 |
| Trade Adjustment Assistance..... | 400 | 551 | 770 | 1,051 |
| Black Lung Benefits Program ³ | | | | |
| Existing Law | 1,499 | 1,462 | 1,456 | 1,425 |
| Legislative Proposal | — | — | — | 2,764 |
| Federal Employees' Compensation Act ⁴ | | | | |
| Existing Law | 121 | -24 | 197 | 276 |
| Legislative Proposal | — | — | — | -7 |
| Pension Benefit Guaranty Corporation ⁴ | -1,068 | 229 | -55 | -93 |
| Welfare-to-work | 659 | 312 | 181 | 2 |
| H-1B Training and Administration | 24 | 73 | 259 | 104 |
| All other ⁴ | -287 | -123 | -59 | -130 |
| Total, Mandatory outlays | 29,337 | 57,044 | 48,069 | 45,578 |
| Total, Outlays | 39,763 | 69,553 | 59,748 | 57,006 |

¹ 2001 and 2004 entries include workload contingency funds, which are triggered by increased workloads.

² The 2005 Budget proposes to reform and consolidate three State formula grants for training and employment services. The 2005 column reflects the transfer of Employment Service State Grants funding (\$696 million) to Training and Employment Services.

³ 2005 entry includes the prepayment premium for the Trust Fund debt refinancing proposal. The premium is an intragovernmental transfer, so there is no Government-wide budgetary effect. For comparability, 2001 and 2003 entries include Part B of the Black Lung Benefits Program, which was transferred to DOL in 2004.

⁴ Net mandatory outlays are negative when offsetting collections exceed outlays.

DEPARTMENT OF STATE AND INTERNATIONAL ASSISTANCE PROGRAMS

Since 2001, the Administration:

- Built a broad coalition of nations committed to winning the War on Terror. President Bush led this coalition to remove threats to world security, including the oppressive regimes in Iraq and Afghanistan and to destroy terrorist cells, disrupt terrorist operations, and prevent attacks;
- Proposed and secured authorization for a bold five year, \$15 billion plan to defeat AIDS, the single largest international public health initiative ever attempted to defeat disease;
- Strengthened America's economy by opening new markets to U.S. goods and services by forging new trade agreements; and
- Proposed the Millennium Challenge Corporation, a new pathway to prosperity for developing nations that govern justly, invest in the health and education of their people and promote economic freedom.

The President's Budget:

- Provides over \$5.7 billion in military and economic assistance to front-line states in the war on terror;
- Affirms our commitment to the citizens of Afghanistan by providing \$1.2 billion for economic reconstruction and democracy-building;
- Promotes efforts to expand democracy in the Greater Middle East, including doubling funding to \$80 million for the National Endowment for Democracy and increasing funding to \$150 million for the Middle East Partnership Initiative;
- Broadens assistance to reduce and prevent the proliferation of weapons of mass destruction, their delivery systems and related equipment, materials, and expertise;
- Maintains strong U.S. leadership globally in funding international HIV/AIDS care, treatment and prevention. The President's 2005 Budget provides \$2.8 billion to combat AIDS in the most afflicted countries in Africa and the Caribbean;
- Provides \$2.5 billion for the second year of the Millennium Challenge Account paving the way to reach the President's commitment of \$5 billion in 2006; and
- Continues a multi-year effort to secure all overseas embassies and posts to protect U.S. Government employees and their families.

State Department

Colin Powell, Secretary

www.state.gov 202-647-4000**Number of Employees:** 30,266**2005 Discretionary Budget Authority:**

\$10.3 billion

Major Assets: 260 embassies, consulates, and other posts worldwide.

Secretary Powell shaking hands with a Colombian counter-narcotics soldier.

OVERVIEW

Secretary of State Colin Powell leads a complex and diverse organization that represents the United States in 180 foreign countries and 44 international organizations, operating a total of more than 260 embassies, consulates and other posts. The 2005 Budget proposes \$30.4 billion for the Department of State and related international affairs agencies including the U.S. Agency for International Development (USAID). Recognizing the pivotal role these agencies play in our national security, the Bush Administration has increased the international affairs budget by nearly 40 percent since 2001.

U.S. Diplomacy Today

There is no country on earth that is not touched by America, for we have become the motive force for freedom and democracy in the world. And there is no country in the world that does not touch us. We are a country of countries with a citizen in our ranks from every land. We are attached by a thousand cords to the world at large, to its teeming cities, to its remotest regions, to its oldest civilizations, to its newest cries for freedom. This means that we have an interest in every place on this Earth that we need to lead, to guide, to help in every country that has a desire to be free, open and prosperous.

Secretary Colin L. Powell
January 2001

The State Department is the face of America worldwide as it leads in formulating and implementing U.S. foreign policy. Its broad mission includes protecting U.S. national security and promoting U.S. interests through representation and negotiation with other governments and in international organizations such as the United Nations. To support their mission, the State Department and USAID are fully aligning assistance efforts through a common Strategic Plan and establishing joint policy

and management councils. USAID works in 75 countries, implementing programs that promote economic growth, democracy, human rights, education, sound environmental policies, agriculture, trade and global health, including treating and preventing HIV/AIDS.

Under the authority of an Ambassador, the average U.S. Embassy includes six agencies handling a variety of issues from agriculture to peace talks. In addition, our embassies provide a gateway to millions each year who wish to visit or immigrate to America. Embassies also serve U.S. citizens abroad, assisting with travel emergencies and helping them return home safely. A number of other agencies also play central roles in foreign policy development and implementation. The Department of the Treasury is responsible for international monetary and financial policy and provides funding and oversight for the Multilateral Development Bank, bilateral fiscal and financial technical assistance and international debt issues. The Export-Import Bank, Overseas Private Investment Corporation and Trade and Development Agency provide grant and credit assistance to promote economic development and U.S. exports to developing and emerging markets. The Peace Corps sends volunteers to over 71 countries throughout the world, while the Broadcasting Board of Governors promotes democracy through broadcasting objective news and information to regions of the world where there is a dearth of freedom and open information.



New U.S. Embassy in Dar es Salaam, Tanzania. A terrorist bomb destroyed the old embassy in 1998.

The President's Vision for 2005

The President's top foreign policy priority is winning the war on terror. Forty-eight percent of the President's State Department and International Assistance Budget directly supports the war on terror by assisting our allies and strengthening the United States' diplomatic posture. For example, the Budget provides \$1.2 billion for Afghanistan reconstruction, security and democracy building, and over \$5.7 billion is provided for assistance to countries around the world that have joined us in the war on terror. In addition, \$3.5 billion indirectly supports the war on terror by strengthening our ability to respond to emergencies and conflict situations. The President's bold initiatives to fight HIV/AIDS and to create the Millennium Challenge Corporation are funded at \$5.3 billion, which will support stability and improve the quality of life for the world's poor.

FIGHTING THE WAR ON TERROR

Fighting and winning the war on terror remains our foremost foreign policy goal. Winning on the battlefield is just one step in defeating terrorism. To eradicate terrorism, the United States must help create stable governments in nations that once supported terrorism. To this end, in 2005, our foreign affairs agencies will continue to focus on reconstruction of Iraq and Afghanistan, support our coalition partners to further counterterrorism, law enforcement and intelligence cooperation and expand democracy, especially in the Greater Middle East.

The establishment of a free Iraq at the heart of the Middle East will be a watershed event in the global democratic revolution.

President George W. Bush
Addressing the National Endowment for Democracy
November 2003

Building a Free and Prosperous Iraq

The United States faces the great challenge of supporting the Iraqi people in developing a secure, free and prosperous nation. The U.S. Government is contributing \$21 billion in reconstruction funds and humanitarian assistance to this effort. The World Bank and the International Monetary Fund are expected to provide another \$4-8 billion in loans and grants. These resources, coupled with the growing assistance of international donors, will support the transition from dictatorship to democracy and lay the foundation for a thriving market economy and political system that respects human rights and represents the voices of all Iraqis.

Following the end of major hostilities last spring, the Coalition Provisional Authority (CPA) and the Iraqi Governing Council have made great strides in the areas of security, economic stability, growth and democratization. Iraqi security forces now comprise more than half of the total security forces in the country. In addition, CPA has established a New Iraqi Army, issued a new currency and refurbished and equipped schools and hospitals. On November 15, CPA and the Governing Council agreed to return sovereignty to the Iraqi people by June 2004.



CPA Chief Financial Officer delivering new currency.



Working to restore electricity.

Much work remains to be done. Working with our coalition partners, we will continue to train Iraqi police, border guards, the Civil Defense Corps and the Army to ensure the country's successful transition to democratic self-governance and a stable future. At the same time, we are helping provide critical infrastructure, including clean water, electricity and reliable telecommunications systems essential for meeting basic human needs as well as for economic and democratic development.

Real Progress in Iraq

| | Under Saddam Hussein Regime (March 2003) | Post-Liberation (December 2003) |
|---|--|---|
| Democracy: Citizen Representation. | None | 111 district councils 296 city/subdistrict councils 488 neighborhood councils |
| Education: Number of Newly Renovated Facilities | None | 1,509 completed. 624 ongoing. |
| Public Health: Immunization Rates... | 60% | 70–80% |
| Infrastructure: Port of Umm Qasr | Virtually inoperable. Only one berth to accommodate ships. | Open for business. 21 berths accommodate ships. |
| Economy: Currency | Two easily counterfeited currencies and not fully convertible. | New single currency with anti-counterfeit characteristics and fully convertible. |

A Free and Stable Afghanistan

The United States is committed to seeing a stable and democratic Afghanistan that is free from terror and no longer harbors threats to our security. After the United States and its coalition partners defeated the Taliban government, we faced the daunting task of helping the Afghan people rebuild their country. The United States has demonstrated its commitment to this partnership, providing over \$3.7 billion in economic and security assistance to Afghanistan since 2001.

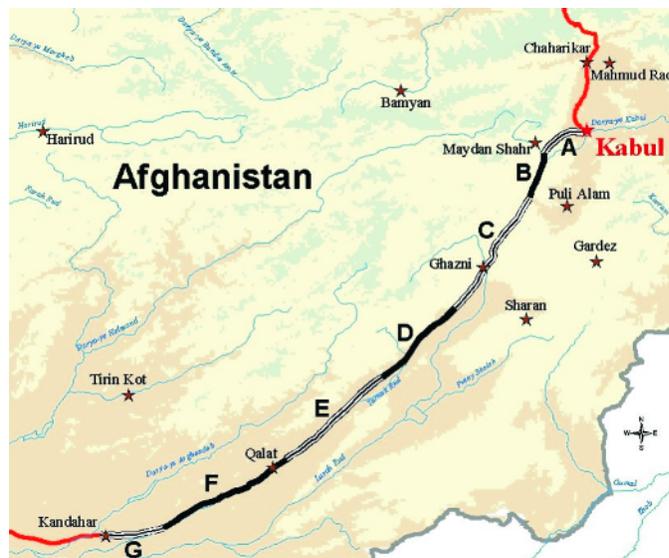
Through our assistance and that of the international community, the government of Afghanistan is successfully navigating the transition that began in October 2001. Afghanistan adopted a constitution in January 2004 and is preparing for democratic national elections in June. With technical assistance from the United States, Afghanistan successfully introduced a new stable currency in October 2002 and is working to improve revenue collection in the provinces. The lives of women and girls are improving as women pursue economic and political opportunities and girls return to school. Since 2001, the United States has rehabilitated 205 schools and 140 health clinics and trained 13 battalions of the Afghan National Army (ANA). President Bush’s commitment to de-mine and repave the entire stretch of the Kabul-Kandahar highway was fulfilled. The road had not been functional for over 20 years. What was once a 30-hour journey can now be accomplished in five or six hours.

While the Afghanistan of today is very different from the Afghanistan of September 2001, there is still much left to accomplish. In the near-term, the United States will assist the government of Afghanistan in its preparations for elections in June to ensure that they are free and fair.



New water pump in Afghanistan.

We will continue to implement assistance on an accelerated basis to show tangible benefits to the Afghan people. The 2005 Budget contains \$1.2 billion in assistance for Afghanistan that will concentrate on education, health, infrastructure and assistance to the ANA. For example, U.S. assistance efforts will focus on rehabilitation and construction of an additional 275 schools and 150 health clinics by June 2004, and complete training and equipping of 15 army battalions. The United States will also extend the Kabul-Kandahar road to Herat so that people and commerce will be linked east and west across Afghanistan between three of the largest cities.



Map of Kabul-Kandahar road, Afghanistan.

Support for Our Coalition Partners

As part of the war on terror, the President established a clear policy to work with other nations to meet the challenges of defeating terror networks with global reach. This commitment extends to front-line states that have joined us in the war on terror and to those nations that are key to successful transitions to democracy in Iraq and Afghanistan.



President Bush talks with President Gloria Macapagal-Arroyo of the Philippines at the White House.

The State Department coordinates our counterterrorism capacity-building assistance to foreign countries. Our assistance enables countries cooperating closely with the United States to prevent future attacks, improve counterterrorism capabilities and tighten border controls. The 2005 Budget for International Affairs provides over \$5.7 billion for assistance to countries around the world that have joined us in the war on terror, including Turkey, Jordan, Afghanistan, Pakistan, Indonesia, and the Philippines.

U.S. assistance has also resulted in unparalleled law enforcement and intelligence cooperation that has successfully destroyed terrorist cells, disrupted terrorist operations and prevented attacks. There are many counterterrorism successes in cooperating countries and international organizations. For example:

- Pakistan has apprehended more than 500 al-Qaida and Taliban terrorists under the leadership of President Musharraf and implemented stronger border security measures and law enforcement cooperation throughout the country.
- Jordan continues its strong counterterrorism efforts, including arresting two individuals with links to al-Qaida who admitted responsibility for the October 2002 murder of a USAID Foreign Service officer in Amman.

- The North Atlantic Treaty Organization has endorsed an ambitious transformation agenda designed to enhance its capabilities by increasing deployment speed and agility to address new threats of terrorism.
- Colombia has developed a democratic security strategy as a blueprint for waging a unified, aggressive counterterror-counterterrorism campaign against designated foreign terrorist organizations and other illegal armed groups.

The United States and Southeast Asian allies have made significant advances against the regional terrorist organization Jemaah Islamiyah which was responsible for the Bali attack last October that killed more than 200 people. In early August 2003, an Indonesian court convicted and sentenced a key figure in that bombing.

Since September 11, 2001, 173 countries have issued orders to freeze the assets of terrorists. As a result, terror networks have lost access to nearly \$200 million in more than 1,400 terrorist-related accounts around the world. The World Bank, International Monetary Fund, and other multilateral development banks have also played an important role in this fight by strengthening international defenses against terrorist finance.



President Bush and Secretary Powell attend the North Atlantic Council Summit in 2002.

All governments that support terror are complicit in a war against civilization. No government should ignore the threat of terror, because to look the other way gives terrorists the chance to regroup and recruit and prepare. And all nations that fight terror, as if the lives of their own people depend on it, will earn the favorable judgment of history.

President George W. Bush
Addressing the United Nations
September 2003

While progress has been made in attacking terrorist organizations both globally and regionally, much work remains to be done. The 2005 President's Budget strengthens our financial commitment to our coalition partners to wage the global war on terror. Highlights of the President's request include \$693 million for Pakistan to help advance security and economic opportunity for Pakistan's citizens, including a multi-year educational support program; \$459 million for Jordan to accelerate economic growth opportunity and strengthen border controls; and \$463 million for Colombia to support President Uribe's unified campaign against drugs and terrorism.

Combating the Spread of Weapons of Mass Destruction

The Department of State plays a major role in the Administration's strategy to combat the spread of weapons of mass destruction (WMD). Diplomacy is key to efforts to dissuade supplier states from cooperating with proliferant states and to induce proliferants to end their WMD and longer-range missile programs.

The Administration strategy has achieved notable success. Iraq no longer poses a threat and Libya has pledged to eliminate all its WMD and delivery programs. We will continue to build coalitions to support our efforts to control and defeat WMD.

Key efforts include broader and deeper participation in the Proliferation Security Initiative, increased support for nonproliferation and threat reduction assistance, including the G-8 Global Partnership, and strengthened implementation of nonproliferation regimes such as the Nuclear Nonproliferation Treaty, Chemical Weapons Convention, Biological Weapons Convention, and Missile Technology Control Regime.

Nonetheless, the pursuit of WMD by North Korea, Iran, Syria, and other states and their terrorist allies continues to threaten global security.

Expansion of Democracy in the Greater Middle East

The United States has adopted a new policy, a forward strategy of freedom in the Middle East. This strategy requires the same persistence and energy and idealism we have shown before. And it will yield the same results. As in Europe, as in Asia, as in every region of the world, the advance of freedom leads to peace.

President George W. Bush

20th Anniversary of the National Endowment for Democracy, Washington, D.C.

November 2003

In many nations of the Greater Middle East, democracy has not yet taken root. Expanding democracy to this region is critical to eradicating international terrorism. The United States continues to increase its diplomatic and assistance activities in the Greater Middle East to promote democratic voices, support increased accountability in government, assist local efforts to strengthen respect for the rule of law, assist independent media and invest in the next generation of leaders. These efforts focus particularly on strengthening the role of women in the political process.



Learning computer skills at the Women's Empowerment Center in Hilla, Iraq.

As the President has emphasized, reform in the Greater Middle East is of vital importance to the future of peace and stability in that region as well as to the national security of the United States. As long as freedom and democracy do not flourish in the Greater Middle East, conditions will continue to breed resentment and despair and the region will serve as an exporter of violence and terror to free nations. For the United States, promoting democracy and freedom in the Greater Middle East is a difficult yet essential calling.

There are promising developments upon which to build. The government of Jordan, for example, is committed to accelerating reform.

Results include free and fair elections, three women holding Cabinet Minister positions for the first time in Jordan's history, and major investments in education. Positive developments also can be found in Morocco which held parliamentary elections last year that were acclaimed as the most free, fair and transparent in its history.

In April 2003, the Administration launched the Middle East Partnership Initiative (MEPI), an intensive inter-agency effort to support political and education reform and economic development in the region. The President is continuing his commitment by providing \$150 million in 2005 for these efforts.

To enhance this U.S. Government effort with a key non-government organization, the President has doubled the National Endowment for Democracy (NED) budget to \$80 million specifically to create a Greater Middle East Leadership and Democracy Initiative. NED is a leader in efforts to strengthen democracy and tolerance around the world through its work with civil society organizations.

Public Diplomacy in the Greater Middle East

Democracy flourishes with freedom of information and exposure to diverse ideas. The President's 2005 Budget promotes expansion of democracy in the Greater Middle East by providing public access to information through exchange programs and the Middle East Broadcasting Network.

New public diplomacy efforts including the Partnerships for Learning (P4L) and Youth Exchange Study (YES) initiatives have been created to reach a younger and more diverse audience through academic and professional exchange programs. In 2005, the P4L and the YES programs, funded at \$61 million, will focus more on youth of the Muslim world, specifically targeting non-traditional, non-elite, often female and non-English speaking youth.

The United States' broadcasting initiatives in the Greater Middle East encourage the development of a free press and provide Middle Eastern viewers and listeners access to a variety of ideas. The United States revamped its Arabic radio broadcasts in 2002 with the introduction of Radio Sawa, which broadcasts to the region 24 hours a day. As a result, audience size for our Arabic broadcasting increased from under two percent in 2001 to over 30 percent in 2003. Based on this successful model, the United States introduced Radio Farda to broadcast to Iran around the clock. Building on this success, the 2005 President's Budget provides over \$70 million for Arabic and Persian radio and television broadcasts to the Greater Middle East. In early 2004, the United States will launch the Middle East Television Network, an Arabic language satellite network that will have the capability of reaching millions of viewers and will provide a means to better understand democracy and free market policies, as well as the United States and its people.



Student leaders from North Africa and the Greater Middle East participating in the Young Ambassadors Study of the United States Institute.



Broadcasters read the news in one of Radio Sawa's studios in Washington, D.C.

NEW APPROACH TO GLOBAL PROSPERITY

President Bush's approach to global economic growth emphasizes proven American values: ruling justly, investing in people and encouraging economic freedom. President Bush has pledged to increase economic engagement with and support for countries that commit to these goals through an ambitious trade agenda and new approaches to development assistance focusing on country performance and measurable results.

Millennium Challenge Account

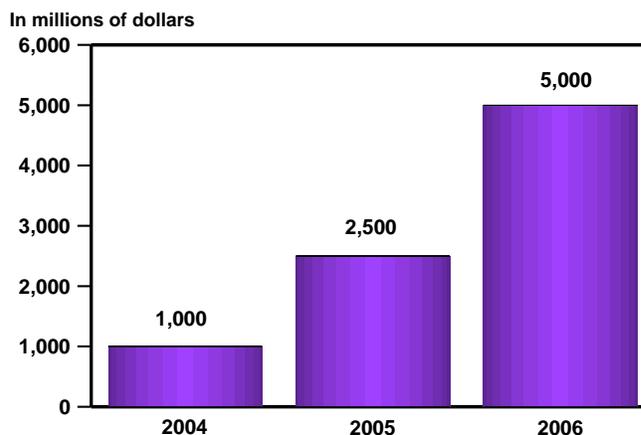
With nearly three billion people living on less than \$2 a day, the need for a new approach to global development is essential. In response, President Bush proposed the Millennium Challenge Account (MCA) to provide a new pathway to economic development. The MCA will select countries that demonstrate a commitment to ruling justly, investing in their people and encouraging economic freedom to work in partnership to strengthen economic growth and reduce poverty.

In February of 2003, the Administration sent the Congress a budget request for the MCA and legislation to authorize the creation of the Millennium Challenge Corporation (MCC), the agency designed to support these innovative development strategies and to ensure accountability for results.

The MCC will fund proposals for grants that have clear, measurable objectives, a sound financial plan and indicators for assessing progress.

The Congress appropriated \$1 billion for MCA for 2004. The 2005 Budget request of \$2.5 billion makes a significant second year increase to the MCA and paves the way to reaching the President's commitment of \$5 billion in 2006.

Millennium Challenge Account Funding



Trade Promotion Authority

President Bush recognizes that America and the world benefit from free trade. For this reason, one of his first actions upon taking office in 2001 was to seek Trade Promotion Authority allowing him to negotiate market-opening agreements with other countries. The President intends to vigorously pursue his free trade agenda in order to grow developing countries out of poverty, while creating high-paying job opportunities for America's workers, businesses, farmers and ranchers and benefiting all Americans through lower prices and more choices.

Since receiving this authority in 2002, the President has made good on his promise, completing free trade agreements with Chile and Singapore, which were quickly approved by the Congress. He will soon complete similar market-opening agreements with Morocco, Central American countries, and Australia. These agreements combine intellectual property and investment protections for U.S. companies with commitments for strong environmental and labor protections by our partners.

Building on this significant progress, the President is determined to do more to open markets to U.S. goods and services. He intends to complete ongoing free trade negotiations with the South African Customs Union and finalize negotiations for a Free Trade Area of the Americas by 2005 and

Open trade fuels the engines of economic growth that creates new jobs and new income. It applies the power of markets to the needs of the poor. It spurs the process of economic and legal reform. It helps dismantle protectionist bureaucracies that stifle incentive and invite corruption. And open trade reinforces the habits of liberty that sustain democracy over the long term.

President George W. Bush
Addressing the Organization of American States
April 2001

intends to launch free trade negotiations with Bahrain, Thailand, the Dominican Republic, Panama and the Andean countries of Colombia, Ecuador, Bolivia and Peru. The President has also stated his vision for a Middle East Free Trade Area by 2013, to ignite economic growth and expand opportunity in this critical region. Finally, the President is committed to successfully concluding the World Trade Organization's Doha agenda, which the United States played a crucial role in launching. In these negotiations, the President has submitted far-reaching proposals to remove all tariffs on manufactured goods, open agriculture and services markets and address the special needs of poorer developing countries in order to advance global free trade.

Increasing Economic Growth and Stability in Developing Countries

President Bush believes that each country, by following proven economic principles, can contribute significantly to the achievement of greater growth and stability. The President also believes that international assistance should be targeted at countries with positive growth policies where specific results can be measured. The President is delivering on his pledge to increase assistance to countries not only through the MCA initiative but also through the Multilateral Development Banks (MDBs). The United States is the first country to link a portion of its contribution to the International Development Association (IDA) to actual results.

The World Bank and the other MDBs have increased the portion of assistance they provide as grants to the poorest countries enabling these countries to make more productive investments without incurring ever larger debt burdens. The Administration is working to extend this effort to include larger portions of assistance at all the MDBs.

CARING FOR THE WORLD'S MOST VULNERABLE CITIZENS

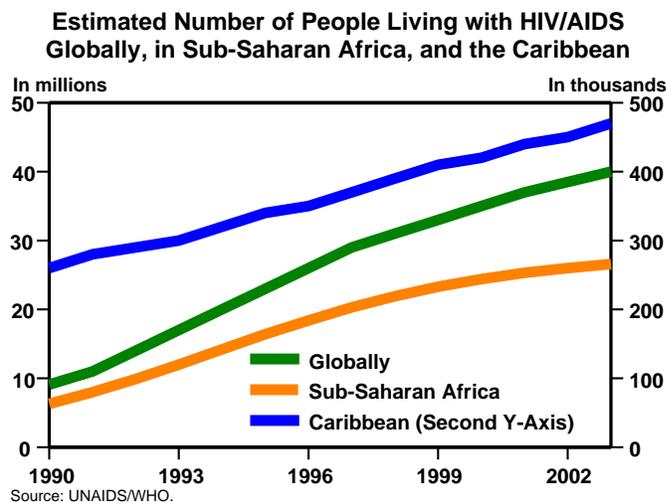
Emergency Plan for AIDS Relief

When President Bush took office in January 2001, the HIV/AIDS pandemic was at an all time high. The estimated number of adults and children living with HIV/AIDS globally was 37 million, with 68 percent of those individuals living in sub-Saharan Africa. From 1993 to 2001 the total U.S. Government global AIDS budget was \$1.9 billion. As part of the Emergency Plan for AIDS Relief, the President proposed \$2.0 billion in 2004 as the first installment of a five-year, \$15 billion initiative, surpassing nine years of funding in a single year. The President's Emergency Plan for AIDS Relief represents the single largest international public health initiative ever attempted to defeat a disease. The President's Plan targets an unprecedented level of assistance to 14 of the most afflicted countries in Africa and the Caribbean to defeat HIV/AIDS. In addition, programs will continue in 75 other countries.

By 2008, the President's Plan will prevent seven million new infections; treat two million HIV-infected people; and care for 10 million HIV-infected individuals and those orphaned by AIDS in Botswana, Cote d'Ivoire, Ethiopia, Guyana, Haiti, Kenya, Mozambique, Namibia, Nigeria, Rwanda, South Africa, Tanzania, Uganda and Zambia.

Announced during the President's State of the Union address on January 28, 2003, the Emergency Plan provides \$15 billion over five years for those countries among the hardest hit by the pandemic and includes \$1 billion for the Global Fund to Fight AIDS, Tuberculosis and Malaria. The 2005 Budget provides \$2.8 billion to combat global AIDS, more than tripling the funding for international HIV/AIDS since the President took office.

Over the past year, the Administration worked with the Congress to pass legislation laying the groundwork for the Emergency Plan for AIDS Relief and appointed a senior official reporting directly to the Secretary of State to coordinate all U.S. Government international HIV/AIDS activities. The Coordinator has taken steps to rapidly initiate and expand services for prevention, care for orphans and vulnerable children, and care and antiretroviral treatment for HIV-infected adults.



There are only two possible responses to suffering on this scale. We can turn our eyes away in resignation and despair, or we can take decisive, historic action to turn the tide against this disease and give the hope of life to millions who need our help now. The United States of America chooses the path of action and the path of hope.

President George W. Bush
April 2003

As a crucial next step, the 2005 Budget expands on the Emergency Plan. By working together as a highly collaborative team and placing primary ownership of these efforts in the hands of the countries that we are helping, the Department of State, USAID, the Department of Health and Human Services, and other U.S. Government agencies can use significantly increased resources quickly and effectively to achieve the President's ambitious goals in the fight against global AIDS.

Helping Those in Greatest Need- Emergency Humanitarian Assistance

The President's Budget reflects a continued commitment to humanitarian assistance.

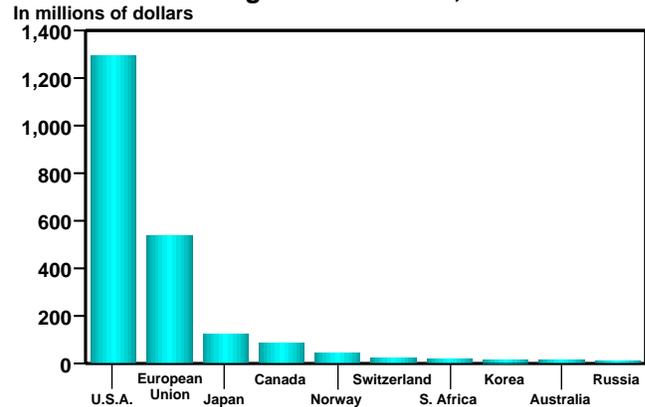
The 2005 Budget maintains U.S. leadership in providing food and non-food assistance to refugees, internally displaced persons and other vulnerable people in all corners of the world. In addition, the Budget reflects the findings of the Program Assessment Rating Tool (PART) evaluations completed for the United Nations High Commissioner for Refugees and for USAID's P.L. 480 Title II international food assistance, which confirmed a clear purpose for these programs.

In 2003, the Administration provided funding to several international and non-governmental organizations to assist nearly 200,000 Angolan refugees and internally displaced persons returning home after decades of civil war.

In drought-affected Ethiopia, the Administration led international efforts to prevent widespread famine among 13 million vulnerable people, providing over one million metric tons of emergency food aid to the World Food Program, funding immunizations for weakened children and supplying emergency seeds to farmers.

In Sudan, the Administration worked with the United Nations and the Government of Sudan so that vital assistance could be delivered to the Sudanese people, including approximately 125,000 metric tons in food aid, as well as non-food assistance, such as sanitation and water. The 2005 Budget includes \$436 million in humanitarian and development assistance funding, including an estimated \$100 million in food aid, to continue to support the Sudanese people as the country works toward a long-lasting peace settlement.

Top 10 Donors to the World Food Program Through November 24, 2003



Source: World Food Program.



Angolan refugees receiving assistance.

The 2005 Budget ensures that the Administration can continue to respond quickly and appropriately to victims of conflict and natural disasters, to help those in greatest need of food, shelter, health care and other essential assistance, including those in areas starting to recover from conflict and war, such as Liberia. In particular, the Budget requests \$100 million in funding for a flexible account to give the President the ability to respond to unforeseen emergency needs, the Emergency Fund for Complex Foreign Crises.

KEEPING AMERICANS SAFE AT HOME AND ABROAD

Capital Security Cost Sharing Program

The State Department has the responsibility to protect more than 60,000 U.S. Government employees who work in embassies and consulates abroad. Since the 1998 bombings of two U.S. embassies in East Africa, the State Department has improved physical security overseas. Many posts require additional work to withstand terrorist attacks and other dangers, however. To accelerate this effort, in 1999, the State Department launched a security upgrade and construction program to begin to address requirements in more than 260 embassies and consulates.

This Administration, working with the Congress, accelerated the pace of improving and building new secure facilities and reorganized the Overseas Building Office to successfully manage the effort.

Within the Budget, the Administration is launching a plan to replace the remaining 150 embassies and consulates that do not meet current security standards over the next 14 years, for a total cost of \$17.5 billion. To fund construction of these new embassy compounds, the Administration will begin the Capital Security Cost Sharing (CSCS) Program in 2005. The CSCS will be phased in over a five-year period, beginning in 2005.



Ongoing embassy construction in Yerevan, Armenia.

Each agency with staff overseas will contribute annually towards construction of the new facilities based on the number of positions and the type of space occupied. The cost shares in 2005 were agreed to by each agency in consultations with the State Department's Overseas Building Office.

Capital Security Cost Sharing is also a major component of the President's Management Agenda initiative on Rightsizing. Along with securing facilities, this Administration has focused on assuring that overseas staff is deployed where they are needed to effectively serve U.S. interests. As agencies assess the real cost of maintaining staff overseas, they

will adjust their overseas staffing levels and new embassies will be built to suit appropriate staffing levels. The program is already producing results.

Border Security

The Department of State seeks to use the visa process to accomplish its goal of secure borders and open doors. More effective information sharing and more careful screening of applicants will result in improved national security measures that both protect U.S. border security and promote legitimate international travel.

Since September 11, 2001, Consular Affairs at the State Department with both Customs and Border Protection and the Bureau of Citizenship and Immigration Services at the Department of Homeland Security have been working cooperatively to achieve their goals more effectively by sharing information and integrating information technology systems.

The Department of State has invested substantial time, money and effort in revamping the visa and passport process as well as their provision of American Citizen Services. The Department has more than doubled its database holdings on individuals who should not be issued visas, increased training for all consular officers, established special programs to more fully vet applications, increased the number of skilled, American staff working in consular sections overseas and improved data-sharing

State Department and Homeland Security

The State Department will be an active partner in the Terrorist Screening Center (TSC). The TSC, established in December 2003, will maintain a single, consolidated watchlist of terrorist suspects to be shared with Federal, State, local and private entities in accordance with applicable law. The Department of State will also participate in the Terrorism Threat Integration Center, an inter-agency effort aimed at integrating and analyzing terrorist threat information collected both domestically and abroad.

among agencies. The State Department along with the Department of Homeland Security is currently developing biometrics such as fingerprints and digital photographs or iris scans for both visas and passports in order to fulfill requirements of the PATRIOT and Border Security Acts and the International Civil Aviation Organization. The Budget in 2005 includes \$175 million (including \$100 million from new fees) for biometric projects, including photographs and fingerprints.

In order to achieve its goals, the State Department plans to expand the use of biometrics to improve security in the visa and passport processes; more effectively fill gaps worldwide by hiring people with specific skills including language expertise; improve and maintain all consular systems; and more broadly expand data sharing with all agencies with border control or immigration related responsibilities.

The Border Security program underwent a PART analysis in the development of the 2004 and 2005 Budgets, and this Budget reflects the results of those analyses. The Department is encouraged to follow through on program management improvements that clearly link it to the Department of Homeland Security goals related to visa policy.

REBUILDING DIPLOMATIC READINESS

The Diplomatic Readiness Initiative (DRI) was created in 2002 by Secretary Powell to address staffing and training gaps. The goals of DRI were to hire 1,158 new foreign and civil service employees over a three-year period, support training opportunities for staff, enhance the Department's ability to respond to crises and emerging priorities overseas and at critical domestic locations, improve Department hiring processes to recruit personnel from more diverse experiences and cultural backgrounds, and fill critical skill gaps.



Secretary Powell with New Foreign Service Officers.

Through DRI, the Department has created new mandatory leadership and management training, enhanced public diplomacy and consular training and afforded significant increases to the amount of language training available for new Foreign Service officers. DRI hiring has supported the Department efforts in responding to crises since September 11th and provided the additional resources necessary to staff overseas locations that truly represent the front line in the war on terror. DRI has also transformed the Department's recruiting process and contributes to the Secretary's emphasis on a Foreign Service that reflects America. In 2000, 8,000 applicants took the Foreign Service written exam. By the April 2003 exam, that number had risen steadily to over 20,000 persons, a 250-percent increase.

Some of these positions are being diverted to support new requirements not envisioned by DRI, such as permanently staffing new embassies in Afghanistan and Iraq and Sudan. As a result, the 2005 Budget provides the additional resources to finalize the Secretary's DRI commitment. DRI has allowed the Department to focus on recruiting, training and retaining a high quality work force, sized to requirements that can more flexibly respond to the dynamic and demanding world in which we now live.

USAID has begun a similar effort to address gaps in staffing in technical skills, the Development Readiness Initiative. USAID plans to hire approximately 40 Foreign Service Officers in 2004 under this initiative. The Budget includes authority for USAID to hire up to 50 additional Foreign Service Officers in 2005, in order to fill critical skill gaps identified through a comprehensive workforce analysis.

PERFORMANCE EVALUATION OF SELECT PROGRAMS

The Budget continues to focus on improving program performance. Seventeen of the State Department's programs and 11 International Assistance programs were assessed using the Program Assessment Rating Tool (PART), which evaluated the programs' design and purpose, strategic planning efforts, how well they are managed, and whether they are generating positive results for taxpayers. Below are some of the highlights and recommendations from the PART evaluations. For further details on Department of State and International Assistance Programs performance assessments, see the White House budget website at www.whitehouse.gov/omb/budget/.

| Program | Rating | Explanation | Recommendation |
|---|----------------------|--|---|
| Department of State—Worldwide Security Upgrades | Moderately Effective | The managers of the program continually strive to attain clear, well-established long term goals. However, the program lacks clear annual budget and performance targets and a link between goals and the 2005 Budget request. | The Department is encouraged to continue work on the development of annual performance measures that would link to the total funding level requested. |
| Department of State-UN High Commissioner for Refugees (UNHCR) | Moderately Effective | The program purpose is clear and managers work closely with UNHCR to ensure that U.S. goals are understood and included in the organization's planning. However, UNHCR needs to improve its financial management system so that it is clear that funds are being used effectively. | The State Department should continue to work with UNHCR to improve its financial management system. |
| Broadcasting Board of Governors—Near East and South Asia Broadcasting | Moderately Effective | The program is dramatically increasing its reach, particularly to Arabic-speaking populations. It has improved its planning processes, but lacks performance measures that capture how successful the program is in promoting democracy or influencing listeners' views. | Design performance measures that capture the quality of the programming and the impact radio broadcasts have on the views of listeners in the region. |

| Program | Rating | Explanation | Recommendation |
|---|----------------------|---|--|
| USAID—Office of Transition Initiatives (OTI) | Moderately Effective | OTI provides fast, flexible and short-term assistance to conflict-prone countries to bridge the gap between traditional immediate-term relief and longer-term development. Overall, the program’s management and performance is strong, particularly its performance measurement at the individual country/program level. | Develop baselines, timeframes and targets for its short-term and long-term performance measures so that the aggregate effectiveness of OTI can be measured. Develop a performance measure that better measures the sustainability of transition initiative outcomes. |
| Treasury—Office of Technical Assistance (OTA) | Adequate | OTA has taken numerous steps to address strategic management deficiencies identified in last year’s assessment. In particular, OTA has developed a new Project Management Tracking System and will require that all OTA establish long-term and annual performance measures. OTA still needs to give considerable thought to long-term and annual measures and targets. | OTA will continue to work on and implement long-term and annual measures and targets for each team and for OTA overall. |

UPDATE ON THE PRESIDENT’S MANAGEMENT AGENDA

The table below provides an update on State Department’s implementation of the President’s Management Agenda as of December 31, 2003.

| | Human Capital | Competitive Sourcing | Financial Performance | E-Government | Budget and Performance Integration |
|-----------------|---------------|----------------------|-----------------------|--------------|------------------------------------|
| Status | ● | ● | ● ↑ | ● | ● ↑ |
| Progress | ● | ● | ● | ● | ● |

Arrows indicate change in status rating since evaluation as of September 30, 2003.

State Department won the International Public Management Association for Human Resources Federal Section Leading Edge Award reflecting the Department’s progress in making its human resources strategies conform with its mission. Notably, State Department and USAID published an integrated Strategic Plan. For Competitive Sourcing, the State Department is conducting a market analysis, benchmarking and organizational assessment for its Multi-Media Services organization. The Department is on track to complete security certification and accreditation of major information technology systems by the end of 2004. In 2002, the Inspector General reported more than 90 percent of the Department’s systems were vulnerable. Also, State Department completed its roll-out of a new financial management system that is compliant with Federal standards.

U.S. Agency for International Development's Presidential Management Scorecard

The table below provides an update on USAID's implementation of the President's Management Agenda as of December 31, 2003.

| | Human Capital | Competitive Sourcing | Financial Performance | E-Government | Budget and Performance Integration |
|--|---|---|---|---|---|
| Status |  |  |  |  |  |
| Progress |  |  |  |  |  |
| <p>USAID started its new Faith-based and Community Office Initiative scorecard this quarter. Notably, State Department and USAID published an integrated Strategic Plan. In addition, USAID finalized a recruitment strategy to implement the Development Readiness Initiative in 2004 and to staff Iraq and Afghanistan. USAID received its first-ever clean audit opinion and issued USAID financial statements and Performance and Accountability Report on schedule.</p> | | | | | |

| Initiative | Status | Progress |
|---|---|---|
| A "Right-Sized" Overseas Presence |  |  |
| <p>President Bush emphasized the importance of safety, efficiency and accountability in U.S. Government staffing overseas by identifying Rightsizing as part of the President's Management Agenda (PMA). Rightsizing is ensuring that the mix of U.S. Government agencies and personnel overseas is appropriately aligned with our foreign policy priorities, security concerns and overall resources. There are currently four major components of the rightsizing PMA agenda: the Capital Security Cost Sharing Initiative (discussed earlier in the chapter); development of the "Creekbed" regional facility in Frankfurt, Germany scheduled to open in 2005; an "Outside the Box" regionalization analysis and best practices exercise focusing on the development of a regional architecture and shared-services model, led by the State Department in consultation with OMB; and the institution of an annualized process whereby each agency with staff overseas reports and accounts for their staff and costs associated with those staff as a part of the budget process. These initiatives as well as ongoing efforts by OMB, the Department of State, and other rightsizing partners to refine a rightsizing methodology will be used to conduct systematic rightsizing reviews of U.S. missions worldwide through 2005.</p> | | |

Department of State and International Assistance Programs

(In millions of dollars)

| | Actual | | Estimate | |
|--|--------|---------|----------|---------|
| | 2001 | 2003 | 2004 | 2005 |
| Spending | | | | |
| Discretionary Budget Authority: | | | | |
| Department of State: | | | | |
| Diplomatic and Consular Programs | 3,148 | 3,827 | 4,063 | 4,285 |
| Embassy Security, Construction, and Maintenance | 1,078 | 1,255 | 1,377 | 1,539 |
| International Organizations and Conferences | 1,713 | 1,529 | 1,450 | 1,844 |
| Andean Counterdrug Initiative | — | 787 | 744 | 731 |
| All other programs | 1,786 | 1,834 | 1,630 | 1,860 |
| Subtotal, Department of State | 7,725 | 9,232 | 9,264 | 10,259 |
| Supplementals | 49 | 457 | 696 | — |
| Total, Department of State | 7,774 | 9,689 | 9,960 | 10,259 |
| International Assistance Programs: | | | | |
| Foreign Military Financing | 3,568 | 3,953 | 4,252 | 4,958 |
| Nonproliferation, Anti-Terrorism, Demining and Related Programs | 311 | 287 | 351 | 415 |
| Economic Support Fund | 2,300 | 2,175 | 2,138 | 2,520 |
| Development Assistance | 1,273 | 1,475 | 1,356 | 1,308 |
| Child Survival and Disease Programs | 851 | 1,731 | 1,824 | 1,420 |
| Multilateral Development Banks | 1,156 | 1,298 | 1,383 | 1,492 |
| Millennium Challenge Corporation | — | — | 994 | 2,500 |
| Peace Corps | 264 | 295 | 308 | 401 |
| Global HIV/AIDS Initiative | — | — | 488 | 1,450 |
| U.S. Emergency Fund for Complex Foreign Crises—legislative proposal | — | — | — | 100 |
| All other programs | 2,862 | 2,613 | 2,566 | 2,772 |
| Subtotal, International Assistance Programs | 12,585 | 13,827 | 15,660 | 19,336 |
| Supplementals | 5 | 4,848 | 1,621 | — |
| Total, International Assistance Programs | 12,590 | 18,675 | 17,281 | 19,336 |
| Other International Affairs Activities: | | | | |
| Export-Import Bank | 905 | 564 | 55 | 156 |
| <i>USDA International Food Aid (non-add)</i> | (835) | (1,442) | (1,185) | (1,185) |
| All other programs | 516 | 611 | 668 | 694 |
| Subtotal, Other International Affairs Activities | 1,421 | 1,175 | 723 | 850 |
| Supplementals ¹ | — | 2,283 | 18,479 | — |
| <i>Supplementals-International Food Aid (non-add)</i> | — | (300) | — | — |
| Total, Other International Affairs Activities | 1,421 | 3,458 | 19,202 | 850 |
| Total, Discretionary budget authority | 21,785 | 31,822 | 46,443 | 30,445 |
| Discretionary Outlays: | | | | |
| Department of State | 6,916 | 8,585 | 10,104 | 10,329 |

Department of State and International Assistance Programs—Continued

(In millions of dollars)

| | Actual | | Estimate | |
|---|---------------|---------------|---------------|---------------|
| | 2001 | 2003 | 2004 | 2005 |
| International Assistance Programs | 13,463 | 13,249 | 16,423 | 16,958 |
| Other International Affairs Activities | 1,208 | 1,195 | 1,381 | 1,279 |
| Supplementals | 2 | 4,802 | 9,626 | — |
| Total, Discretionary outlays | 21,589 | 27,831 | 37,534 | 28,566 |
| Mandatory Outlays: | | | | |
| Department of State | 392 | 339 | 407 | 492 |
| International Assistance Programs | –1,688 | –3,410 | –1,047 | –812 |
| Other International Affairs Activities | –2,463 | –3,839 | –2,335 | –259 |
| Total, Mandatory outlays | –3,759 | –6,910 | –2,975 | –579 |
| Total, Outlays | 17,830 | 20,921 | 34,559 | 27,987 |
| Credit activity | | | | |
| Direct Loan Disbursements: | | | | |
| Department of State | 1 | 1 | 1 | 1 |
| International Assistance Programs | 665 | 502 | 193 | 426 |
| Export-Import Bank | 1,788 | 1,816 | 427 | 138 |
| Total, Direct loan disbursements | 2,454 | 2,319 | 621 | 565 |
| Guaranteed Loan Commitments: | | | | |
| International Assistance Programs | 508 | 1,927 | 4,110 | 4,324 |
| Export-Import Bank | 7,504 | 10,148 | 8,670 | 10,014 |
| Total, Guaranteed loan commitments | 8,012 | 12,075 | 12,780 | 14,338 |

¹ 2004 does not include CPA administrative costs.

DEPARTMENT OF TRANSPORTATION

Since 2001, the Administration:

- Developed a multi-year proposal to invest in the Nation's highway and transit systems to improve highway safety and curb congestion, while giving States more flexibility to manage their funds;
- Helped stabilize the airline industry following the events of September 11, 2001;
- Achieved enactment of legislation to increase airport capacity and improve air safety;
- Developed a plan to revolutionize the Nation's passenger rail system that would give control to States to develop train routes and services that meet the public's transportation needs; and
- Reached key highway safety goals, including improving the national safety belt usage rate to 79 percent in 2003.

The President's Budget:

- Modifies the Administration's surface transportation bill as outlined in the 2004 Budget by increasing the total six-year investment in highways and transit programs to \$256 billion, without raising taxes or exceeding the Government's capacity to fund this investment in improved infrastructure and safety programs;
- Provides funding for airspace modernization projects to improve aviation safety and sustains capacity to ensure safety of the national airspace; and
- Proposes additional Federal assistance for the intercity passenger rail system on the condition that fundamental reforms are instituted.

Department of Transportation

Secretary Norman Y. Mineta

www.dot.gov 202-366-4000

Number of Employees: 58,622

2005 Discretionary Budgetary Resources:
\$57.4 billion

Organization: 10 operating administrations, including the Federal Aviation Administration; Federal Highway Administration; Federal Transit Administration; Federal Motor Carrier Safety Administration; and National Highway Transportation Safety Administration.



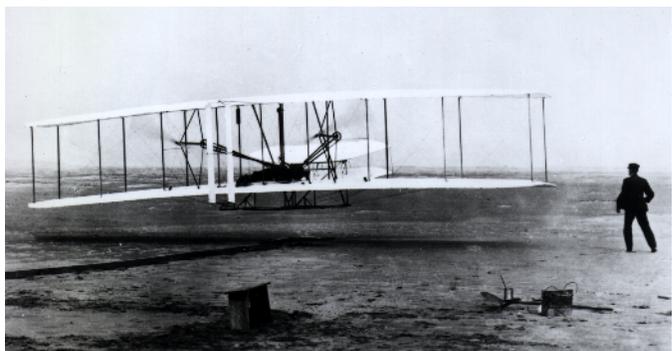
Secretary Mineta speaking to freight carriers.

OVERVIEW

The Department of Transportation (DOT) helps ensure the safety and economic effectiveness of the roads, railways, pipelines, airways, and seaways upon which the Nation's economy depends. 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 the operation and regulation of transportation. They share a commitment to fulfill the Department's national performance objectives of safety and mobility.

Last year, DOT proposed multi-year reauthorization legislation for its three major program areas: the Federal Aviation Administration (FAA) and aviation programs; surface transportation programs, including the Federal Highway Administration, Federal Transit Administration, National Highway Traffic Safety Administration, and Federal Motor Carrier Safety Administration; and intercity passenger rail (Amtrak).

- Aviation.* At the same time we celebrate the 100th year of flight, the recently enacted four-year FAA reauthorization, Vision 100—Century of Aviation, emphasizes improving air safety and increasing airport capacity. Air travel is the safest form of travel in the United States. Vision 100 will help maintain this record by authorizing \$59 billion in FAA programs through 2007, which is a 31-percent increase for aviation programs over the last four-year reauthorization. Key elements of the reauthorization include revisions to the payment to the air carriers program to improve service to small communities, a pilot program to allow airlines at selected airports to work together to ease airline delays, and expedited procedures for aviation environmental reviews.
- Surface Transportation.* The Administration's surface reauthorization proposal, the Safe, Accountable, Flexible and Efficient Transportation Equity Act of 2003 (SAFETEA), addresses safety and congestion problems and authorizes funds for six years (2004–2009). In 2002, there



2003 was the 100th anniversary of the Wright Brothers' first flight.

were 42,815 highway fatalities, which were estimated to cost society \$231 billion. With safety as its first priority, SAFETEA establishes a new highway core-funding category dedicated to reducing roadway accidents and creates a new safety belt incentive program to encourage States to enact tough safety belt laws. To battle traffic congestion, the Budget proposes an increase of \$45 billion, 21 percent more than the prior six-year authorization (Transportation Equity Act for the 21st Century, or TEA-21) for safety programs, highway construction, and transit systems. This funding level is fiscally responsible and will not require raising the Federal gas tax. It also reflects a \$9 billion increase above the levels originally outlined last year in SAFETEA and the 2004 Budget.

- *Intercity Passenger Rail.* The current intercity passenger rail system must be restructured if rail is to be a viable alternative for the traveling public. Amtrak, the monopoly provider of passenger rail, after 30 years still has not developed services that compete with air or highway travel in most parts of the country. The Administration's proposed Passenger Rail Investment Reform Act would allow States and local communities to decide how to integrate intercity passenger rail into their transportation plans, potentially making more services available to more people nationwide. The Budget seeks \$900 million for Amtrak in 2005, but supports significant increases for the intercity passenger rail system (an additional \$500 million annually) should the Administration's reforms be enacted.

The 2005 Budget supports these reauthorization proposals and DOT's central performance goals to improve safety and increase mobility in support of the Nation's economy, protect the human and natural environment, achieve organizational excellence, and support the national security strategy. Additionally, through the President's Management Agenda, DOT is improving its performance in the areas of strategic management and human capital, competitive sourcing, financial performance, electronic government, and budget and performance integration.

IMPROVING TRANSPORTATION SAFETY

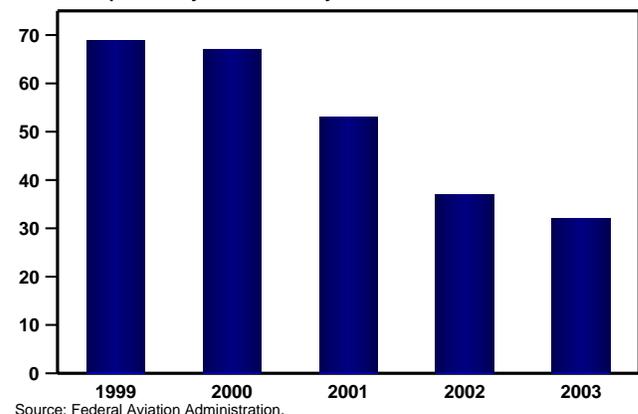
Promoting transportation safety is the most important goal of all DOT agencies. DOT has succeeded in improving transportation safety, though major challenges remain. The 2005 Budget includes \$14.2 billion for transportation safety programs to meet DOT's safety mission.

Air Safety

The United States has the largest, most complex aviation system in the world, with a safety record second to none. The Nation's airspace system is extensive and includes 15,613 air traffic controllers, 3,364 airports, and 392 air traffic control facilities. Commercial aviation continues to be the safest form of transportation with only one commercial accident occurring in 2002. FAA has established strategic goals to reduce the commercial and general aviation fatal accident rates, reduce the risk of runway incursions (potential collisions on the ground), and reduce cabin injuries caused by turbulence.

FAA, working with industry, academia, and other Federal agencies, conducts aviation research used to develop standards for improving safety. For example, in 2005 FAA will continue to evaluate how human factors are linked to aviation accidents and implement strategies to address these issues.

Severe Runway Incursions Have Decreased
Number of potentially severe runway incursions



FAA will also develop and implement airport design standards and surface movement procedures to mitigate the risk of runway incursions. A Program Assessment Rating Tool (PART) evaluation found that FAA’s research program is effective, well-managed, and results-oriented, which helped inform the 2005 Budget request for the program.

The 2005 Budget supports FAA’s continuing safety efforts by devoting \$8.8 billion to this objective, including \$7.4 billion for safety-related operational and personnel costs, \$1.0 billion for Grants-in-Aid for Airports, \$0.3 billion in information technology investments to modernize the airspace, and \$0.1 billion for aviation research.

Surface Transportation Safety

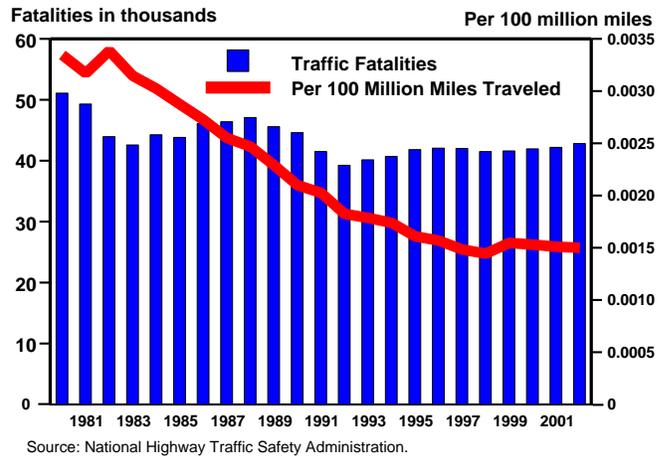
Although in 2002 the injury rate in motor vehicle traffic crashes per 100 million vehicle-miles traveled declined, the fatality rate has remained essentially unchanged since 2001. In 2002, an estimated 42,815 lives were lost in traffic accidents, or approximately 117 people per day.

In 2003, safety belt use reached an all-time high of 79 percent, but thousands have died or were injured because they failed to buckle up. Approximately 59 percent of those killed in motor vehicle crashes were not using any type of occupant restraints. Also adding to traffic fatalities are alcohol-related deaths, which rose for the third consecutive year in 2002, when 17,419 people died in alcohol-related crashes.

The most effective ways to reduce highway fatalities are to increase safety belt usage and lower alcohol-related fatalities. SAFETEA proposes a new safety belt incentive program to encourage States to enact tough safety belt laws and achieve substantially higher safety belt usage rates. SAFETEA also combines several safety programs administered by the National Highway Traffic Safety Administration (NHTSA) into a consolidated grant program. States would have new flexibility to use safety program funds for occupant protection, impaired driving countermeasures, and other safety programs if they develop performance-based highway safety plans. For 2005, the President’s Budget requests \$233 million for NHTSA safety operations and research programs, and \$456 million for grants to States for targeted highway safety programs. Combined, this represents an \$18 million increase from 2004.

Further, through a new core highway safety infrastructure program, the Administration calls for more than doubling the funding for highway safety improvements over TEA-21 levels. SAFETEA dedicates \$7.5 billion over six years so that States can eliminate hazardous roadway conditions to reduce fatalities and injuries on the highway system.

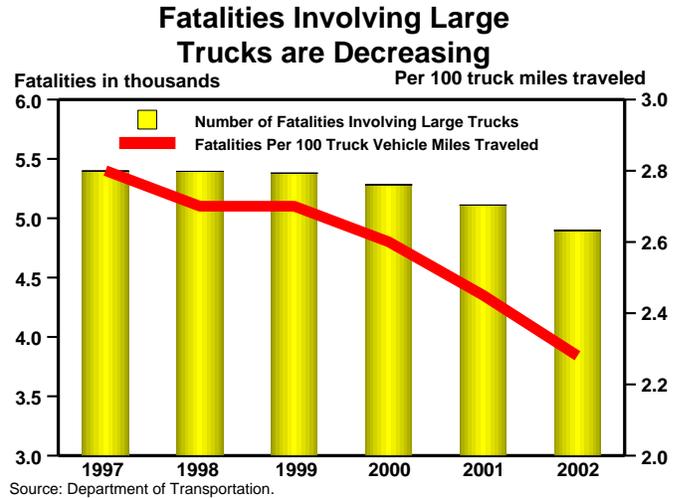
Traffic Fatality Rate Has Leveled Out



If safety belt use were to increase from 75 percent to 90 percent—an achievable goal—4,000 lives would be saved each year.

Secretary Mineta
May 2003

Motor carriers (commercial trucks and buses) represent about three percent of registered vehicles. However, they account for seven percent of vehicle-miles traveled on our Nation's highways and are involved in 11 percent of all fatal crashes. The Federal Motor Carrier Safety Administration (FMCSA) met the large truck-related fatality rate target in 2002 for the first time, and is working to reduce the rate from 2.8 per 100 million truck-miles traveled in 1996 to 1.96 in 2005. Consistent with the SAFETEA proposal, the President's 2005 Budget requests \$227 million for aggressive State enforcement of interstate commercial truck and bus regulations, and \$228 million to support oversight of hazmat transportation, Federal safety enforcement programs, and border safety inspections. These funds will support commercial vehicle safety and research programs to enhance the quality, stability, continuity, and uniformity of State commercial vehicle safety and enforcement programs. The Budget seeks this \$91 million increase over 2004 partially in response to a PART evaluation, which identified the need to streamline FMCSA's grant program and to address management deficiencies.



Studies show that new entrant motor carriers are less likely to comply with safety regulations and are more likely to be involved in crashes than well-established motor carriers. SAFETEA expands and improves safety auditing of new entrant motor carriers. FMCSA is implementing this initiative for every new commercial motor carrier company—Canadian, Mexican, or American—that applies to operate within the United States. These new entrants will be subjected to a safety audit in the first 18 months of operation before the operators receive a permanent safety decal.

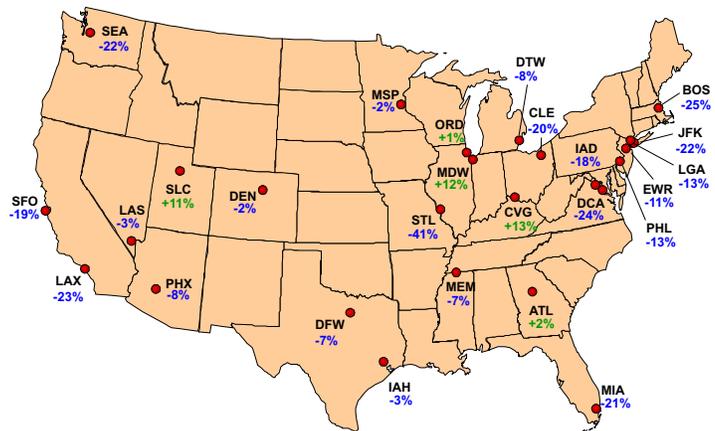
IMPROVING MOBILITY

Relieving congestion continues to be a major challenge in all modes of transportation. To address this problem and to enhance infrastructure conditions, the Department proposes investing in system improvements and smart technology. Initiatives supported in this Budget include expanding “intelligent” highway system technology and modernizing the airspace control system. DOT's total requested spending for improving mobility is \$38.4 billion for 2005.

Air Mobility

Air travel peaked in 2000 and started to decline in 2001. Current industry

Change in Operations by Major Airport November 2003 vs. November 2000



Source: Federal Aviation Administration.

estimates do not expect air traffic to rebound fully until 2006 at the earliest, though traffic at some airports has risen dramatically in recent months.

The 2005 Budget proposes \$3.5 billion for the Grants-In-Aid for Airports program (AIP), which provides funding to airports for safety and capacity enhancement projects. AIP funding enables airports to construct new runways or taxiways, extend existing runways, and construct and improve terminal buildings. Providing additional runways and deploying improved technology will prepare FAA to meet future customer needs and reduce flight delays. In addition, FAA will continue to use its authority to work with airlines at selected airports to ease airline delays. It will also expand the Free Flight program to provide air traffic controllers with several traffic management tools to direct planes to their destination more efficiently. These tools reduce air traffic congestion, delays, and the cost of flying.

FAA Delivers New Technology

The FAA's Free Flight programs answers the tough question: How can America avoid gridlock in the sky? The program uses advanced technology to:

- Determine precisely when a plane will touch down;
- Allow airlines, business aviation, the military, and FAA to work together to solve air traffic flow problems before they ripple across the country; and
- Smooth the flow of high-altitude aircraft into the Nation's busiest airports.

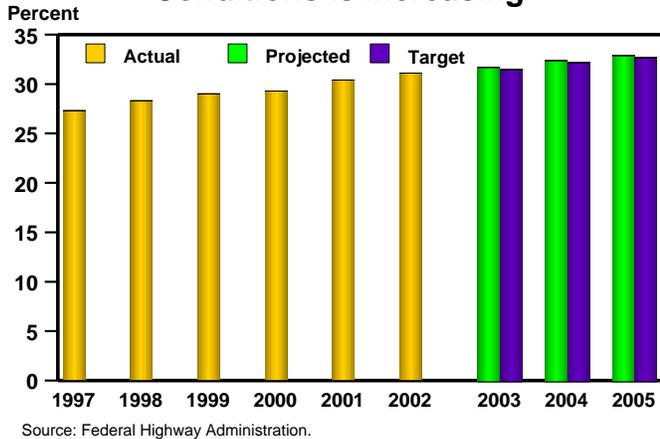
These tools already have prevented over 1.7 million hours in delays, increased the capacity at the Los Angeles International airport by five percent, and saved airlines \$4 million per month. The 2005 Budget provides \$93 million to continue deploying these technologies across the country.



The Free Flight Program in use at the Los Angeles International Airport: The first picture shows airplanes (the white lines) circling the airspace waiting to land. The second picture shows the airplanes being routed more directly, thus reducing delays and flying time.

Surface Mobility

Highway Travel Under Congested Conditions is Increasing



Highway and road congestion is an aggravating problem in all parts of the country. Congestion is also a growing problem at intermodal freight transfer facilities like sea ports and rail yards. Despite congestion problems, the condition and ride quality of the Nation’s highways have improved in recent years.

To ease gridlock, the Budget proposes increasing spending on highway and transit infrastructure to \$43 billion in 2005 and \$256 billion over six years. This marks a 21-percent increase over the TEA-21 six-year spending totals and \$9 billion over the spending level originally proposed in SAFETEA and the 2004 Budget. SAFETEA would also establish a new highway pilot program where States could manage their Interstate Maintenance,

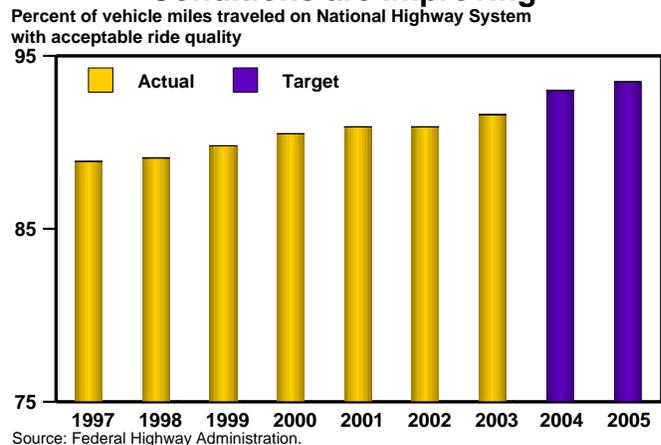
National Highway System, Surface Transportation (except for the Transportation Enhancement funds), Highway Safety Improvement, Highway Bridge, and Minimum Guarantee program funds as a block grant. Under the pilot program, States would be required to work with the Department to develop and meet specific system performance measures. The Administration continues to support constructing new facilities and improving the condition of existing systems without requiring an increase in the Federal gas tax, which is the primary mechanism for financing the Federal program. A gas tax increase would have a negative impact on consumers and the economy.

Beyond spending more on construction, SAFETEA would fund the research, development, and implementation of Intelligent Transportation Systems technologies. Through advanced traffic management techniques, these technologies can improve the performance and operation of existing transportation systems.

In addition, SAFETEA would allow States to establish user fees on Federal-aid highways, including the Interstate System, provided that the funds are re-invested to improve highways. The user fees must be established as part of a program to manage congestion or improve air quality. SAFETEA would also allow States to permit Single Occupancy Vehicles (SOVs) on High Occupancy Vehicle lanes, as long as time-of-day variable charges are assessed on SOVs for such access.

To address congestion around freight facilities, SAFETEA would dedicate a portion of National Highway System funds to intermodal freight facilities, such as ports and rail transfer facilities. In addition, Surface Transportation Program funds could be used for publicly owned intermodal freight transportation

Highway Pavement and Bridge Conditions are Improving

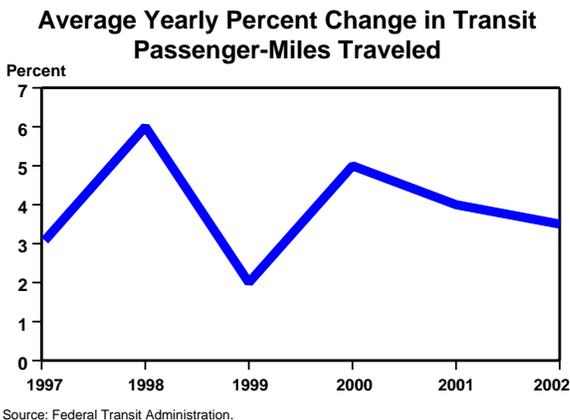


projects that address economic, congestion, security, safety, and environmental issues associated

with freight transportation gateways. SAFETEA would also make freight transfer facility projects eligible for innovative finance funding, including credit assistance and tax-exempt private activity bonds.

DOT remains committed to ensuring that urban and rural travelers have alternatives to highway commuting. In 2005, the Federal Transit Administration’s (FTA) Performance Incentive Program will provide \$103 million to urban areas and \$11 million to rural areas to promote transit ridership. The program provides a financial reward to transit systems that are able to increase ridership, thereby linking program performance to funding enhancements. In total, SAFETEA provides \$43.6 billion for FTA transit programs over the six-year reauthorization.

In the last seven years, FTA’s New Starts program funded or recommended 26 projects for full funding grant agreements, which represent the Federal funding commitment to local transit construction projects. The total cost of these projects exceeds \$17.5 billion, including Federal, State, and local funds. These projects will improve mobility and promote new economic development. They are under construction in some of the fastest growing areas of the Nation, and are expected to carry 243 million total riders annually. This ridership will result in 121 million hours in travel time saved annually. Furthermore, there is preliminary evidence that localities with completed New Starts projects experience ridership increases of four percent a year after the project is completed, and have been able to either maintain or exceed FTA’s overall target for annual growth of two percent.



Examples of Successful Recent New Starts Projects

San Diego: After years of ridership decreases, San Diego completed three extensions to existing light rail services between 1995 and 1997. Since then, San Diego has experienced an average increase in ridership of 9.1 percent annually.

Dallas: Light rail in the Dallas-Fort Worth area opened for service in 1996 and commuter rail was opened for passenger service in 1999. Dallas saw ridership increase 18.8 percent between 1995 and 1996 and 19.0 percent between 2000 and 2001.

San Jose: An extension of light rail service to an existing system was opened in 1999, after which ridership increased 7.8 percent between 2000 and 2001.

PROTECTING THE HUMAN AND NATURAL ENVIRONMENT

Transportation adds ozone, carbon monoxide, and particulate matter to the atmosphere, which contribute to air pollution. Approximately two-thirds of transportation-related emissions of those pollutants originate from on-road motor vehicles. Still, total on-road mobile source emissions declined from 87 million tons in 1988 to 62 million tons in 2000, a 29-percent improvement in a little more than a decade. The Nation achieved this gain despite a 36-percent increase in the total vehicle miles traveled during this time.

When enacted, SAFETEA will protect and enhance our environment by continuing a major emphasis on improving public transportation, revising the High Occupancy Vehicle lane provisions to encourage the use of cleaner and more fuel efficient vehicles, and encouraging the active consideration and implementation of context-sensitive design principles and practices for all federally aided transportation projects.

The 2005 Budget will help FAA to mitigate the environmental impacts of aviation emissions and noise. For example, research will be aimed at reducing community exposure to aircraft noise and emissions. Also, Federal lenders will be required to inform prospective homebuyers of properties within airport noise contours. FAA also will continue to work with industry to increase aircraft fuel efficiency.

ORGANIZATIONAL EXCELLENCE

DOT seeks to improve organizational performance and productivity for all of its programs. For example, the Program Assessment Rating Tool found that FTA has been highly successful in controlling cost overruns on its sponsored projects. Specifically, through its oversight program, FTA helps transit agencies develop disciplined cost estimates, focusing on best practices and better metrics, emphasizing risk assessment practices, and evaluating procurement practices. Currently, all of FTA's major capital projects are within 10 percent of baseline cost estimates, with most of the projects within five percent.

Likewise, the 2005 Budget and SAFETEA support enhancing the project oversight role of the Federal Highway Administration. SAFETEA would strengthen the fiscally responsible use of Federal funds without treading on State prerogatives or creating red tape by:

- Having States submit project management plans for all Federal aid projects costing \$1 billion or more;
- Requesting States to prepare annual financial plans for all projects receiving \$100 million or more in Federal aid funds;
- Establishing cost-estimating standards to provide more reliable and consistent project cost expectations;
- Strengthening DOT's suspension and debarment policies to prevent contractors from continuing to defraud the Government; and
- Allowing States to share in monetary recoveries from Federal fraud cases.

Coming in Under Budget—Dallas Area Rapid Transit (DART)

In 1999, FTA awarded a \$333 million full funding grant agreement for the North Central Light Rail Transit project, which is a 12.5-mile double-track rail line with 10 stations. As a result of favorable economic conditions, improvements in DART's internal procedures, and application of lessons learned, the project was completed under budget. Not only was DART able to include additional enhancement projects to the original scope, it was also able to reduce the Federal share of the total cost by \$23 million.

The FAA recently announced the creation of a new Air Traffic Organization to transform the management and performance of air traffic control functions. FAA will realign the management of its organizational structure and will adopt performance measures to hold employees accountable for

their performances. FAA will also improve its track record for deploying new technology. Furthermore, air traffic controllers were brought under a new pay system in 2004 to begin to bring their pay more in line with performance.

In addition, the Administration will propose a realignment of DOT’s research, pipeline safety, and hazardous material safety programs to improve coordination and strengthen oversight. The restructuring will focus the existing Research and Special Programs Administration on research and development (R&D) activities, transportation analysis, and statistics. Inspection and policy responsibilities for pipeline and hazardous material transportation will be placed in operating administrations with expertise in inspections and policy development.

REFORMING INTERCITY PASSENGER RAIL SERVICE

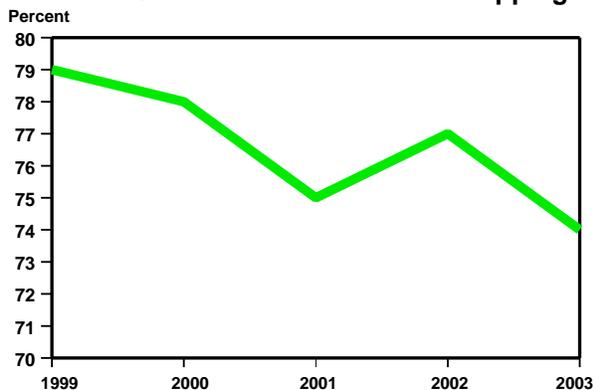
The Administration believes the current model for providing intercity passenger rail service can and must be significantly improved. The system was ill-conceived 30 years ago when it was created from the unprofitable passenger rail businesses shed by the freight railroads. Today, there is a single national operator—Amtrak. Amtrak has not significantly altered its 1970s era route structure to match population shifts.

The Future of Intercity Passenger Rail

Business as usual is a recipe for failure. The Bush Administration is proposing a measured, steady, but certain course to lasting reform. Our proposed legislation will yield a more financially stable and effective network of intercity passenger rail; one that the country can confidently rely on.

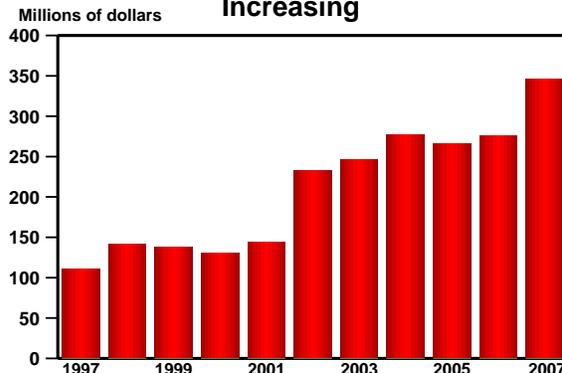
Secretary Mineta
July 2003

Amtrak On-Time Performance is Dropping



Source: DOT Office of Inspector General.

Amtrak's Annual Debt Payments are Increasing



Source: DOT Office of Inspector General.

Amtrak continues to lose money and its on-time performance reliability has suffered. Amtrak does not cover its operating costs through ticket sales, nor can it afford to maintain the track and capital holdings that it owns on the Northeast Corridor (Washington, D.C. to Boston). A several billion dollar backlog of deferred capital projects contributes to unreliable service. In recent years, to reduce its reliance on operating subsidies, Amtrak mortgaged many of its assets, thereby increasing its debt.

By the summer of 2002, its financial situation had reached a crisis point, and the Administration was forced to lend Amtrak \$100 million to prevent an imminent shutdown.

To achieve the promise of rail travel, the Administration has proposed to reform the system fundamentally—the first comprehensive overhaul in 30 years. The Passenger Rail Investment Reform Act builds on the successful State-Federal partnerships that are hallmarks of other transportation programs. Ultimately, States and localities would have the freedom to develop custom rail services demanded by their citizens. The Federal Government's role would be to assist in funding capital investments.

Highlights of the Passenger Rail Investment Reform Act:

- Amtrak would split into a private infrastructure company and train operating company, effectively separating the Northeast Corridor (NEC) infrastructure from long-distance train operations;
- DOT would lease the NEC infrastructure to a compact of States that would be responsible for managing the infrastructure and train operations along the corridor;
- Outside the Northeast where Amtrak does not own track, individual States and interstate compacts could negotiate with the freight rail companies to develop new routes. This should lead to the development of short corridor routes between major population centers; and
- After a transition period, States would bid contracts for infrastructure maintenance and train operations among the former Amtrak companies and other private companies. States would cover train operating subsidies. Federal matching grants would help pay for infrastructure, which is similar to the Federal-State cost sharing arrangement of other DOT transportation programs.

The Administration seeks \$900 million for Amtrak for 2005 but would support as much as \$1.4 billion in subsequent years for the intercity passenger rail system if the requested reforms were enacted. The higher amount recognizes that the current system requires significant capital improvements before being turned over to the States.

PERFORMANCE EVALUATION OF SELECT PROGRAMS

The Budget continues to focus on improving program performance. Eight programs were assessed using the Program Assessment Rating Tool (PART), which evaluated each of the programs' design and purpose, strategic planning efforts, how well they are managed, and whether they are generating positive results for taxpayers. Below are some of the highlights and recommendations from the PART evaluations. For further details on DOT's performance assessments, see the White House budget website at www.whitehouse.gov/omb/budget/.

| Program | Rating | Explanation | Recommendation |
|--|----------------------|--|--|
| FAA: Research, Engineering, and Development (R,E,&D) | Effective | The program is well-managed and results-oriented. It consistently meets its aggressive long-term and annual goals. | The Budget proposes increased funding for this program to continue aviation research, especially for its work with NASA. R,E,&D must ensure there is no duplication of effort and that resources are focused on high-priority national research goals. |
| FTA: New Starts Capital Investment Program | Moderately Effective | The program is generally well run. FTA has made significant strides in incorporating cost-containment goals in its project oversight of transit construction projects. | The Budget includes increases in FTA's financial management oversight program. FTA will continue to implement results-oriented measures to track the impact of New Starts on increasing ridership. |
| FHWA: Federal Lands Highway Program | Moderately Effective | The program has made adequate progress toward meeting its long-term and annual goals. | The Budget proposes increased funding for the program, consistent with SAFETEA. The program will conduct comprehensive evaluations and will revise its business plan to better link activities and performance. |
| Federal Railroad Administration (FRA): Railroad Safety Program | Moderately Effective | The program will be challenged to keep pace with growing rail traffic. Future performance gains depend on the cooperation of the freight railroads. | FRA will begin a comprehensive evaluation of the program beginning in 2004. It will also develop an efficiency measure for service delivery. |

UPDATE ON THE PRESIDENT’S MANAGEMENT AGENDA

The table below provides an update on DOT’s implementation of the President’s Management Agenda as of December 31, 2003.

| | Human Capital | Competitive Sourcing | Financial Performance | E-Government | Budget and Performance Integration |
|-----------------|---------------|----------------------|-----------------------|--------------|------------------------------------|
| Status | ● | ● | ● | ● ↑ | ● |
| Progress | ● | ● | ● | ● | ● |

Arrow indicates change in status rating since evaluation as of September 30, 2003.

DOT’s human capital initiative continues on track to achieve a “green” status by June 2004. Through this initiative, DOT has established a Diversity Advisory Council, developed a corporate recruitment strategy using Careers in Motion as its corporate branding, and issued a strategic plan in support of its human capital mission. The competitive sourcing initiative within DOT is progressing well, and DOT has completed its first two full competitions in August 2003. To answer the President’s initiative to improve Government financial performance, DOT has implemented a Department-wide integrated financial system. Implementation of this system will make DOT’s accounting practices more streamlined and accurate. While facing significant E-Gov challenges, DOT is on track to achieve their Proud to Be goal. DOT has created a draft Modernization Blueprint that focuses on information technology investments and plans to address “at risk” programs in DOT. In the Budget and Performance Integration initiative, DOT is a Government leader. DOT’s 2005 Budget submissions incorporated PART findings and are structured to show full costs by strategic goal. DOT is also one of 12 major R&D agencies that plan, manage, and assess their R&D programs consistent with the R&D Investment Criteria, which are discussed in detail in the Research and Development chapter in the *Analytical Perspectives* volume.

Department of Transportation
(In millions of dollars)

| | Actual | | Estimate | |
|--|--------|--------|----------|--------|
| | 2001 | 2003 | 2004 | 2005 |
| Spending | | | | |
| Discretionary Budgetary Resources: | | | | |
| Federal Aviation Administration | 12,526 | 13,490 | 13,871 | 13,972 |
| Federal Highway Administration ¹ | 32,368 | 31,678 | 33,614 | 33,343 |
| <i>Federal-Aid Highway Obligation Limitation</i> <i>(non-add)</i> | 29,597 | 31,593 | 33,643 | 33,643 |
| Federal Motor Carrier Safety Administration..... | 269 | 306 | 364 | 455 |
| National Highway Traffic Safety Administration..... | 404 | 434 | 298 | 689 |
| Federal Transit Administration..... | 6,261 | 7,176 | 7,266 | 7,266 |
| Federal Railroad Administration | 754 | 1,267 | 1,450 | 1,088 |
| Maritime Administration | 212 | 208 | 220 | 235 |
| Research and Special Programs Administration..... | 83 | 103 | 112 | 123 |
| All other programs | 128 | 114 | 196 | 277 |
| Total, Discretionary budgetary resources ^{1, 2, 3} | 53,005 | 54,776 | 57,391 | 57,448 |
| Total, Discretionary outlays | 45,688 | 49,121 | 56,686 | 57,892 |
| Mandatory Outlays: | | | | |
| Federal Highway Administration..... | 1,268 | 1,781 | 1,430 | 1,281 |
| Office of the Secretary..... | 2,386 | — | — | — |
| All other (including offsetting receipts)..... | -150 | -93 | -119 | -214 |
| Total, Mandatory outlays | 3,504 | 1,688 | 1,311 | 1,067 |
| Total, Outlays | 49,192 | 50,809 | 57,997 | 58,959 |
| Credit activity | | | | |
| Direct Loan Disbursements: | | | | |
| Transportation Infrastructure Finance and Innovation Program | — | 52 | 726 | 1,070 |
| Railroad Rehabilitation and Improvement Program..... | — | — | 198 | 185 |
| All other programs | 11 | — | — | — |
| Total, Direct loan disbursements | 11 | 52 | 924 | 1,255 |
| Guaranteed Loan Commitments: | | | | |
| Transportation Infrastructure Finance and Innovation Program | — | — | — | 200 |
| Maritime Guaranteed Loans (Title XI)..... | 729 | 305 | 529 | 410 |
| Minority Business Resource Center | 7 | 9 | 18 | 18 |
| Total, Guaranteed loan commitments..... | 736 | 314 | 547 | 628 |

¹ Includes both discretionary budget authority and obligation limitations.

² For comparability, the 2001 data reflect transfers related to the creation of the Department of Homeland Security.

³ 2004 includes \$151 million for the National Highway Traffic Safety Administration and \$65 million for the Federal Motor Carrier Safety Administration.

DEPARTMENT OF THE TREASURY

Since 2001, the Administration:

- Proposed and implemented three major tax relief bills to help America's families, strengthen the economy, and create jobs;
- Blocked \$136.8 million in terrorist assets;
- Improved taxpayer services by providing free online tax filing (Free File) to millions of Americans; and
- Safeguarded our Nation's currency through improved measures against counterfeiting.

The President's Budget:

- Promotes job creation and economic growth through permanent extension of the 2001 and 2003 tax cuts;
- Deters tax evasion and fraud by increasing criminal investigations and audits; and
- Continues to fight the Financial War on Terror by freezing terrorist assets.

Department of the Treasury

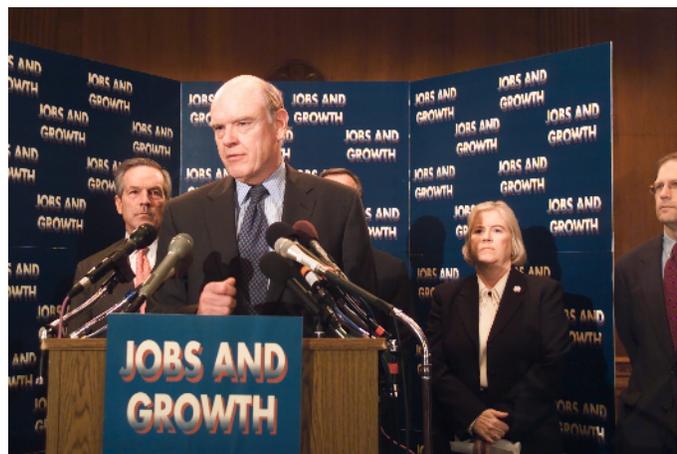
John W. Snow, Secretary

www.treasury.gov 202-622-2000

Number of Employees: 115,897

2005 Discretionary Budget Authority:
\$10.8 billion

Organization: Alcohol and Tobacco Tax and Trade Bureau; Bureau of Engraving and Printing; Bureau of Public Debt; Financial Crimes Enforcement Network; Financial Management Service; Internal Revenue Service; Office of the Comptroller of the Currency; Office of Thrift Supervision; and U.S. Mint.



Secretary Snow promoting President Bush's Jobs and Growth package.

OVERVIEW

Established in 1789, the Department of the Treasury oversees and administers the Nation's finances. Treasury collects taxes and enforces the tax code, oversees currency production, regulates national banks, blocks terrorist assets, and advises the President on domestic and international economic policy. Treasury is on the forefront of the Administration's efforts to strengthen the economy. The President has helped Americans keep more of the money they earn by implementing three major tax cuts since 2001. The Department will continue to implement the President's agenda to promote job growth and prosperity in the coming years.

The 2005 Budget supports Treasury's efforts to update the Internal Revenue Service's (IRS) outdated information systems. Further, the Budget supports IRS efforts at deterring tax fraud by building up its enforcement resources and ensuring that tax evaders and promoters of abusive tax shelters are properly targeted. The Budget also provides funding for improved information sharing between law enforcement and financial institutions, helping to better target and freeze terrorist assets. Finally, Treasury is continuing its effort to safeguard our Nation's currency through improved anti-counterfeiting measures.

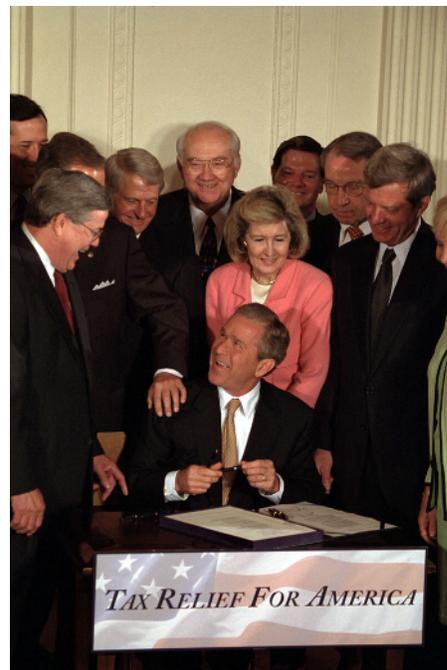
PROMOTING AMERICA'S PROSPERITY

Since 2001, the President has signed three tax bills to boost the economy. In combination, the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) provided substantial tax relief and immediate stimulus to the economy, improving the potential for economic growth in the long-run. These Acts reduced taxes by an average of \$1,544 for 109 million taxpayers in 2003. In addition, the Job Creation and Worker Assistance Act (JCWAA) of 2002 provided businesses investment incentives as well as extended unemployment insurance benefits.

Treasury acted swiftly to ensure that the tax relief presented by both EGTRRA and JGTRRA was quickly delivered to taxpayers, thus providing stimulus to the economy. The reductions in tax rates enacted under EGTRRA above the 15-percent rate were reflected in lower withholding effective in July 2001. Most workers received the full benefit of the tax rate reductions through the change in withholding during the second half of the year.

In addition, the benefit of the new 10-percent tax rate bracket was provided in 2001 through rebate checks mailed out between July and September 2001. About \$36 billion in rate reduction rebate checks were sent to 85 million taxpayers. Stimulus was also provided in 2001 through reductions in estimated tax payments.

After the enactment of JGTRRA in 2003, the Department acted again, immediately announcing reductions in wage and salary withholding. Employers were requested to implement the withholding changes no later than July 1, 2003. The withholding reductions reflected the reduction in tax rates higher than 15 percent, the widening of the 10-percent tax bracket, and the expansion of the 15-percent tax bracket and the standard deduction for married taxpayers. In addition, many families with



Surrounded by Members of Congress who supported the legislation, President Bush signs EGTRRA on June 7, 2001.

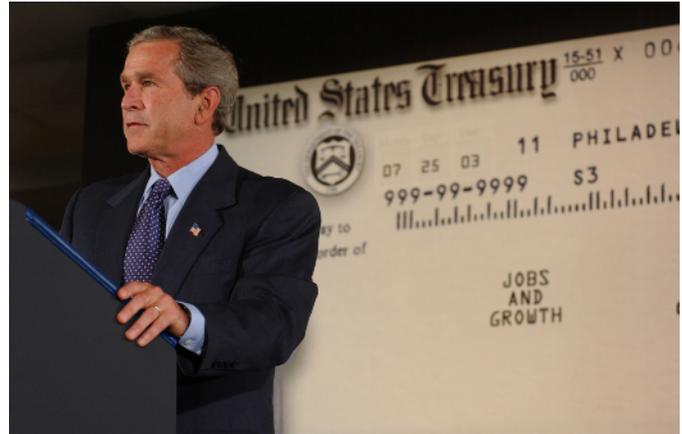
children received \$400 per child in advance child tax credit checks that were promptly sent out by Treasury in 2003.

MANAGING FEDERAL FINANCES

By collecting revenue, making payments, and administering the Government's finances, Treasury acts as the Government's financial manager. IRS is the main revenue collector for the Government, collecting \$1.7 trillion (93 percent of total collections) in 2003. IRS continues to modernize both its work processes and technology to improve customer service and make sure that all taxpayers meet their legal obligation to pay their fair share. In 2003, IRS answered 80 percent of taxpayer calls, up from only 59 percent in 2000.

The Budget also provides \$285 million in continued investments in technology modernization as IRS works to improve management and accelerate implementation of the modernization program.

Treasury administers the Government's payments through the Financial Management Service (FMS). FMS issues over 930 million non-Defense payments annually, valued at \$1.6 trillion. Social Security benefits, tax refunds, and veterans' benefits are all issued through FMS. In 2003, FMS issued over 684 million electronic payments and 244 million paper checks. FMS also manages the Government's non-tax delinquent debt portfolio by providing central debt collection operation services to Federal agencies and States. FMS collected \$3.1 billion in non-tax delinquent debt in 2003, up 9.2 percent from 2002. For 2005, the Budget proposes legislation to increase and enhance debt collection opportunities.



President Bush delivers remarks about printing and mailing tax relief checks at the Department of the Treasury's Philadelphia Financial Management Service Facility on July 24, 2003.

IRS is Using the Web to Help Taxpayers

2003 Accomplishments:

- IRS's website had 4.4 billion hits, an increase of 40 percent over 2002. Taxpayers downloaded 560 million forms, an increase of 28 percent over 2002.
- 2.8 million taxpayers prepared and electronically filed their taxes for free using the new Free File link on IRS's website. Electronic filing is quick, easy and far less prone to error than paper returns. Free File is available to 6 out of 10 taxpayers. It is provided by the Free File Alliance, a consortium of private sector services, under a public service agreement with the IRS.
- 18 million taxpayers used the "Where's my refund" link to verify that IRS had received and processed their returns and find out when their refund would be mailed or direct deposited. Further, 15 million taxpayers used this same feature to find out when they would receive their special advanced child tax credit check in the summer of 2003.

Try www.firstgov.gov or www.irs.gov to check out these services.

Directing the Earned Income Tax Credit (EITC) to Hard-working Low-income Families

IRS is simplifying EITC instructions and enhancing outreach to ensure that eligible taxpayers apply for the credit. The EITC rewards work and lifts families out of poverty. In 2003, 20 million Americans received \$36 billion in earned income credits. Unfortunately, due to mistakes and fraud, more than one EITC dollar in four is paid in error. The Budget proposes legislative changes to reduce errors by simplifying the EITC's overly complex rules. The 2004 Budget funded a new test program to fight EITC mistakes and fraud by asking high-risk claimants to certify their eligibility and by investing in new technology and work processes to more effectively target enforcement efforts. IRS's National Taxpayer Advocate, an independent internal voice for taxpayer rights, endorsed this program in her June 30, 2003 annual report to the Congress because it focuses on the twin problems of reducing erroneous payments and ensuring participation. By 2005, much of the 2004 technology and process investments will have been completed.

Treasury manages the Nation's debt through the Bureau of Public Debt (BPD). BPD manages the issuance of the Federal Government's securities portfolio. Last year, BPD issued approximately \$4.1 trillion by auctioning marketable Treasury securities and selling savings bonds. BPD continues to develop its TreasuryDirect system, which offers retail investors an online, user-friendly method to buy and redeem Treasury securities. In addition, and as a result of a 2004 Program Assessment Rating Tool (PART) evaluation, BPD has developed long-term performance measures and is setting interim targets to evaluate the success of TreasuryDirect.

The Alcohol and Tobacco Tax and Trade Bureau (TTB) is responsible for the administration of alcohol and tobacco laws and the regulation of the alcohol and tobacco industries. TTB

also collects approximately \$15 billion annually in alcohol, tobacco, firearms, and ammunition excise taxes and enforces the provisions of the Federal Alcohol Administration Act, which mandates that a Government warning label appear on all alcohol beverages for sale and distribution in the United States. In 2005, TTB anticipates that it will receive over 100,000 label applications and expects to process 70 percent of these applications within nine calendar days of receipt.

Tax Enforcement

The IRS is continuing its effort to improve enforcement of tax laws. IRS does not have current information on tax compliance to show the effectiveness of its programs. Through its National Research Program it is collecting compliance information to allow it to determine how well its programs work and to allow it to target enforcement efforts on the least compliant taxpayers. IRS is also enhancing its enforcement efforts by focusing on prosecuting promoters of abusive tax schemes and

Targeting Promoters of Abusive Tax Shelters

Billions of dollars are lost to the Government each year due to the promotion of illegal tax shelters. In 2002, IRS started a new program to fight this problem by shutting down promoters of these schemes. Most tax professionals are honest, but a few prey on both taxpayers and the Government by selling abusive shelters. For example, in 2002 alone, a promoter and 44 franchisees sold a sham Tax Toolbox to an estimated 3,500 taxpayers. This set of pamphlets, workbooks, CD-ROM and record-keeping aids falsely promises taxpayers they can legally reduce or eliminate Federal income taxes by setting up phony home-based businesses. Thanks to IRS and Department of Justice efforts, on June 10, 2003, the United States District Court, Middle District of Tennessee ordered a permanent injunction to stop this promoter from presenting himself as a tax attorney and guaranteeing refunds.

pursuing taxpayers illegally sheltering income through offshore accounts. The Budget supports fair tax enforcement by:

- Providing an increase of \$300 million for efforts to investigate and seek criminal prosecution of tax fraud and to examine more returns, particularly those involving abusive tax schemes (see accompanying vignette).
- Proposing legislation in 2004 to allow IRS to employ private collection agents (PCAs) to help collect known Federal tax debts and to pay PCAs from receipts. This legislation will help raise \$1.5 billion over the next 10 years and includes strong protections for taxpayer rights. Many States and Federal agencies already use PCAs. For example, Treasury's FMS used PCAs to collect \$73 million in non-tax debt in 2003.

REGULATING FINANCIAL INSTITUTIONS

The Office of the Comptroller of the Currency charters, regulates, and examines approximately 2,150 national banks and 53 Federal branches of foreign banks in the United States, accounting for more than 56 percent of the Nation's commercial banking assets. Likewise, the Office of Thrift Supervision charters, regulates, and examines approximately 936 thrifts with approximately \$1 trillion in assets. The mission of both agencies is to ensure a safe and sound and competitive national banking and thrift system that supports the citizens, communities, and economy of the United States.

Supervising the Market for Housing Finance

The Administration has proposed broad reform of the supervisory system for Government-sponsored enterprises (GSEs) in the mortgage market: Fannie Mae, Freddie Mac, and the Federal Home Loan Bank System. Part of this reform includes establishing a new safety and soundness regulator for the housing GSEs in the Department of the Treasury, and providing this new regulator and the Secretary with the appropriate authority to oversee effectively these large and complex enterprises. The Administration's proposal promotes both a strong, resilient financial system and increased opportunities for affordable homeownership. (See the Credit and Insurance chapter in *Analytical Perspectives* for a background discussion.)

FIGHTING THE FINANCIAL WAR ON TERROR

We will lead by example. We will work with the world against terrorism. Money is the lifeblood of terrorist operations. Today, we're asking the world to stop payment.

President George W. Bush
September 2001

Many Treasury offices combine their forces to combat terrorist financing. The Executive Office for Terrorist Financing and Financial Crimes coordinates the U.S. process for designating and blocking the accounts of terrorists and those associated with financing terrorist activity, administers U.S. sanctions policy, and helps strengthen U.S. and international anti-money laundering and counter terrorist financing standards. The Terrorist Financing Unit of the Office of International Affairs works to maintain the international coalition against the financing of terrorism, especially by working with the Group of 7 Industrialized Nations (G-7) and International Financial Institutions (World Bank,

International Monetary Fund, etc.). The Internal Revenue Service-Criminal Investigation Division, the Financial Crimes Enforcement Network (FinCEN), and the Office of Foreign Assets Control all help detect, disrupt, dismantle, and block terrorist financing operations.

IRS's Special Agents are experts at gathering and analyzing complex financial information from numerous sources and applying the evidence to tax, money laundering, and Bank Secrecy Act (BSA) violations. They apply their training, skills, and expertise to support the national effort to combat terrorism and participate in the Joint Terrorism Task Forces and similar interagency efforts focused on disrupting and dismantling terrorist financing.

Locating and Returning Assets to the Citizens of Iraq

Since March of 2003, Treasury's Executive Office for Terrorist Financing and Financial Crimes (EOTF/FC) has led an interagency effort to identify, freeze, and repatriate assets held by or on behalf of Saddam Hussein and his Ba'ath party supporters. To date, Treasury has frozen \$1.9 billion in funds domestically that belonged to the former Iraqi regime. Under EOTF/FC's stewardship and with authority provided by the USA PATRIOT Act, the United States was able to take title to these assets and return over \$1.7 billion directly to Iraq for reconstruction, administration, and humanitarian assistance and \$207 million to the Development Fund for Iraq (DFI). In addition, over \$3 billion has been frozen outside the United States, with Treasury's active direction and involvement, of which over \$500 million has been transferred to the DFI. All of this is part of the larger effort to ensure that such funds are returned to the Iraqi people and not otherwise used to destabilize Iraq, attack coalition forces, or support terrorists.

Perhaps the most visible and effective tactic of the comprehensive strategy has been public designation of terrorists and terrorist organizations. Since September 2001, the United States and our allies have designated 345 terrorist related entities and frozen \$139 million in terrorist assets in over 1,400 accounts worldwide. In addition, FinCEN's unique role in linking the law enforcement and intelligence communities with financial institutions and regulators helps these entities uncover illegal activities and schemes. The President's Budget proposal provides FinCEN with resources to improve information sharing between the financial services and law enforcement communities. FinCEN is also enhancing its information systems to increase access to records filed under the BSA. Finally, the bureau is educating and assisting industries not previously regulated under the BSA, including precious metal, stone, and jewelry dealers and life insurance companies.

SAFEGUARDING OUR NATION'S CURRENCY

The United States Mint (Mint) and the Bureau of Engraving and Printing (BEP) are responsible for ensuring that our Nation continues to produce the world's most accepted currency. In commemoration of the Louisiana Purchase and the Lewis and Clark expedition, the Mint will produce two new designs on the nickel in 2004 and 2005. It is the first time in 65 years that the design of the five-cent coin has been changed. One new design will feature a rendition of the original Indian Peace Medal commissioned for Lewis and Clark's expedition. The second will feature the boat that transported members of the Lewis and Clark expedition through the rivers of the Louisiana Territory. Monticello will return to the nickel in 2006. During 2005, the Mint will also roll out the next installment of the popular 50 State quarters program, with quarters for California, Minnesota, Oregon, Kansas, and West Virginia.



United States Mint Director Henrietta Holsman Fore with Gerard Baker, Superintendent, Lewis and Clark National Historic Trail, following the unveiling of the Peace Medal design for the spring 2004 nickel.

During 2005, BEP will continue its efforts to redesign our Nation’s currency to deter counterfeiting efforts. BEP introduced the new \$20 note in October 2003, and will introduce redesigned \$50 and \$100 notes in late 2004 and 2005, respectively. These notes will remain the same size and use similar portraits and images to maintain their unique and accepted appearance. BEP’s New Currency program was rated effective by the PART.

In 2004, the Administration will begin work on a plan to merge some or all of Mint and BEP functions to achieve significant cost savings for taxpayers. The Treasury Department will issue a merger plan that outlines these cost savings by July 1, 2004.

PERFORMANCE EVALUATION OF SELECT PROGRAMS

The Budget continues to focus on improving program performance. Four Treasury programs were reviewed for performance effectiveness using the Program Assessment Rating Tool (PART), which evaluated the programs’ design and purpose, strategic planning efforts, how well they are managed, and whether they are generating positive results for taxpayers. Below are some of the highlights and recommendations from the PART evaluations. For further details on Treasury’s performance assessments, see the White House budget website at www.whitehouse.gov/omb/budget/.

| Program | Rating | Explanation | Recommendation |
|--|-----------|--|---|
| Bureau of Public Debt (BPD), Administering the Public Debt | Effective | The PART found that BPD meets its annual performance goals and improves its targets for subsequent fiscal years, but lacks long-term performance goals. | As a result of the PART’s conclusions, BPD developed long-term performance goals and established interim targets. |
| Bureau of Engraving and Printing (BEP), New Currency Manufacturing | Effective | BEP’s New Currency Manufacturing Program seeks to efficiently produce a safe and secure U.S. Currency. The New Currency Program met initial production and timeline goals with the production of the \$20 note. The program has adequate long-term targets and timeframes and meets or exceeds its annual goals. | BEP will closely monitor its design and overhead costs related to the manufacturing of New Currency to ensure the most efficient production and distribution of future denominations. |

| Program | Rating | Explanation | Recommendation |
|--|--------------------------|--|--|
| Financial Management Service (FMS), Debt Collection | Effective | This program manages the Government's non-tax delinquent debt portfolio by providing central debt collection operation services to Federal agencies and States. The program collected \$3.1 billion in delinquent debt in 2003. The PART found that the program has a clear purpose, is well designed and managed, and meets and exceeds its annual performance targets. | The Budget proposes legislation to increase and enhance debt collection opportunities in several areas. In addition, FMS will develop a more ambitious long-term performance measure, set interim targets, and take actions necessary to achieve this long-term measure. |
| Internal Revenue Service (IRS), Submissions Processing | Results Not Demonstrated | The program lacks outcome goals and IRS does not yet have full cost estimates for its various activities. | Implementation of the Integrated Financial System will allow IRS to accurately calculate the full costs of submissions processing activities. IRS will develop short and long-term outcome goals for this activity. |

UPDATE ON THE PRESIDENT'S MANAGEMENT AGENDA

The table below provides an update on Treasury's implementation of the President's Management Agenda as of December 31, 2003.

| | Human Capital | Competitive Sourcing | Financial Performance | E-Government | Budget and Performance Integration |
|-----------------|---|---|---|---|---|
| Status |  |  |  |  |  |
| Progress |  |  |  |  |  |

With the transfer of some of its major components to the new Department of Homeland Security in 2003, Treasury revised its Strategic Plan and is developing a new Department-wide comprehensive human capital strategic plan. Treasury's near-term plan is to apply competition to roughly 4,500 positions to identify the best service provider. Through the use of competitive sourcing the BEP has determined that a private sector contractor is the most cost-effective choice for handling certain tour operations and the current Government provider is best for providing machine parts support. Treasury had 60 material weaknesses in its accounting systems at the close of 1998 and has diligently corrected these down to only nine at the close of 2003. The Department secured an unqualified financial audit for the fourth year in a row, performed monthly three day closes, and for the past two years, completed its accountability report in just 45 days after the end of the year. While the Department has improved its business cases for information technology investments, the IRS modernization effort has experienced continued delays and many systems still need to be certified and accredited for security. The Department is also working to rationalize IRS's budget structure and ensure that all major programs have outcome and unit costs performance measures.

DEPARTMENT OF THE TREASURY

(In millions of dollars)

| | Actual | | Estimate | |
|---|--------|--------|----------|--------|
| | 2001 | 2003 | 2004 | 2005 |
| Spending | | | | |
| Discretionary Budget Authority: | | | | |
| Internal Revenue Service | 9,003 | 9,845 | 10,200 | 10,674 |
| Financial Management Service..... | 257 | 221 | 227 | 231 |
| Bureau of Public Debt..... | 184 | 190 | 174 | 175 |
| Tax and Trade Bureau..... | 68 | 79 | 80 | 82 |
| Financial Crimes Enforcement Network..... | 38 | 52 | 57 | 65 |
| Departmental Offices | 265 | 253 | 240 | 240 |
| Community Development Financial Institutions | 118 | 75 | 61 | 48 |
| Inspectors General..... | 132 | 135 | 140 | 143 |
| Recoveries from Federal sources for settlement of claims | — | -279 | — | — |
| Other | 267 | 107 | — | — |
| Subtotal, Discretionary budget authority | 10,332 | 10,678 | 11,179 | 11,658 |
| Legislative Proposal..... | — | — | — | -885 |
| Total, Discretionary budget authority ¹ | 10,332 | 10,678 | 11,179 | 10,773 |
| Total, Discretionary outlays | 9,823 | 10,517 | 11,124 | 10,850 |
| Mandatory Outlays: | | | | |
| Payment where earned income credit exceeds tax liability | | | | |
| Existing law | 26,123 | 31,961 | 33,551 | 34,148 |
| Legislative proposal | — | — | — | -440 |
| Payment where health care credit exceeds tax liability | | | | |
| Existing law | — | 3 | 65 | 89 |
| Legislative proposal | — | — | — | 82 |
| Payment where child credit exceeds tax liability ... | 982 | 6,435 | 7,447 | 11,486 |
| Treasury Forfeiture Fund | | | | |
| Existing law | 282 | 222 | 248 | 251 |
| Legislative proposal | — | — | — | -251 |
| All other | -3,051 | 5,310 | 2,906 | -3,983 |
| Total, Mandatory outlays | 24,336 | 43,931 | 44,217 | 41,382 |
| Total, Outlays (excluding Interest on the Debt) | 34,159 | 54,448 | 55,341 | 52,232 |
| Credit activity | | | | |
| Direct Loan Disbursements: | | | | |
| Community Development Financial Institutions | 9 | 10 | 10 | 10 |
| Total, Direct loan disbursements | 9 | 10 | 10 | 10 |
| Guaranteed Loan Commitments: | | | | |
| Air Transportation Stabilization Board..... | — | 1,433 | 30 | — |
| Total, Guaranteed loan commitments..... | — | 1,433 | 30 | — |

¹ For comparability, 2001 data reflect transfers related to the creation of the Department of Homeland Security.

DEPARTMENT OF VETERANS AFFAIRS

Since 2001, the Administration:

- Implemented changes to ensure that veterans receive timely, quality medical care;
- Shortened the time to process a veteran's disability claim;
- Improved coordination of medical care and other benefit programs between the Department of Defense and the Department of Veterans Affairs; and
- Will have eliminated waiting lists for veterans in need of medical care in 2004.

The President's Budget:

- Continues to focus resources on the Department's core medical care mission;
- Realigns the Department's medical care infrastructure to ensure that facilities and services follow veterans;
- Ensures that Veterans Affairs benefits are processed in a timely manner; and
- Begins using electronic patient medical records that can be shared between the Department of Defense and Veterans Affairs for seamless service to our veterans.

Department of Veterans Affairs

Anthony J. Principi, Secretary

www.va.gov 202-273-4800

Number of Employees: 218,323

2005 Discretionary Budget Authority:
\$29.7 billion; \$32.1 billion (with collections)

Organization: Veterans Health Administration, Veterans Benefits Administration, and National Cemetery Administration.

Major Assets: The Department owns 30,217 acres of land and 5,558 buildings; operates 158 hospitals, 840 ambulatory care and community-based outpatient clinics, 133 nursing homes, 206 community-based outpatient psychiatric clinics, 57 regional benefits offices, and 120 national cemeteries.



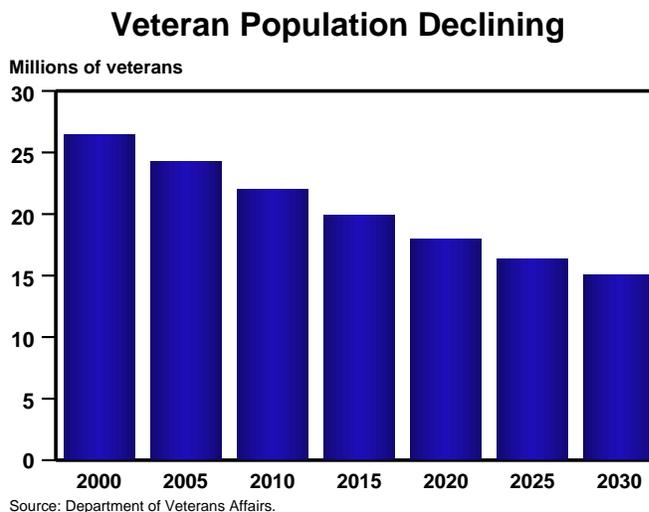
Secretary Principi visits a recovering veteran.

OVERVIEW

The mission of the Department of Veterans Affairs (VA) is “To care for him who shall have borne the battle, and for his widow, and his orphan.” (*Abraham Lincoln, Second Inaugural Address*). VA ensures that America’s veterans and their families receive timely, compassionate, high-quality care and benefits. Today there are 25 million veterans, but this number will fall by one-third, to 17 million, in the next 20 years as we lose World War II, Korean Conflict and Vietnam era veterans. Only about one in four veterans uses VA benefits in any one year.

The Department operates the largest direct health care delivery system in the country and conducts supporting medical research. VA also administers veterans’ benefits including monthly disability payments, education assistance, life insurance, home loans, and vocational rehabilitation and employment services. In addition, the Department runs veterans’ cemeteries across the country. VA’s biggest challenge over the last four years has been to manage its escalating workload in all of these areas.

More veterans are seeking VA medical care services, as quality, access, and benefits have expanded. This increased demand has put pressure on VA’s ability to care for its core-mission veteran population (military disabled, lower income, and those with special needs such as spinal cord injuries). Consistent with the Department’s successful efforts to refocus and prioritize resources, the Budget includes some medical care proposals that increase benefits to military disabled and low-income veterans. In addition, the Budget begins construction funding necessary to implement recommendations from a nationwide study to ensure that the location of facilities reflects the needs of local veterans.



Both the Department of Defense (DOD) and VA operate large medical care systems serving many of the same individuals. One of the President’s 14 management priorities is to improve cooperation between DOD and VA by sharing information technology, data, facilities, and staffing when appropriate. The Budget includes funding for the development and implementation of an electronic system that will allow both DOD and VA doctors to view critical information on a patient’s medical record, as well as funding for a system that will allow VA to access DOD information to determine eligibility for benefits more quickly.

The Budget continues targeted funding and management of the Veterans Disability Compensation program to ensure that veterans’ claims for monthly disability benefits are adjudicated quickly and accurately. In addition, the Budget provides needed funding to open five new cemeteries and to continue the ongoing effort to ensure that cemeteries are maintained as national shrines that honor our veterans.

PROTECTING THE MEDICAL CARE CORE MISSION

Treating veterans with military disabilities, low incomes, and special needs (such as substance abuse and spinal cord injuries) has traditionally been VA’s core medical care mission and its highest priority. However, a decision to expand medical services to other veterans in 1998 jeopardized the

Volunteers Support Health Care

VA is known for its compassionate care. To ensure that this assistance is complemented with the goodwill of those who want to help, it coordinates and monitors a vast volunteer program. Americans from all walks of life volunteer to help the VA provide health-care services to their local veterans. Last year, 131,000 caring Americans donated about 13 million hours of assistance to VA for an estimated total value of \$215 million. Volunteer services include providing transportation to and from the VA hospital, delivering mail and medical records, and visiting long-term patients.

care of these high-priority veterans who had fallen from 98 percent to 74 percent of VA medical care enrollees. When President Bush took office, VA was treating 3.9 million veterans a year, but waiting lists were forming for new patients who could not get an appointment for care for six months or longer. There was no system in place to assure veterans with military disabilities, low incomes, and special needs received prompt treatment at the head of any line.

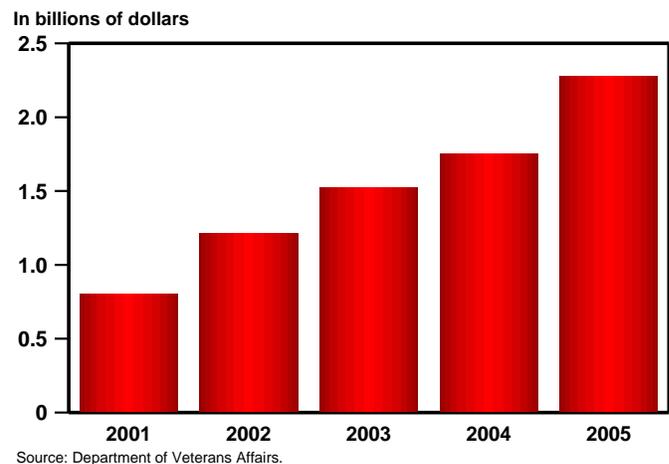
The President promised top quality and accessible care to our Nation's disabled and lower income veterans, and his Administration immediately took steps to fully fund and refocus the mission to ensure that this was accomplished. The President's 2005 VA medical care budget is almost 41 percent greater than the one in place when he took office, and it will treat about a million more patients. This increased funding is crucial to protecting the care of core mission veterans and provides current comprehensive benefits to all enrolled veterans in Priority Groups 1 through 7. It also fully funds all those Priority Group 8 veterans already in the system, ensuring that no veteran currently in the system will be denied care. In addition, VA implemented a temporary program in 2003 to fill prescriptions written by private doctors for anyone on the waiting list. That waiting list for medical care will be reduced from its high of 300,000 to zero in early 2004.

The Administration took several steps to increase medical care collections from both insurance companies and higher income, non-disabled patients. By charging insurance companies a more appropriate rate, by improving the identification of patients with insurance, and increasing the accuracy of its bills, VA was able to increase its collections by more than \$1.6 billion—or three times that in place prior to the effort (see accompanying chart). Those funds directly benefit veterans.

Patients have also benefited from new innovative safety and quality systems implemented by VA. The Institute of Medicine recognized VA in 2003 as a leader in assuring patient safety and quality care. In order to ensure that VA continues to be staffed with top-quality, innovative, and compassionate medical personnel, the Administration designed a new pay system that better aligns with that of the private sector and is working with the Congress to ensure its passage.

VA's research program is known worldwide for its work in areas such as prosthetics, spinal cord injuries, and other widespread diseases, such as Parkinson's and diabetes. In addition, clinical research is a key recruiting and retention tool for VA physicians, ensuring that the Department is

Medical Care Collections Increase



staffed with the highest caliber professionals. However, VA needs to develop meaningful performance measures to assess the direction and effectiveness of the research program, as revealed by the Government-wide Program Assessment Rating Tool (PART). As a result, the research budget (including reimbursements) is maintained at the previous level while VA develops better performance measures to assess the direction of the program.

The Department now provides most of its care in clinics and other outpatient settings instead of in hospitals. This shift has allowed VA to provide patients with more appropriate care and more convenient service, and to spend its resources more effectively. VA also is working to ensure that its facilities are aligned to reflect veteran migration. Many veterans have moved to the south and southwest, while VA still maintains underused hospitals throughout the northern

and eastern regions of the country where fewer veterans seek such services. VA needs to increase services where veterans live, and convert many of its large, underused hospitals to more efficient clinics to improve quality and access of care to all veterans. To better align resources with patient needs, VA began a review process in the first of its 21 regions in the fall of 2000 and completed the review of all regions in 2003. Construction decisions will be final in 2004, and the 2005 Budget contains \$524 million towards an estimated \$3.7 billion of total construction funding that will be spent over a seven-year period to implement these critical changes. All savings identified will be used to provide needed care to veterans.

The President's Budget includes several changes that continue to focus attention on VA's core medical care mission of providing needed services to veterans with military disabilities, low incomes, and special needs. It assumes that most new veterans enrolling in the VA medical care system will be these core-mission veterans, and that all other veterans will pay an annual enrollment fee and increased drug co-payments that are still low but more in line with other public and private health care programs. This will ensure that resources go to those who most need veterans' medical care benefits.

The Budget also includes a provision that allows VA to pay for emergency room care for veterans in non-VA hospitals if they have enrolled for care at VA. Veterans with life-threatening illnesses should seek and receive care at the closest possible facility. Veterans receiving hospice care will also no longer be charged any copays. In addition, the Budget will eliminate all forms of copays for prisoners of war who have provided unique service to our Nation.

VA's Quality Enhancements

VA has developed a bar coding drug-dispensing system similar to that used in most stores today. This assures that patients in a hospital receive the correct drugs at the right times. In addition, VA has implemented a patient safety program that encourages physicians, nurses, and other providers to report problems or errors in care. As a result of the many innovative programs that have been introduced in recent years, VA's quality of care has been shown to be better than most other health care systems in key aspects of care.

INCREASING COORDINATION BETWEEN DOD AND VA

President Bush identified "improved cooperation between the Department of Defense and Department of Veterans Affairs in providing care to those who served" as one of the 14 management priorities for his Administration. Significant progress has been made during the past three years in many areas, and the senior leadership in both Departments is committed to this goal.

As a result of this Presidential initiative, VA and DOD established a high-level Executive Council to develop and implement significant collaborative efforts. It focused on three major system-wide issues: 1) facilitating electronic sharing of enrollment and eligibility information for services and benefits; 2) establishing an electronic health record that can be shared by both health systems; and 3) increasing the number of shared medical care facilities and staff. While on active duty, information on military members is tracked by a system that covers everything from security clearances to health care entitlements and commissary privileges. Thus, the sharing of DOD enrollment and eligibility data will

reduce the burden on veterans to provide duplicative information when making the transition to VA for care or benefits. Shared medical information is extremely important to ensure that a veteran receives safe and proper care. The Departments are also working together to share facilities and staff in order to provide needed services to all patients in the most efficient and effective manner.



DOD helps VA treat a veteran.

Navy and VA Work Together to Treat Patients

Until recently, the North Chicago VA and Naval medical centers ran independent operations within blocks of each other. VA had excess space, while Navy needed more space and needed to expand the type of illnesses experienced in its patient pool to ensure that its medical staff was trained for war. Under the President's coordination initiative, they now share patient-treatment space and radiologists. They are also revising old construction plans that called for separate buildings to one joint plan that provides better value to taxpayers and meets all needs.

The President appointed the Task Force to Improve Health Care Delivery for Our Nation's Veterans in May 2001 with the mandate to identify ways the Departments could coordinate their activities and resources to meet the President's goal of improving health care delivery for America's veterans. Most of the Task Force recommendations regarding facility and personnel sharing, information technology improvements to support collaborative efforts, and senior leadership commitment to collaboration have now been implemented.

ENSURING QUICK AND ACCURATE PROCESSING OF DISABILITY CLAIMS

Veterans' disability compensation is a monthly benefit payment to veterans who are disabled as a result of their military service. It is the workers' compensation program for military members and complements retired pay and disability annuities provided by DOD. In 2005, 2.7 million veterans will receive \$24.9 billion of these tax-free benefits from VA.

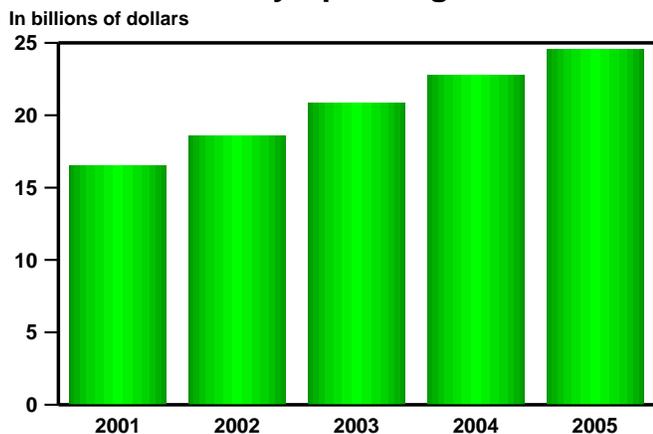
Recognizing the contributions of veterans and improving the quality of life of those disabled as a result of their service is a national responsibility. When President Bush took office, the number of claims waiting to be processed had soared to over 600,000, mainly because of expanded benefits that increased the number of claims in need of review. As a result, many veterans were waiting an average of over 230 days for a claim to be processed. One of the President's top priorities was to reduce this processing time, and VA established a goal of 100 days. The Administration immediately

Reaching Out to Active Duty and Reserve Personnel

The best way to ensure that veterans understand what benefits they are entitled to receive is to educate them while they are in the military. Once they leave, there is no easy way to communicate with them. VA instituted a program to provide seamless transition for members as they depart the military for civilian life, especially for those returning from combat theaters with service-related special needs. By assigning staff to major DOD medical centers and unit demobilization sites, VA is able to ensure that veterans are evaluated quickly for the benefits they have earned. This outreach effort includes a special emphasis to make certain that Reserve and National Guard personnel called to active duty are counseled prior to demobilization.

launched and completed a top-to-bottom review of the process and implemented changes to improve the system. VA trained nearly 1,800 employees in proper claims processing procedures, and specialized teams were set up to process claims for those older veterans who had been waiting the longest. Uniform measurement tools were set up to evaluate quality and timeliness, and employee evaluations were re-designed to hold personnel accountable for meeting the President's goal. Further, VA worked with both DOD and the National Records Center in St. Louis to expedite the exchange of information needed to adjudicate claims. As a result, the number of days to process a claim dropped to 156 at the close of 2003 and is on target to drop to the 100 days goal in 2004. By 2005, VA spending on this program will be 50 percent more than four years earlier.

Total Disability Spending Increases



Source: Department of Veterans Affairs.

In order to ensure that future spikes in workload are not primarily tackled by increasing personnel, VA needs to accelerate its development of a system where information is viewed on computers to allow multiple people to work on a claim at the same time and in different places around the country. This is also important if all records from all locations a veteran has lived are to be included to guarantee full, fair and prompt evaluation. This involves accepting all new claims electronically, making electronic copies of existing claim files, sharing medical exams with DOD, and designing the best infrastructure of processing centers and veterans application assistance offices.

Disability compensation benefits are supposed to replace the income loss experienced by a veteran because of a disability. However, no study has been completed in recent history that examines the appropriate disability compensation level based on veterans' income to ensure the best and most fair compensation. This is the main reason that the PART score was low. In November 2003, President Bush signed into law a bill that will establish a 13-member Veterans' Disability Benefits Commission which will complete a comprehensive assessment of these benefits and all other Federal benefits that compensate veterans and their survivors for disability or death attributable to military service. The

requirement for this Commission was in the same bill that authorized concurrent receipt of both DOD military retirement benefits and VA disability compensation. The commissioners will be appointed by both the President and the Congress and will report their conclusions in spring 2005.

QUALITY IN OUR NATION'S VETERAN CEMETERIES

In 2005, approximately 102,000 veterans and eligible family members will be buried in the national cemetery system. This is an increase of 20 percent in the last four years, due to the combined impact of the loss of World War II, Korea and Vietnam era veterans. Expansion of the cemetery system ensures that cemeteries are in close proximity to families, which will become increasingly important as our Nation loses almost a third of our veterans (eight million) in the next 20 years. As the total veteran population continues to decline, demand for cemetery services is growing. VA continues to evaluate the system to determine the appropriate number, location, and mix of national and State cemeteries to address the increased need.



President Bush honors deceased veterans.

VA also continues to improve the quality, accessibility and compassion of burial services. The Budget has increased by 29 percent since President Bush took office to address the increased demand and to improve service. Not only have services been expanded, but the cemeteries are being maintained as national shrines. A recent survey of family members and funeral directors who received services from a national cemetery showed a 94 percent rating of excellent. This is three points higher than last year's results. In addition, VA orders headstones electronically, thus shortening the waiting time for families. To further improve service, information booths have been placed in cemeteries to assist visitors in locating gravesites. The satisfaction expressed by families and these innovations are reflected in the higher score this program received by the PART.

Partnering with the States on Veterans' Burial Options

It is not feasible for VA to build national cemeteries in enough locations to provide easy access to every eligible veteran. As a result, VA has expanded its partnership with the States over the last four years to give veterans more burial options. Grants for construction and equipment are provided to establish or improve State cemeteries in areas where national cemeteries do not exist. In return, these States agree to adhere to VA standards of eligibility and maintenance. Ninety percent of the States use VA's online automated headstone ordering system to eliminate errors and speed up delivery. Between 2001 and 2005, annual burials in State veteran cemeteries will increase by 33 percent to almost 20,000.

PERFORMANCE EVALUATION OF SELECT PROGRAMS

The Budget continues to focus on improving program performance. Three VA programs were assessed using the Program Assessment Rating Tool (PART), which evaluated the programs' design and purpose, strategic planning efforts, how well they are managed, and whether they are generating positive results for taxpayers. Below are some of the highlights and recommendations from the PART evaluations. For further details on VA performance assessments, see the White House budget website at www.whitehouse.gov/omb/budget/.

| Program | Rating | Explanation | Recommendation |
|---|--------------------------|---|--|
| Medical Care | Adequate | VA has begun to focus resources on the core veteran population (i.e., disabled, poor, and those with special needs) and collects data and assesses activities through use of critical performance measures. | VA should work with congressional staff to bring about approval of its improved budget structuring and continue to develop performance-based budgeting. |
| Montgomery GI Bill (Education Benefits) | Results Not Demonstrated | The program is well managed but lacks strong outcome goals. The most efficient levels of monthly educational assistance to support the program's purposes are unknown. Budget requests are not tied explicitly to accomplishment of annual and long-term goals. | VA should create a program outcome measure on veterans' readjustment to civilian life and reinstate a cost-effectiveness measure. It should determine the optimum level of monthly benefits to balance military recruitment and retention with readjustment benefit needs. |
| Medical and Prosthetic Research | Results Not Demonstrated | VA has a strong research program addressing health problems that impact veterans and the general population. However, it lacks ambitious goals and performance measures which accurately assess program strengths and weaknesses. | The program should develop meaningful and useful performance measures. |

UPDATE ON THE PRESIDENT'S MANAGEMENT AGENDA

The table below provides an update on VA's implementation of the President's Management Agenda as of December 31, 2003.

| | Human Capital | Competitive Sourcing | Financial Performance | E-Government | Budget and Performance Integration |
|-----------------|---------------|----------------------|-----------------------|--------------|------------------------------------|
| Status | ● | ● | ● | ● | ● |
| Progress | ● | ● | ● | ● | ● |

While there have been some short-term delays in the Human Capital area, VA has developed a comprehensive human capital management plan and is focusing on implementation of a redesigned appraisal system for all employees. VA continues to make progress in all areas but Competitive Sourcing. The Administration will work with the Congress to remove legislative impediments to advance this effort which has been demonstrated to generate savings and could free up additional resources to be used to provide direct medical services to veterans. The Department remains on track to achieve its long term goals in the information technology (IT) area, in particular, securing 90 percent of its IT systems in 2005, up from only 39 percent at the end of 2003.

VA is one of 12 major research and development (R&D) agencies that plan, manage, and assess their R&D programs consistent with the R&D Investment Criteria, which are discussed in detail in the Research and Development chapter in the *Analytical Perspectives* volume.

| Initiative | Status | Progress |
|---|--------|----------|
| Coordination of VA and DOD Programs and Systems | ● | ● |

Many veterans each year receive care from both DOD and VA health care systems, and all veterans have received some medical care in the past from DOD. The Departments are working on a computerized patient health record that will allow sharing of medical information to improve quality of care and increase efficiency. Today, DOD has begun to provide data to VA for services such as laboratory results. In addition, they are improving IT systems to provide veterans with seamless services as they leave military service and apply for VA benefits. The Administration is committed to increasing the sharing of medical facilities and staff to provide more services in the most cost efficient manner. The Departments are testing the use of a single physical exam that meets the Government's needs and saves veterans time. They are also working together to assure that future veteran needs will be met, and that underused capacity will be eliminated. Likewise, the Departments are increasing the coordination of training programs so that health professionals receive the highest level of professional education. Thus, scarce resources will be appropriately used.

DEPARTMENT OF VETERANS AFFAIRS
(In millions of dollars)

| | Actual | | Estimate | |
|---|--------|--------|----------|--------|
| | 2001 | 2003 | 2004 | 2005 |
| Spending | | | | |
| Discretionary Budget Authority: | | | | |
| Medical Programs | 20,846 | 24,668 | 27,364 | 27,822 |
| Medical Care..... | 20,140 | 23,862 | 26,544 | 27,052 |
| <i>Medical Care Collections (non-add)</i> | 771 | 1,486 | 1,753 | 2,419 |
| Medical Care Collections Carryover..... | — | -11 | — | — |
| Research..... | 706 | 817 | 820 | 770 |
| Benefit Programs..... | 1,219 | 1,451 | 1,429 | 1,464 |

DEPARTMENT OF VETERANS AFFAIRS—Continued

(In millions of dollars)

| | Actual | | Estimate | |
|--|---------------|---------------|---------------|---------------|
| | 2001 | 2003 | 2004 | 2005 |
| Disability Compensation | 529 | 690 | 633 | 658 |
| Pension | 137 | 146 | 153 | 139 |
| Education | 64 | 70 | 83 | 91 |
| Vocational Rehabilitation and Employment | 110 | 117 | 134 | 140 |
| Housing | 162 | 170 | 157 | 157 |
| Insurance | 3 | 4 | 4 | 4 |
| Burial Benefits | 214 | 254 | 265 | 274 |
| Departmental Administration | 310 | 287 | 342 | 368 |
| General Administration | 264 | 229 | 280 | 303 |
| Inspector General | 46 | 58 | 62 | 65 |
| Total, Discretionary budget authority | 22,375 | 26,406 | 29,135 | 29,654 |
| <i>Total, including medical collections</i> | <i>23,146</i> | <i>27,892</i> | <i>30,888</i> | <i>32,073</i> |
| Total, Discretionary outlays | 22,366 | 25,678 | 28,380 | 28,585 |
| Mandatory Outlays: | | | | |
| Medical Programs | 32 | 30 | 30 | 31 |
| Benefits Programs and Receipts | 22,703 | 31,518 | 31,859 | 38,684 |
| Disability Compensation | | | | |
| Existing Law | 18,579 | 24,694 | 27,080 | 31,607 |
| Legislative Proposal | — | — | —51 | —162 |
| Pension | 2,760 | 3,228 | 3,288 | 3,620 |
| Education | 1,142 | 1,790 | 2,051 | 2,181 |
| Vocational Rehabilitation and Employment | 426 | 514 | 556 | 587 |
| Housing | 352 | 1,243 | 250 | 42 |
| Insurance | 1,243 | 1,191 | 1,243 | 1,242 |
| Burial Benefits | 112 | 143 | 166 | 181 |
| Other receipts and transactions | —1,911 | —1,285 | —2,724 | —614 |
| Departmental Administration | —51 | —339 | 14 | 14 |
| Total, Mandatory outlays | 22,684 | 31,209 | 31,903 | 38,729 |
| Total, Outlays | 45,050 | 56,887 | 60,283 | 67,314 |
| Credit activity: | | | | |
| Direct loan disbursements: | | | | |
| Vocational Rehabilitation Loans | 2 | 3 | 4 | 4 |
| Native American and Transitional Housing Loans | 2 | 10 | 35 | 23 |
| Vendee and Acquired Loans | 1,470 | 559 | 1,093 | 1,695 |
| Total, Direct loan disbursements | 1,474 | 572 | 1,132 | 1,722 |
| Guaranteed loan commitments: | | | | |
| Veterans Home Loans | 31,138 | 65,791 | 46,591 | 40,642 |
| Total, Guaranteed loan commitments | 31,138 | 65,791 | 46,591 | 40,642 |

CORPS OF ENGINEERS—CIVIL WORKS

Since 2001, the Administration:

- Will have completed 37 projects in the construction backlog by the end of 2004, realizing an estimated \$275 million in net benefits to the Nation per year;
- Funded more than \$400 million for Corps ecosystem restoration in the Everglades;
- Increased funding for regulatory protection of wetlands by 11 percent, focusing on improved performance in permit review, enforcement, and compliance; and
- Established five principles to guide future Corps authorization and funding legislation that would maximize net economic and environmental return on each dollar invested.

The President's Budget

- Supports new and continuing construction that offers maximum returns to the Nation;
- Emphasizes essential maintenance and security activities at key Corps facilities; and
- Achieves comprehensive management improvements by applying modern management principles.

Army Corps of Engineers—Civil Works

John Paul Woodley, Jr., Assistant Secretary of the Army

www.hq.usace.army.mil/cepa/cepa.htm 703-697-8986

Number of Employees: 24,800

2005 Discretionary Budget Authority: \$4.0 billion

Major Assets: The Corps builds, maintains, and/or operates 8,000 water projects across the Nation. Each year, it dredges 900 harbors, operates 275 locks and dams and 78 hydropower facilities, and manages 4,300 recreation areas.



Assistant Secretary of the Army Woodley (second from right) breaking ground at a priority project in the Florida Everglades.

OVERVIEW

The civil works program of the Army Corps of Engineers (Corps) carries out three main missions: 1) reducing the damage caused by floods and storms; 2) facilitating commercial navigation; and 3) restoring aquatic ecosystems. In addition, Corps dams generate electric power and create lakes that provide recreation throughout the country. The Corps also regulates the development of roads, shopping centers and other construction affecting wetlands. The Corps carries out this work in partnership with State and local governments and other non-Federal entities, including port authorities and private contractors.

The civil works responsibilities of the Corps date back to the 18th Century when the Nation had no other cadre of engineers to survey and build the dirt roads, and later the canals, needed to reach the Alleghenies and the lands beyond. Since then, the Corps has become the largest of the Federal water resources agencies. Most recently, the expertise developed through the civil works program has been called upon by the Nation to support reconstruction efforts in Afghanistan and Iraq.

Balancing the “Scales”: Fish Recovery and Hydropower in the Pacific Northwest

The Budget funds projects with the highest economic and/or environmental benefits. For example, the President is committed to supporting salmon recovery efforts in the Pacific Northwest, while ensuring the availability of affordable hydroelectric power in the region.

Over the last three years, the Administration has provided \$258 million for Columbia River Fish Recovery (WA, OR, ID), one of eight high-priority projects. The President's Budget provides \$107 million for this Corps construction project, which, together with other Administration-supported salmon recovery efforts, have yielded the following results:

- Since 2000, salmon returns in Oregon, Washington, and Idaho have improved dramatically. On the Columbia/Snake River salmon run, seven of its eight endangered salmon runs have shown marked improvement.
- During 2002, modifications at the 10 major Columbia/Snake River dams have improved fish passage and survival, 700 miles of streams are now accessible to salmon, and 19,000 acres of streamside buffers have been protected in the Columbia Basin.



In the 20th Century, intensive water resources development—by the Corps and several other Federal water resources agencies—transformed the American landscape. By providing an easier way to transport goods to distant markets, building dams that generate inexpensive power, and facilitating the development of flood plains, Corps water projects affected where and how people live and influenced how our country developed. While these accomplishments greatly benefited the country, the projects often resulted in a significant loss of natural habitat.

The country today seeks economic development as well as the protection of environmental values. The Corps is now demonstrating that it is possible to have both if we proceed responsibly. This has required the Corps to improve the quality of its project planning and priority setting. This Administration has emphasized the need to allocate limited Federal funds to projects with a high environmental or economic return and the importance of completing the most deserving projects more quickly to realize these benefits. In the 2004 Budget, the President presented a strategy for achieving his objectives. The 2005 Budget keeps the focus on maximizing the benefits of Corps investments. Funding is targeted to completing the best existing projects, and to a limited number of new projects whose benefits to the Nation greatly exceed their costs, such as an important series of pilot projects in the Everglades.

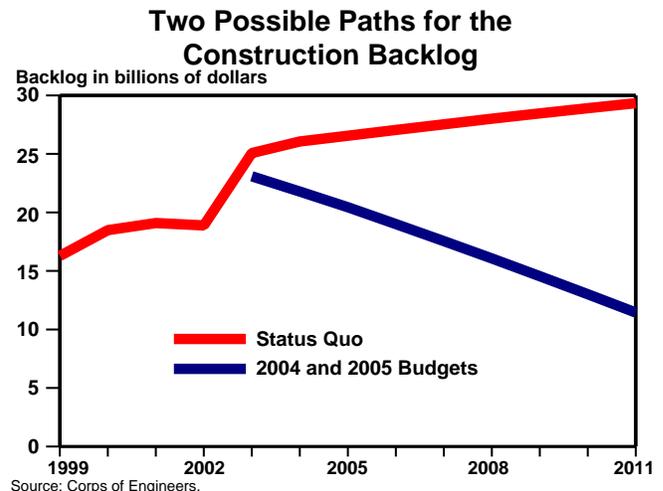
A concerted effort by this Administration and the Congress is needed to ensure that the ongoing and future efforts of the Corps are environmentally sustainable, economically responsible, and fiscally sound. Achieving this goal will require a transformation in cultural attitudes. That needed change has begun both in how the Corps approaches its work, and in the way that the Congress authorizes and funds the projects of the civil works program. This Budget further advances these reforms.

IMPROVING PROGRAM PERFORMANCE

The 2005 Budget focuses resources on two priorities. First, it focuses on completing the work we have already started and, in particular, it accelerates the construction of eight ongoing projects that, once completed, will provide an extremely high net environmental or economic return to the Nation. The second priority is to investigate and start a few new projects with potentially large net benefits compared to their costs.

Reducing the Backlog. The Corps' enormous backlog of ongoing civil works construction represents a significant source of unrealized economic and environmental benefits. The size of the backlog and the amount of funding necessary to complete it have grown in recent years, largely because of the continued addition of new projects to the Corps workload each year. Unfortunately, many of these new projects have benefits that only marginally exceed their costs.

This growth trend in the construction backlog unfairly penalizes both taxpayers and project sponsors. The addition of new construction projects diverts resources from completing ongoing construction work, so that the benefits that the public reasonably expects to receive from Corps projects are often deferred many years. In order to restore the long-term viability of the Corps construction program, the Budget proposes to direct most of the available funds toward those ongoing projects that are either nearing completion or offer the highest returns (environmental or economic) to the Nation. Toward that end, the funds provided for construction work in 2005 will result in the completion of 11 projects and enable significant progress on eight high-priority, high-return projects. Once completed, these projects will significantly reduce flood and storm damage, augment the capability of major commercial harbors and waterways, restore the aquatic environment, and reduce the impacts of major water projects on endangered species.



Supporting New Starts. In addition to placing a priority on finishing backlogged projects, this Budget proposes funding for a limited number of new starts. This approach reflects the Corps commitment to a construction program that is guided by the Principles for Improving Program Performance, which were announced in the 2004 Budget. These principles stress the importance of using objective criteria, such as benefit-cost analyses, to compare and rank projects across the Nation. Using these data, the Budget directs funding to projects that will provide the highest net environmental and economic return to the Nation.

| Priority Projects | 2005 Budget Authority (in millions of dollars) | Project Purpose |
|---|---|----------------------------------|
| New York/New Jersey Harbor (NY, NJ)..... | 103 | Commercial Navigation |
| Olmsted Locks and Dam, Ohio River (IL, KY) | 75 | Commercial Navigation |
| Missouri River Fish and Wildlife Recovery (IA, NE, KS, MO)..... | 69 | Commercial Navigation/Mitigation |
| Upper Mississippi River System Environmental Management Program (IL, IA, MN, MO, WI)..... | 28 | Commercial Navigation/Mitigation |
| Sims Bayou, Houston (TX) | 16 | Flood Damage Reduction |
| West Bank, New Orleans (LA) | 37 | Flood/Storm Damage Reduction |
| Columbia River Fish Recovery (OR, WA, ID)..... | 107 | Hydropower/Mitigation |
| Everglades (FL) | 125 | Aquatic Ecosystem Restoration |

The 2005 Budget includes construction funding to start two new flood damage reduction projects and one new aquatic ecosystem restoration program. The two flood control projects are expected to return to the Nation three dollars in net benefits for every dollar spent. The Budget also proposes several new high-priority reconnaissance-level studies. The Corps’ new performance-based budgeting process, discussed in the next section, is instrumental in identifying such “high return” projects.

Mitigating Project Impacts. The Corps is committed to limiting the adverse environmental impacts of its projects. Its concurrent and post-construction mitigation activities permit the Corps to offset damage to natural habitat, while minimizing the impact on commercial navigation, flood damage reduction and other water uses. For example, the Budget includes \$28 million for the Upper Mississippi River System Environmental Management Program to revitalize the side channels of the upper Mississippi, where habitat has been damaged by the construction and operation of a navigation channel.

Responding to Change. The Corps is adapting its missions and processes to reflect advances in science, engineering and economics, changing public values and priorities, and new laws. This process has accelerated in recent years in response to a greater focus on efficiency and environmental challenges and opportunities. For example, the Corps has established five national centers of planning expertise and has begun using interagency groups to guide complex studies.

A Fiscally Responsible, Performance-Based Approach

In developing its budget proposal for 2005, the Corps assessed the relative merits of each potential investment in each of its program areas. This approach represents an important step towards the President’s goal of making fiscally responsible funding decisions based more on results and less on factors such as “what did they get last year.” This is the essence of the Corps’ performance-based budget. The Administration funds activities that will yield the greatest net benefit to society per dollar invested, and evaluates them relative to the Corps’ three main mission areas:



A top bottom. The Budget provides \$103 million to dredge and improve the Port of New York and New Jersey. This is one of eight top priority projects identified in the Budget. The estimated net benefits of the construction under way are two times greater than the costs.

Louisiana. In addition, the Budget proposes two new flood damage reduction construction starts in Rio Guanajibo, Puerto Rico, and in Washington, D.C., whose estimated net benefits are 2.5 and 3.6 times greater, respectively, than their costs. As with the budget for commercial navigation, existing performance measures informed the Administration's funding decisions in this program area. The 2005 Budget continues progress on the construction of beach nourishment projects that will reduce storm damages. The Budget funds the initial construction phase of these projects, while shifting to non-Federal sponsors the responsibility for financing follow-up re-nourishment work.

Aquatic Ecosystem Restoration. The 2005 Budget provides \$408 million for restoration work, including significant funding for the two projects discussed below.

- *Everglades.* The Administration continues to honor its commitment to restore the fragile Everglades ecosystem in south Florida. Specifically, the Budget provides \$125 million for Corps restoration work in the Everglades and another \$106 million for the Department of the Interior's Everglades restoration efforts. Given the importance of underground water storage and other cutting-edge approaches to the success of the Comprehensive Everglades Restoration Plan, the President's Budget proposes a new construction start for pilot projects to examine techniques, such as underground aquifer storage, that will guide future restoration strategies. Since 2001, the Corps has funded \$406 million in Everglades restoration work.



More like it used to be. The President's Budget accelerates portions of the Everglades restoration project.

- *Louisiana Coast.* Over the past 75 years, more than one million acres of the Louisiana coastal plain have submerged into the Gulf of Mexico. Another third of a million acres could be lost

Commercial Navigation. The Corps ranked its potential operation and maintenance and construction priorities based on existing performance measures. The 2005 Budget provides \$1.1 billion to operate and maintain ports and inland waterways, and \$528 million for construction at these sites. This includes \$103 million to deepen the New York/New Jersey Harbor and \$75 million for Olmsted Locks and Dam in Illinois and Kentucky. Both of these projects have been high priorities of the Administration, and since 2001, the Administration has proposed more than \$421 million and \$259 million in funding, respectively, to complete construction of these projects.

Flood / Storm Damage Reduction. The Budget provides \$450 million to continue progress on flood damage reduction projects, including projects in Sims Bayou, Texas, and West Bank,



Less like it used to be. Portions of the Louisiana coast continue to slowly submerge into the Gulf due to both natural and manmade causes. The above photos show the same navigation channel in 1970 and 2001.

by 2050. This wetlands loss results from human intervention and natural processes, including: 1) efforts by the Corps to maintain a commercial navigation channel from the Gulf of Mexico to New Orleans and farther up the Mississippi River and to provide flood and storm damage reduction to communities in the Louisiana coastal plain; 2) oil and gas development, including thousands of miles of canals built by private interests for exploration and production; and 3) natural subsidence and erosion of the lands where the Mississippi delta meets the Gulf of Mexico. The affected area supports a complex coastal wetlands and barrier island ecosystem, an environmental resource of national significance. Further measures are needed to help protect and rebuild this ecosystem. The Corps is currently working with the State of Louisiana to address the State's coastal problems.

- In 2004, the Corps will work to issue a draft report that identifies the most critical ecological needs and proposes a near-term program of highly cost-effective projects to address them. The report will also highlight the key long-term scientific uncertainties and engineering challenges facing the effort to protect and restore the ecosystem, and propose demonstration projects and studies to help answer these questions. The report will focus on the specific coastal areas that require the most immediate attention and on the best way to sequence the proposed work over the next 10 or so years, as we learn what works best.
- In 2004, the Corps will begin developing studies of potentially promising, long-term ecosystem restoration concepts, with the objective of determining whether they would provide a cost-effective way to create coastal wetlands.
- An existing Federal-State Task Force established under 1990 legislation will increase its efforts to build and evaluate highly cost-effective fresh-water and sediment diversion projects.

This coordinated approach to restoration combines a commitment to address the highest priority needs with a search for innovative solutions. It also ensures that the coastal Louisiana restoration effort will, in the long-term, be able to adapt and evolve as needed, based on the best available science.

INITIATIVES THAT ENCOURAGE INNOVATION

Modernizing Recreation Facilities

The Corps is one of the largest Federal providers of outdoor recreation services. It manages 4,300 recreation areas at 456 Corps projects in 43 States. The agency's recreation program serves millions of people each year because many of its facilities are located near metropolitan areas. For example, Lake Lanier attracts large numbers of visitors from Atlanta, Georgia, as does J. Percy Priest Lake from Nashville, Tennessee.



The Corps spends about \$260 million each year to support this popular program. Intense competition for limited Federal funds, however, has left the Corps unable to adequately modernize its recreation facilities in many instances. Many of the Corps' facilities were built 30 to 40 years ago and were designed to meet recreation needs of the public at that time.

The 2005 Budget proposes a Corps recreation facility modernization initiative, based on a promising model now used by other major Federal recreation providers such as the National Park

Service and the Forest Service. The Rec Mod initiative has three major components:

- The Administration will submit legislation authorizing the Corps to participate in the existing Federal Recreation User Fee Demonstration project. This will allow the Corps to use a portion of the fees it collects to maintain and upgrade recreation facilities at the Corps sites where the fees are collected.
- The Corps will undertake six recreation demonstration projects. At each location, the agency will demonstrate new planning, management, and financing partnership arrangements with State and local government park authorities and private sector concessionaires. These will be designed to upgrade Corps recreation facilities at little or no cost to the Federal government. If these six demonstration projects are a success, the Corps will expand the model to other Corps facilities in the future.
- The agency will provide \$6 million to upgrade Corps recreation facilities related to the Lewis and Clark Bicentennial commemoration.



Nice Catch. More to come. The Administration is proposing a recreation modernization initiative that would improve the quantity and quality of services available at Corps recreation sites, such as this one, below J. Percy Priest Dam, near Nashville, Tennessee.

Increasing Responsiveness by Establishing a Maintenance Reserve Fund

The 2005 Budget provides \$1.9 billion for the operation and maintenance of existing Corps projects, including funding to improve the security of Corps facilities.



Be prepared. In the past, emergency repairs have been funded by transferring money from the maintenance of other projects. The President's Budget provides for a reserve fund, so that when the unexpected happens, the money is already available. This means planned maintenance, such as lock repairs shown at Smithland Locks and Dam in Kentucky, can proceed without interruption.

Within this amount, the Budget proposes to create a \$35 million emergency maintenance reserve fund, from which the Assistant Secretary of the Army for Civil Works will make allocations to meet high-priority, unexpected and urgent maintenance needs at key Corps facilities. Under current practice, the Corps allocates appropriated funds to its 38 District offices, which in turn commit them to specific projects. When an unexpected emergency occurs, it is sometimes difficult to find the needed funds on a timely basis. Under the new arrangement, the Assistant Secretary for Civil Works will be able to respond to these emergency situations promptly, without interfering with other program commitments.

PERFORMANCE EVALUATION OF SELECT PROGRAMS

The Budget continues to focus on improving program performance. Six of the Corps' programs were assessed using the Program Assessment Rating Tool (PART), which evaluated the programs' design and purpose, strategic planning efforts, how well they are managed, and whether they are generating positive results for taxpayers. Below are some of the highlights and recommendations from the PART evaluation conducted this year. For further details on the Corps' performance assessments, see the White House budget website at www.whitehouse.gov/omb/budget/.

| Program | Rating | Explanation | Recommendation |
|--------------------|----------------------|---|--|
| Regulatory Program | Moderately Effective | The program gets mixed reviews. It adds somewhat to the costs and uncertainty that developers face, but it avoids gridlock and encourages environmentally responsible economic activity. It has performance standards but they need to be upgraded. It is not clear in all cases whether developers are meeting the terms of their permits and whether created wetlands meet quality standards. | Corps program managers should increase program flexibility where appropriate. They should address wetland quality issues. They should implement improved performance targets as quickly as possible, for example, completing compliance verification inspections on 20 percent of all permits issued the prior year and issuing more than 70 percent of permits within 120 days after the agency receives the application. |

The PART analyses the Administration completed last year also helped shape this year’s Budget. The PART analysis of inland waterways, for example, concluded that the Corps should give priority to the operation and maintenance of high-use segments of inland waterways, and the 2005 Budget proposal is consistent with that assessment. The PART analysis of non-regulatory wetland activities concluded that the Corps should focus on identifying where and how the agency can best contribute to the overall national wetland effort. The Budget proposal developed in response to the loss of Louisiana coastal wetlands includes practical ways to follow up on that PART assessment.

UPDATE ON THE PRESIDENT’S MANAGEMENT AGENDA

The table below provides an update on the Corps’ implementation of the President’s Management Agenda as of December 31, 2003.

| | Human Capital | Competitive Sourcing | Financial Performance | E-Government | Budget and Performance Integration |
|---|---|---|---|---|---|
| Status |  |  |  |  |  |
| Progress |  |  |  |  |  |
| <p>The Army Corps of Engineers has developed a sound, comprehensive human capital plan and has completed functional area assessments for the “Corps 2012” reorganization plan. The 2012 plan is the Corps guiding document for organizational changes and process changes to improve service delivery. The Corps continues to be a strong supporter of E-Gov initiatives such as Recreation One Stop, Geospatial, and Disaster Management. It is aggressively working to improve the overall management of its information technology investments by extensively using the Federal Enterprise Architecture to identify opportunities to consolidate like systems and identify possible opportunities to collaborate. The Corps has developed a plan and management infrastructure to conduct competitive sourcing and has completed all preliminary planning steps for its first two standard competitions to be announced in 2004. To address problems identified in its audits for 2002 and 2003, the Corps is improving documentation to support older assets.</p> | | | | | |

CORPS OF ENGINEERS—CIVIL WORKS

(In millions of dollars)

| | Actual | | Estimate | |
|--|--------|-------|----------|-------|
| | 2001 | 2003 | 2004 | 2005 |
| Spending | | | | |
| Discretionary Budget Authority: | | | | |
| Construction | 1,716 | 1,743 | 1,733 | 1,422 |
| Operation and Maintenance | 1,984 | 1,928 | 1,956 | 1,926 |
| Flood Control, Mississippi River and Tributaries | 359 | 342 | 322 | 270 |
| Flood Control and Coastal Emergencies | 50 | 77 | -2 | 50 |
| General Investigations | 161 | 134 | 116 | 90 |
| Regulatory Program | 125 | 138 | 139 | 150 |
| Formerly Utilized Sites Remedial Action Program ... | 140 | 144 | 139 | 140 |
| General Expenses | 152 | 154 | 159 | 167 |
| Subtotal, Discretionary budget authority adjusted | 4,687 | 4,660 | 4,562 | 4,215 |
| Legislative Proposal, Operation and Maintenance... | — | — | — | -150 |
| Legislative Proposal, Cancellation of construction balances | — | — | — | -100 |
| Total, Discretionary budget authority | 4,687 | 4,660 | 4,562 | 3,965 |
| Total, Discretionary outlays | 4,723 | 4,850 | 4,289 | 4,132 |
| Mandatory Outlays: | | | | |
| Existing law | 3 | -134 | 15 | 64 |
| Legislative Proposal, Recreation Program User Fee Pilot | — | — | — | -7 |
| Total, Mandatory outlays | 3 | -134 | 15 | 57 |
| Total, Outlays | 4,726 | 4,716 | 4,304 | 4,189 |

ENVIRONMENTAL PROTECTION AGENCY

Since 2001, the Administration:

- Proposed Clear Skies legislation that mandates a 70-percent reduction in air pollution from power plants over the next 15 years;
- Finalized a rule for the New Source Review program that will encourage emissions reductions and increase energy efficiency at power plants;
- Revitalized communities by signing and implementing historic brownfields legislation, encouraging investment and redevelopment of urban areas; and
- Strengthened rules for concentrated animal feeding operations that will help remove over two billion pounds of pollutants from waterways annually.

The President's Budget:

- Protects public health and improves air quality through an expanded diesel school bus retrofit program that will reduce harmful bus emissions;
- Provides \$45 million for Great Lakes clean-up, nearly a five-fold increase over previous levels;
- Makes States' and Tribes' environmental performance and accountability a priority with a new \$23 million competitive grant program;
- Expands Superfund long-term clean-up resources by nearly 50 percent to tackle the tougher hazardous waste sites remaining on the National Priorities List;
- Provides a new \$20 million program to improve water quality monitoring so that EPA can make a national assessment of water quality; and
- Strengthens the inspection program for underground storage tanks by providing \$26 million in additional State grants.

Environmental Protection Agency

Administrator Mike Leavitt

www.epa.gov (202) 564-4700

Number of Employees: 17,556 civilian; 79 commissioned Public Health Service officers

2005 Discretionary Budget Authority:
\$7.8 billion

Key Components: 10 regional offices, 31 laboratories.



Administrator Leavitt.

OVERVIEW

The mission of the Environmental Protection Agency (EPA) is to protect human health and the environment. To meet these goals, EPA works with States and Tribes to implement air, water, solid waste, and chemical programs. Over 40 percent of EPA's budget consists of grants to help States assume authority for these programs, as well as finance infrastructure to clean wastewater and provide drinking water. EPA also fulfills its mission by regulating vehicle emissions and fuels and running the Superfund program, which cleans up hazardous waste sites. EPA is working to develop policies and regulations based on strong, peer-reviewed science, and to ensure that its activities are linked to public health and environmental outcomes. These two criteria will continue to help EPA find the most effective solutions to environmental issues and ensure that the benefits of its actions can be demonstrated to the taxpayers.

Since the founding of EPA in 1970, the Nation has experienced historic economic growth while dramatically improving the protection and health of our natural resources. This environmental turnaround is one of the country's greatest success stories. A number of challenges remain. President Bush has focused on addressing these challenges in a common sense, cost-effective manner based on sound science, and his 2005 Budget builds upon these successful principles.

Through policies and programs that recognize regional differences, employ market forces, and empower individuals to be good stewards of the earth, we can and will meet the environmental challenges of the future.

President George W. Bush
October 2002

President Bush has developed the most ambitious air quality policies of any administration. His Clear Skies legislation would significantly reduce air pollutants, improving air quality while giving power plants the flexibility to find the most cost-effective solutions. The Administration also updated the New Source Review program, encouraging power plants to meet

ambitious environmental targets using new economically efficient, energy-saving technologies. The 2005 Budget continues the President's progress in improving air quality by providing \$65 million

for a significantly expanded diesel school bus retrofit and replacement program, protecting children and their environment by reducing emissions.

In cooperation with the U.S. Department of Agriculture, EPA strengthened requirements for concentrated animal feeding operations (CAFOs), the source of a growing water quality problem nationwide. These new requirements will eliminate over two billion pounds of pollutants from waterways each year, protecting aquatic ecosystems and public health. In 2005, an additional \$20 million will assist States in implementing nationally consistent water quality monitoring programs. These monitoring programs will provide data to EPA and eventually allow the Agency to make a credible national assessment of water quality. Information from these monitoring programs will also help scientists and policymakers ensure resources and remedies are targeted, appropriate, and cost-effective.

New EPA Grant Program Rewards Environmental Performance

President Bush believes that the best way to ensure strong, effective programs is to promote accountability, competition, and performance. The President's Budget includes a new \$23 million State and Tribal Performance Fund that will award grants on a competitive basis for environmental programs. These funds will allow States and Tribes that can link their proposed activities to public health and environmental outcomes to receive additional funding from EPA. Eligible projects will include activities such as air quality assessments, wetlands restoration, and hazardous waste management.



Through the new Performance Fund, States and Tribes will be able to receive additional funds for activities such as wetlands restoration. Here, a restored wetland protects water quality and provides habitat for a heron.

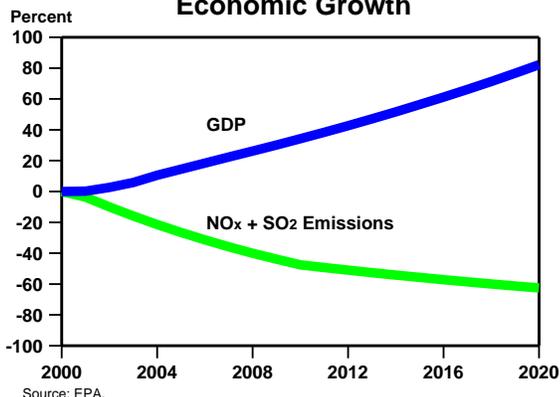
President Bush long advocated for changes in brownfields policy to clean up old, contaminated sites more quickly, effectively, and economically. In January 2002, the President signed historic brownfields legislation into law, and the 2005 Budget continues the President's strong support for the brownfields program, providing \$210 million to help States and Tribes assess and redevelop sites, revitalizing communities.

EPA'S PROGRAMS

Improving Air Quality

The air in the United States has improved dramatically since the Congress passed the Clean Air Act in 1970. Total emissions of six major pollutants (carbon monoxide, sulfur dioxide, ozone, nitrogen dioxide, particulate matter, and lead) have nearly been halved over the past three decades. This decrease has occurred even as the gross domestic product grew 164 percent, energy consumption

Clear Skies Emission Reductions and Economic Growth



Through its market-based approach, Clear Skies will reduce emissions faster and with more certainty by utilizing economic incentives and allowing plant managers to choose among effective methods to reach ambitious targets. This initiative will help communities meet health-based air quality standards at less cost than earlier air quality approaches, protecting public health and the environment while also supporting economic growth. Pending congressional action on Clear Skies, EPA is moving forward with rulemakings to achieve as many of these reductions as possible.

In April 2003, EPA began the Clean School Bus USA pilot program to provide schools and school districts cost-share grants to reduce diesel emissions from school buses. EPA received nearly \$60 million in requests for the \$5 million available in 2003. In 2005, the Administration proposes to significantly expand the Clean School Bus USA program, increasing funding to \$65 million. This initiative will reduce buses' potentially harmful emissions and help protect public health in a cost-effective manner that promotes local solutions to air quality problems.

The Administration also recognized that changes to other vehicle emissions would result in significant improvements in air quality.

Accordingly, EPA issued strict new emissions standards for diesel engines in new heavy-duty trucks and buses, and required the use of low-sulfur diesel fuel in those engines by 2007. When fully implemented, these actions will cut harmful pollution from heavy-duty trucks and buses by 95 percent, eliminating 2.6 million tons of smog-causing nitrogen oxide emissions and 110,000 tons of soot and particulate matter each year. EPA also proposed standards for heavy-duty, non-road diesel engines used in construction, mining, agricultural, and industrial equipment. Combined with regulations that will require low-sulfur diesel fuel, the Administration's approach will prevent up to 9,600 premature deaths and nearly a million lost work days due to illness.

increased 42 percent, and vehicle miles traveled increased 155 percent. Remaining air quality problems, however, are more complex, and effective solutions often require an approach different from the command-and-control methods of the past.

In response to this need for innovative solutions to remaining problems, President Bush proposed the Clear Skies initiative. Clear Skies will produce dramatic improvements in air quality by reducing power plants' emissions of sulfur dioxide (SO₂), nitrogen oxides (NO_x), and mercury by 70 percent—more than any other clean air initiative for power plants.



Get on the bus. Expanding the Clean School Bus USA program makes additional funds available to communities for diesel bus retrofit and replacement, reducing harmful emissions.

Clean Power to the People

In 1999 the Detroit Edison Monroe Power Plant in Monroe, Michigan applied to EPA for approval to install new, more efficient turbines that would allow increased electricity generation without exceeding their Clean Air Act permit limits. However, EPA's New Source Review (NSR) rules discouraged technology upgrades such as this with the threat of additional and complex regulatory requirements, causing the plant to delay installation of the turbines. In August 2003, EPA finalized revised NSR rules that make it easier for power plants to modernize equipment, maintain plant safety, invest in new technologies, and perform routine maintenance. These common-sense policies protect public health, benefit the environment, and contribute toward energy security.



President Bush meets with employees of the Detroit Edison Monroe Power Plant in Monroe, Michigan.

Cleaning Up Hazardous Waste and Revitalizing Communities

Since its inception in 1980, the Superfund program has been instrumental in protecting people and the environment from the legacy of hazardous waste pollution. The Administration recognizes that clean-up and management of hazardous waste sites can provide significant economic, environmental, and public health benefits to communities.

However, to be most effective in improving the environment, the laws governing brownfields—lightly contaminated or potentially contaminated properties—needed attention. Across the country, nearly half a million brownfields sat barren and unused because the threat of liability and clean-up was too great to lure developers. Before he was elected, President Bush proposed to make it easier to clean up and reuse these sites. He also proposed to limit liability for small volume contributors and innocent land owners.

In January 2002, President Bush signed the Small Business Liability Relief and Brownfields Revitalization Act, which modified Superfund to accelerate the clean-up of brownfields. EPA's brownfields program determines site contamination and makes money available for clean-up. With the stigma of contamination removed, private investors and communities can now turn these sites back into businesses, greenspaces, or housing. The President's 2005 Budget provides \$210 million to continue to help revitalize neighborhoods and stimulate local economies through brownfields assessment and clean-up.

Also covered under the Superfund law are the more highly contaminated Superfund sites. Most are cleaned by those who contaminate them, but about 30 percent have no entity to take responsibility for clean-up. EPA then steps in to make sure these "orphan" sites are made safe. Most of the Superfund sites on the National Priorities List have reached the "construction complete" stage, but some tough sites remain. For 2005, the Administration is requesting \$380 million, nearly a 50-percent increase, for Superfund site clean-up to help turn potentially dangerous properties into healthy parts of America's communities.



From broken glass and nails...The Industri-Plex Superfund site in North Woburn, Massachusetts became contaminated with hazardous substances over a 130 year period, beginning in 1853.



...to retail sales. Working with responsible parties, the State of Massachusetts and others, EPA helped assess and redevelop the site.

In the upcoming year, OMB and EPA will evaluate Superfund's remedial program using the Program Assessment Rating Tool (PART). The remedial program focuses on long-term clean-ups of hazardous substances that pose a threat to the public or the environment. This process will help the Administration refine the program to ensure that it maximizes its benefit to human health and the environment.

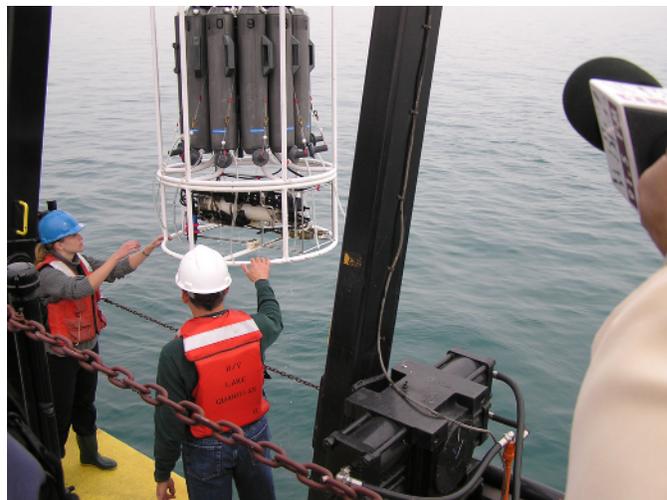
EPA also works in partnership with States and Tribes to clean up leaking underground petroleum tanks. To date, States have cleaned up over 300,000 sites with financial and technical assistance from EPA, and an additional 21,000 clean-ups are expected in 2005. Like Superfund sites, remaining underground storage tank (UST) sites are more complicated and will require more time and effort to correct. In recognition of this, the Administration is requesting \$26 million in new funding for States to increase UST training and inspections.

Restoring and Protecting Water Resources

Water is essential in every aspect of our lives, from basic activities such as eating and drinking to complex enterprises such as manufacturing. As a result, water pollution has a serious impact on human health and ecosystems, and can have detrimental effects on recreation, fishing, transportation, and commerce. The Administration has focused on providing innovative, cost-effective solutions that protect water resources while also supporting economic growth.

EPA's Water Quality Trading Policy, released in January 2003, is a cornerstone of this approach. The trading policy provides a framework for States and Tribes that wish to develop water quality trading programs to help them meet Clean Water Act requirements in a more economically efficient and flexible manner. In Long Island Sound, 79 publicly-owned treatment works (POTWs) have implemented a water quality trading program for nitrogen that is expected to improve water quality and encourage economic growth. In the Sound's program, one POTW can meet its regulatory allowance for nitrogen by using nitrogen reductions created by another source that has lower control costs due to factors such as economies of scale. The President's 2005 Budget includes \$4 million to fund trading programs across the country.

The Great Lakes are the largest system of fresh surface water on Earth. The Great Lakes basin also is home to more than one-tenth of the population of the United States, one-quarter of the population of Canada, and heavy concentrations of industry. Over the years, industrial development has contaminated sediments throughout large areas of the lakes with toxics such as polychlorinated biphenyls and heavy metals, putting large populations and the tremendous water resource at risk. In November 2002, the President signed the Great Lakes Legacy Act. This region-specific initiative calls for EPA to provide funding to remediate contaminated sediments, keeping them from entering the food chain where they may cause adverse effects on human health and the environment. In 2005, the Administration will demonstrate its commitment to the health and well-being of the basin and its citizens by proposing to fund the Great Lakes Legacy program at \$45 million, nearly five times the amount available in 2004. This will allow EPA, along with Great Lakes community partners, to start remedial action at six sites.



Catch of the day. EPA scientists retrieve a water monitoring device called a rosette from Lake Michigan. The rosette collects samples at different depths and locations, providing EPA with data on water quality indicators such as dissolved oxygen and nutrients.

In 2002, EPA finalized a rule that required all CAFOs to obtain water quality permits. This rule, which revised an existing CAFO rule, ensured that EPA's permitting process protected the environment while reflecting the realities of current animal agriculture practices, which have moved toward larger numbers of animals in more confined situations. EPA estimates that the new rule will prevent the release of over 56 million pounds of phosphorus, 100 million pounds of nitrogen, and two billion pounds of sediments each year, protecting human health and the environment. The 2005 Budget includes an additional \$5 million in EPA funding to help States implement this new rule, and up to \$1 billion in USDA funding to help producers meet the stricter requirements.

The Budget continues the President's commitment to the Clean Water and Drinking Water State Revolving Funds (SRFs). SRFs provide States and communities with a long-term source of funding for water infrastructure to protect public health and the environment. Since the Clean Water SRF's inception in 1988, EPA has provided nearly \$20 billion of Federal investment, with over \$5 billion provided since 2001. These funds have allowed States to make available over \$47 billion in loans to municipalities. These loans have helped finance over 14,000 wastewater projects, such as the construction of treatment plants and sewers.

The Budget provides \$850 million for the Clean Water SRF, resulting in a long-term average revolving level of \$3.4 billion. The Budget also fully supports the President's commitment to the Drinking Water SRF. With cumulative Federal capitalization totaling \$5 billion, the Drinking Water SRF has made available \$6.4 billion in loans and financed over 3,000 drinking water infrastructure improvement projects nationwide. The President also proposes to fund the Drinking Water SRF at \$850 million, resulting in a long-term average revolving level of \$1.2 billion. In the coming year, EPA will improve the link between the SRFs and environmental and public health outcomes, consistent with PART recommendations.

To reduce public health risks, EPA finalized a 10 parts per billion (ppb) standard for arsenic in drinking water in January 2001. EPA estimated that when compared to the previous standard of 50 ppb, the change will provide additional protection against cancer and other health problems, including cardiovascular disease and diabetes, for 13 million Americans. However, the Administration also

recognized that compliance with the arsenic rule could pose financial burdens on smaller systems. To help address this problem, in 2002 EPA began a two-year, \$20 million research and development and technical assistance program to identify affordable cost-effective technologies to help small systems comply with the new arsenic standard. The program includes 26-32 demonstration projects at small water utilities with arsenic problems. In 2005, research and development efforts will continue to focus on helping small systems comply with the new arsenic standard.

Keeping Our Water Supplies Safe

In response to the September 11, 2001, attacks, the Administration worked with States and communities to protect America's 54,000 community drinking water systems and 16,000 public wastewater treatment systems from terrorist threats. By 2005, all community drinking water systems supplying more than 3,300 people will have completed vulnerability assessments as required under the Bioterrorism Response Act of 2002. Since 2002, over \$140 million in EPA's budget has been dedicated to these critical infrastructure protection activities. Another \$10 million is requested for 2005 to continue grants to States for emergency planning efforts and to support the Water Information Sharing and Analysis Center, a secure web-based, password-protected database that provides information on threats or alerts to drinking water and wastewater utilities.



Promoting Environmental Stewardship and Compliance

All of us have a responsibility to be the stewards of our land.

President George W. Bush
January 2002

EPA targets its enforcement and compliance assurance programs to address the most significant risks to human health and the environment and to ensure that disadvantaged populations do not bear a disproportionate environmental burden. This "smart" enforcement approach relies on the appropriate mix of data

collection and analysis, compliance monitoring, and compliance assistance and incentives to achieve environmentally beneficial outcomes. EPA also cooperates with States, Tribes, regulated entities, and the public to maximize environmental understanding and compliance.

EPA's compliance assistance centers have helped small and medium-sized businesses and governments understand, and comply with, Federal environmental requirements. The centers provide one-stop shopping for regulatory and technical assistance, pollution prevention activities, and sector specific information. Currently, EPA has 10 centers, and has plans to develop three more during 2004–2005.

EPA continues to implement its successful audit and self-policing policy that waives or substantially reduces gravity-based civil penalties if companies voluntarily disclose and correct

environmental violations. The small business compliance policy uses the audit and self-policing feature to help small businesses comply with environmental regulations. As an added incentive, EPA offers the option of establishing an environmental management system to resolve violations.

PERFORMANCE EVALUATION OF SELECT PROGRAMS

The Budget continues to focus on improving program performance. Nine of EPA's programs were assessed using the Program Assessment Rating Tool (PART), which evaluated each of the programs' design and purpose, strategic planning efforts, how well they are managed, and whether they are generating positive results for taxpayers. Additionally, eight programs previously assessed were re-evaluated. Below are some of the highlights and recommendations from the PART evaluations. For further details on EPA's performance assessments, see the White House budget website at www.whitehouse.gov/omb/budget/.

| Program | Rating | Explanation | Recommendation |
|---------------------|--|--|--|
| Acid Rain | Effective | The program implements a successful, cost-effective trading scheme for reducing SO ₂ and NO _x emissions, protecting human health and the environment. | Expand and enhance by promoting the enactment of Clear Skies legislation. Develop efficiency measures that consider the full cost of the program. |
| Existing Chemicals | Adequate (2004 rating was Results Not Demonstrated) | The program reviews and regulates chemicals that may harm human health and the environment. For 2005, the program created a new long-term outcome measure that focuses on reducing chronic human health risk to improve its strategic planning and accountability. | Create outcome measures for acute exposure chemical guidelines, which are important for homeland security response, recovery, and preparedness. Develop a long-term efficiency measure. |
| Ecological Research | Results Not Demonstrated | The program is intended to improve scientific knowledge about ecosystems. The program needs to coordinate with other similar Federal programs to leverage efforts and better assess performance. | Develop long-term outcome performance measures. Shift resources to the water quality monitoring initiative. |

UPDATE ON THE PRESIDENT'S MANAGEMENT AGENDA

The table below provides an update on EPA's implementation of the President's Management Agenda as of December 31, 2003.

| | Human Capital | Competitive Sourcing | Financial Performance | E-Government | Budget and Performance Integration |
|-----------------|---|---|---|---|---|
| Status |  |  |  |  |  |
| Progress |  |  |  |  |  |

EPA's management reform efforts have yielded results. EPA continues to be a strong performer in financial management, where EPA linked financial and performance information for day-to-day decisionmaking, achieved a clean financial audit, and met new end-of-year and audit requirements a year ahead of time. Human Capital (HC) has witnessed steady progress as EPA finalized a HC Strategy and accountability system. However, EPA still needs to implement its strategy throughout the agency, and implement a plan to reduce skill gaps. EPA also made organizational changes that will enhance its Competitive Sourcing Program, and expects to announce its first standard competition in the second quarter of 2004. EPA already has completed four streamlined competitions according to schedule. EPA's E-Government's progress is also steady, as EPA continues to participate in 14 of the 24 E-Gov initiatives, and works toward E-Payroll migration and the implementation of an Earned Value Management System for business cases. In Budget and Performance Integration, EPA continues to develop efficiency and long-term outcome measures for evaluating program effectiveness. Approximately 35 percent of programs that were first reviewed for 2004 improved in rating when re-evaluated for 2005. In addition, three of nine programs were able to demonstrate results for the 2005 review, whereas only one program was able to demonstrate results when reviewed for 2004. EPA will also apply the Research and Development (R&D) Investment Criteria to better plan, manage, and assess its R&D programs. The R&D Investment Criteria are discussed in detail in the Research and Development chapter in the *Analytical Perspectives* volume.

ENVIRONMENTAL PROTECTION AGENCY

(In millions of dollars)

| | Actual | | Estimate | |
|---|--------|-------|----------|-------|
| | 2001 | 2003 | 2004 | 2005 |
| Spending | | | | |
| Discretionary Budget Authority: | | | | |
| Operating program | 3,861 | 4,055 | 4,323 | 4,355 |
| Clean water state revolving fund | 1,347 | 1,341 | 1,342 | 850 |
| Drinking water state revolving fund | 823 | 844 | 845 | 850 |
| Brownfields cleanup funding | — | 90 | 93 | 121 |
| Diesel school bus retrofit program | — | — | — | 65 |
| Targeted water infrastructure funding | 465 | 416 | 429 | 94 |
| <i>Requested</i> | (112) | (123) | (98) | (94) |
| <i>Unrequested</i> | (353) | (293) | (331) | — |
| Superfund | 1,267 | 1,265 | 1,257 | 1,381 |
| Other | 72 | 72 | 76 | 43 |
| Total, Discretionary budget authority | 7,835 | 8,084 | 8,365 | 7,759 |
| Total, Discretionary outlays | 7,598 | 8,219 | 8,269 | 8,415 |
| Mandatory Outlays: | | | | |
| Superfund recoveries | -202 | -147 | -125 | -125 |
| Other | -5 | -12 | -14 | -13 |
| Total, Mandatory outlays | -207 | -158 | -140 | -138 |
| Total, Outlays | 7,391 | 8,061 | 8,129 | 8,277 |

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

Since 2001, the Administration:

- Doubled the International Space Station's size in orbit as planned and initiated high priority research while improving cost control and financial management;
- Improved scientific understanding of the universe through 44 ongoing and 12 new spacecraft;
- Re-focused the aeronautics program by increasing emphasis on improving the safety and security of passenger and cargo aircraft to better serve the American public's needs; and
- Launched remote sensing satellites to evaluate the impact of the oceans on climate, monitor ice sheets at Earth's poles, and measure Earth's gravitational field.

The President's Budget:

- Establishes a bold vision for sustained, yet affordable, human and robotic exploration of the solar system, with the Moon as a first step toward human missions to Mars and beyond;
- Returns the Space Shuttle safely to flight to complete construction of the International Space Station and begins development of a new generation of human space exploration vehicles;
- Completes the International Space Station while refocusing its research;
- Supports efforts to benefit life on earth through research and educational programs; and
- Focuses on research and technology development activities that will enable extended human and more capable robotic exploration of the solar system.

National Aeronautics and Space Administration

Sean O'Keefe, Administrator

www.nasa.gov 202-358-0000

Number of Employees: 18,900

2005 Discretionary Budget Authority:
\$16.2 billion

Key Components: Nine major field centers, more than 60 operational spacecraft, one International Space Station orbital laboratory, and three Space Shuttle orbiters.



Administrator O'Keefe looks toward the future with children on Space Day 2003.

OVERVIEW

For 45 years, the National Aeronautics and Space Administration (NASA) has been charged with expanding human knowledge of space and Earth as well as improving aeronautical and space vehicle capabilities. In the past three years, the Administration has transformed NASA into a stronger, more fiscally responsible Federal agency. As its top scores on the President's Management Agenda show, the agency has proven itself as a Government leader in managing its human capital needs and in basing its budgetary requirements and management decisions on program performance.

The February 1, 2003, Space Shuttle *Columbia* accident was a tragedy for the Nation and its space program. The Columbia Accident Investigation Board found that NASA must overcome several technical, managerial, and organizational challenges to ensure success and safety in future human space flight missions. The Board also emphasized that the Nation's human space flight program has suffered from a lack of clear long-term direction and vision.

The President has established a new national vision for space exploration: a sustained human and robotic program to explore the solar system and beyond. This vision integrates humans and robots, using each type of explorer where and when it is best suited to safely achieve and enhance the potential for discovery and scientific return of space missions. NASA will achieve this vision by sending robotic missions this decade and human missions next decade to the Moon to test new capabilities and enable subsequent human exploration of Mars and beyond. All the while, the agency will continue to launch robotic explorers to investigate the planetary bodies and phenomena within the solar system and the universe beyond. The President has provided a robust yet responsible multiyear budget for achieving this vision, which will yield remarkable new scientific insights, stimulate American innovation, and inspire young and old alike. Before the *Columbia* tragedy, NASA was planning to spend approximately \$86 billion over the five-year period starting in 2005. To implement the President's new vision, the Budget proposes to redirect funding within this base and adds \$1 billion to the existing plan, or an average of \$200 million a year, to complete additional work.

One of the first steps in achieving the President's vision is to return the Shuttle to flight to complete assembly of the International Space Station. While space exploration is inherently risky, safety will remain the highest priority of the Administration for all Shuttle flights, Space Station expeditions, and future human space flight

endeavors. The Administration plans to retire the Shuttle by the end of this decade to make way for a new and safer generation of crew vehicles to explore the solar system. Space Station research will be reprioritized to focus on preparing for long-duration human space flights.

America's space program will go on. This cause of exploration and discovery is not an option we choose; it is a desire written in the human heart.

President George W. Bush
February 2003

The President's 2005 Budget supports a variety of key research and technology initiatives to achieve the new vision. NASA will invest in new space transportation systems that will enable travel to the Moon and beyond. NASA will also engage in research on long-duration space flight's impact on human physiology and will develop ways to increase the sustainability of humans in space. The Budget also funds development and demonstrations of space nuclear power and advanced propulsion technologies and other breakthrough exploration systems. Finally, the Budget will continue to support NASA initiatives that directly benefit life on Earth, including aviation and Earth science research and education programs.

AN AGENCY IN TRANSFORMATION

During the past three years, NASA has grown into a stronger, more fiscally responsible Federal agency. During the 1990s, International Space Station costs were spiraling out of control, potentially threatening other NASA programs and using taxpayer resources ineffectively. Using independent reviews and implementing management reforms, Space Station managers have since gained control over the costs of this unique laboratory. In recognition of this achievement, the Administration has approved expansion of the laboratory to accommodate more crew researchers. In addition, in the last decade, several NASA robotic science spacecraft experienced failures after launch. Although some failures are inevitable in the harsh space environment, the agency has embraced the lessons arising from these failures and now successfully manages several dozen scientific spacecraft and continues to launch more each year.

The Nation suffered a major setback on February 1, 2003, when the Space Shuttle *Columbia* tragedy claimed the lives of seven astronauts and grounded the Shuttle fleet. The accident was a chilling reminder that space exploration is far from easy and routine.

President Bush pledged that despite the tragedy the U.S. civil space program, including human space flight, would continue. The President's Budget provides resources for the Space Shuttle's safe return to flight to complete assembly of the Space Station. It also provides funds to begin work on a new and safer generation of crew vehicles to explore the solar system.

The President is committed to pursuing a bold, new space exploration vision that will renew the agency's vigor and ensure the Nation's focus on compelling and inspiring space goals. NASA will realize the vision with a focused and fiscally responsible budget.

A NEW VISION FOR SPACE EXPLORATION

NASA leads the world in space exploration. For decades, the global public has witnessed spectacular NASA space achievements, including the *Voyager* spacecraft tours of the planets, rover landings on Mars, and compelling images of celestial phenomena from space observatories capable of peering into the early universe. But while NASA's robotic trailblazers and technological achievements have gained attention for their contributions to science, human space flight has remained confined to within a few hundred miles of the Earth's surface for the past 30 years. While NASA has learned much about how humans can work in space through the Space Shuttle and International Space Station programs, the human program has lacked a clear long-term national direction and vision.



Imagery from NASA space telescopes, such as this portrait of a spiral galaxy, will help scientists to better understand how stars form and evolve.

We must establish the Nation's vision for human space flight, and determine how willing we are to resource that vision.

Admiral Hal Gehman, USN (Retired)
Chairman, Columbia Accident Investigation Board

The President's proposal represents a bold vision, making both human and robotic exploration beyond low Earth orbit the highest priority for the Nation's civil space program. NASA will embark on a sustained program to explore the solar system and beyond. Together, human and robotic explorers will seek to answer ageless questions about the origins and evolution of the

universe and the existence of life beyond Earth while expanding knowledge and establishing the capabilities to enable humans to live and work throughout the solar system. NASA will begin immediately to implement the vision, pacing progress according to experience, technology readiness, and affordability.

Achieving this new vision for space exploration will not be easy. It will require a commitment to a focused and responsible multiyear budget, starting in 2005. NASA will have to develop innovative solutions to surmount many technological, physiological, and organizational challenges to make sustainable long-term human space exploration possible. The years ahead are bound not only to yield astounding new insights about the solar system and worlds beyond and how humans can best live and work beyond Earth, but also to catalyze American innovation and inspire future generations of space explorers.

Exploring the Solar System

Recent discoveries, including planets orbiting distant stars and possible evidence of water—a key ingredient for life—on Mars and Jupiter’s moons, suggest the potential to answer questions of whether life exists elsewhere. Building on these discoveries and a record of strong performance in space science, NASA will aggressively survey the solar system and beyond with robotic spacecraft. The President’s 2005 Budget augments NASA’s Mars exploration program to accelerate the search for water and life, and prepare for future human missions. The program also supports advanced robotic missions to Jupiter’s moons and other planetary bodies, and pursues advanced space telescopes to search for Earth-like planets in other solar systems. NASA’s space science missions will inform decisions about where human explorers should travel, the conditions they will endure, and the technologies necessary to support them.

As a stepping stone to Mars and beyond, NASA’s near-term focus for human exploration will be the Moon. While the Apollo expeditions of the 1960s and early 1970s revolutionized scientific understanding of the Moon, Americans spent only a few weeks on the lunar surface and thus did not learn how to live and work over the long periods of time that will be required for human visits to more distant planetary bodies. Because the extreme temperatures, radiation, absence of breathable air, and other conditions make the space environment inhospitable to humans, scientists and engineers must learn more about how to make long-duration human space exploration possible. The Moon is the closest body in space to Earth and therefore can serve as a test bed to prepare for human exploration at Mars and beyond. In addition, using lunar and other space resources may prove important to sustained exploration beyond the Earth-Moon system.



The President’s new vision for space exploration targets Mars as a destination for human visitors.

The President’s Budget begins implementing the new space exploration vision by returning humans to the Moon to prepare for human travel to Mars and beyond. Beginning in 2008, NASA will launch robotic spacecraft to the Moon to provide detailed maps of the Moon’s physical geography and natural resources and to identify the best locations for humans to visit. By 2020, humans will again arrive on the Moon.

Ultimately, humans will travel to Mars and then deeper into the solar system, the timing and choice of destination guided by mastery of exploration skills and technologies on the Moon and the discoveries made by robotic space explorers.

Making Appropriate Infrastructure and Transportation Investments

Achieving the President's vision requires NASA to reprioritize its portfolio of space assets and vehicles, redirecting resources from those less integral to the vision in an effort to enhance and initiate capabilities that will support it.

The Space Shuttle has served as the centerpiece of the Nation's human space flight program for more than 20 years. This vehicle is the workhorse for Space Station assembly and remains instrumental for the laboratory's completion. Consequently, NASA will return the Shuttle to service to complete the Space Station, doing so with safety as its top priority and based on the Columbia Accident Investigation Board's recommendations. But because the aging system remains costly to operate, lacks some safety capabilities that could be incorporated into future systems, and lacks the capability to fly beyond low Earth orbit, NASA plans to retire the Shuttle by the end of the decade, once its role in Space Station assembly is complete.



NASA will return the Space Shuttle to flight to complete assembly of the International Space Station. Safety remains the agency's highest priority.

Completion of the International Space Station, a unique asset shared by multiple international partners, remains a high priority. In concert with the new exploration vision, NASA will refocus U.S. Space Station research on activities that prepare human explorers to travel beyond low Earth orbit, such as the development of countermeasures against space radiation and the long-term effects of reduced gravity.

NASA will begin to design and develop a crew exploration vehicle that will ensure safe, reliable, and affordable access to space beyond Earth orbit. The new vehicle will be designed primarily to support exploration missions but may also support Space Station crew transfer flights in the next decade.

Investing in Enabling Technologies and Research

Funding the proper technologies and research areas will be essential to human and advanced robotic explorers' ability to reach the Moon, Mars, and destinations beyond. The 2005 Budget, therefore, supports a variety of key research and technology initiatives. NASA will engage in research on the impact of long-duration space flight on human physiology and will develop ways to improve the sustainability of human exploration. The Budget also supports the development of nuclear power and advanced propulsion technologies that will sustain applications ranging from high-power spacecraft instruments, to energy sources for humans and advanced robots on other planetary bodies, to robotic and human-carrying vehicle propulsion systems. In addition, the agency will pursue other safe, reliable, effective, and low-cost exploration technologies such as optical communications, radiation shielding, and processes to extract and use space resources, as well as systems that enable robots and humans to work together in space.

Continuing to Improve Life on Earth

NASA continues to play an integral role in improving life on Earth. The agency’s aeronautics program will enhance the safety, security, efficiency, and environmental impact of aviation. As one of the largest pieces of the interagency Climate Change Science Program, NASA’s satellites, technologies, and research are contributing to the understanding and protection of Earth. NASA observations are helping to improve techniques to forecast the weather, monitor forest fires, and track the spread of pollutants. The Budget supports increased investments in the President’s Climate Change Research Initiative, including investment in a critical satellite to help determine the impacts of aerosols such as soot and dust on global climate change. Also, NASA education programs continue to encourage students to enter science and engineering careers.



Space Station research will prepare humans to travel beyond low Earth orbit.

PERFORMANCE EVALUATION OF SELECT PROGRAMS

The Budget continues to focus on improving program performance. Seven of NASA’s programs were assessed using the Program Assessment Rating Tool (PART), which evaluated each programs’ design and purpose, strategic planning efforts, how well they are managed, and whether they are generating positive results for taxpayers. Below are some of the highlights and recommendations from the PART evaluations. For further details on NASA’s performance assessments, see the White House budget website at www.whitehouse.gov/omb/budget/.

| Program | Rating | Explanation | Recommendation |
|--|----------------------|--|--|
| Mars Exploration | Effective | The program is well-defined and well-managed and is making excellent progress towards achieving its science goals. | Augment the program to accelerate the search for life on Mars and prepare for future human exploration. |
| Solar System Exploration | Effective | The program is well-defined and well-managed, has a clear purpose and ties directly to NASA’s mission. | Continue to support a diverse mission portfolio, including missions to search for habitable environments and life. |
| Mission and Science Measurement Technology | Moderately Effective | The program has improved due to its responsiveness to external review and effective management. | Leverage the program as a foundation for a new exploration technology program. |

| Program | Rating | Explanation | Recommendation |
|------------------------------|--------------------------|---|---|
| Biological Sciences Research | Results Not Demonstrated | The selection and prioritization of scientific research has improved; however, additional work is needed to develop suitable performance goals and demonstrate results. | Refocus the program to support the new exploration vision. |
| Earth Science Applications | Results Not Demonstrated | The program has taken the right steps to establish a viable strategy but will require additional time to demonstrate results. | Continue to focus on implementation and fully develop products and partnerships. |
| Space Shuttle | Results Not Demonstrated | The program lacks good performance measures. The hiatus that has followed the <i>Columbia</i> tragedy has prevented the program from achieving results. | Increase return-to-flight funding to improve results in future years. Plan to retire the Shuttle by the end of the decade, once its role in Station assembly is complete. |
| Space Station | Results Not Demonstrated | The program lacks good long-term performance measures and has been unable to achieve goals due to Shuttle unavailability. | Reduce dependence on problematic crew and cargo transfer systems. Redirect the program to bring it into alignment with the new exploration vision. |

UPDATE ON THE PRESIDENT'S MANAGEMENT AGENDA

The accompanying table provides an update on NASA's implementation of the President's Management Agenda as of December 31, 2003.

| | Human Capital | Competitive Sourcing | Financial Performance | E-Government | Budget and Performance Integration |
|----------|---|---|---|---|---|
| Status |  |  |  |  |  |
| Progress |  |  |  |  |  |

Arrows indicate change in status rating since evaluation as of September 30, 2003.

NASA's status ratings improved in four of five initiative areas this quarter. NASA implemented its first human capital plan, established an accountability system to track the associated results, and demonstrated its ability to make distinctions in employee performance using a comprehensive awards system. NASA has a competitive sourcing plan and announced two standard competitions involving more than 230 positions. NASA also has an information technology architecture in place that it is using to guide its investments and strengthen its IT security and project justifications. All of NASA's major IT systems are now operating within 10 percent of the planned budget and schedule. The agency uses performance information and full-cost considerations to develop its budget requests and inform management decisions. For instance, NASA considered technical performance, technical risk, and marginal scientific benefit in a recent study to determine the marginal cost of optimizing the viewing capability of a space telescope planned for launch early in the next decade. NASA has taken steps toward resolving inconsistencies in financial reporting and issues relating to valuation of contractor held property by implementing the Core Financial Module of the Integrated Financial Management Program. Data reconciliation issues due to the conversion from the old to the new financial management system, however, have presented significant challenges to NASA's efforts to prepare financial statements for 2003. NASA is one of 12 major research and development (R&D) agencies that plans, manages, and assesses its R&D programs consistent with the R&D Investment Criteria, which are discussed in detail in the Research and Development chapter in the *Analytical Perspectives* volume.

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION
(In millions of dollars)

| | Actual | | Estimate | |
|---|--------|--------|----------|--------|
| | 2001 | 2003 | 2004 | 2005 |
| Spending | | | | |
| Discretionary Budget Authority: | | | | |
| Exploration, Science, and Aeronautics..... | 5,839 | 7,475 | 7,830 | 7,690 |
| <i>Space Science (non-add)</i> | 2,609 | 3,531 | 3,971 | 4,068 |
| <i>Earth Science (non-add)</i> | 1,762 | 1,717 | 1,613 | 1,485 |
| <i>Biological and Physical Research (non-add)</i> | 362 | 883 | 985 | 1,049 |
| <i>Aeronautics (non-add)</i> | 975 | 1,145 | 1,034 | 919 |
| <i>Education Programs (non-add)</i> | 133 | 199 | 226 | 169 |
| Exploration Capabilities..... | 8,391 | 7,890 | 7,521 | 8,526 |
| <i>Space Flight (non-add)</i> | 7,153 | 6,149 | 5,875 | 6,674 |
| <i>Crosscutting Technology (non-add)</i> | 1,238 | 1,741 | — | — |
| <i>Exploration Systems (non-add)</i> | — | — | 1,646 | 1,852 |
| Inspector General..... | 23 | 25 | 27 | 28 |
| Total, Discretionary budget authority | 14,253 | 15,390 | 15,378 | 16,244 |
| Total, Discretionary outlays | 14,094 | 14,551 | 14,600 | 16,385 |

NATIONAL SCIENCE FOUNDATION

Since 2001, the Administration:

- Funded over 30,000 research grants through 2003 at the National Science Foundation through a competitive, merit-based process with external peer review;
- Increased average grant size from \$114,000 per year in 2001 to a projected \$139,000 per year in 2004;
- Completed funding for the construction of four major research facilities to support atmospheric research, particle physics, earthquake engineering research, and an integrated network of high-end computers;
- Initiated construction of three new research facilities for astronomy, astrophysics, and seismic research; and
- Implemented the research and development investment criteria at NSF, which has reinforced existing practices such as merit-based competition and external review to assess programs.

The President's Budget:

- Recognizes the National Science Foundation's performance by supporting its efforts to build and sustain U.S. world leadership across fields of science and engineering;
- Increases funding across NSF for nanotechnology research to \$305 million in 2005, a 104-percent increase since 2001; provides \$760 million for networking and information technology research and development, a 19-percent increase since 2001; and strengthens support for the mathematical and physical sciences to \$1,115 million in 2005, an increase of 30 percent since 2001;
- Enhances the research facilities available in fields such as astronomy, physics, ocean sciences, earthquake research, materials research, and the environment;
- Modernizes the tools and processes the National Science Foundation uses to administer its grants in research and education; and
- Provides graduate fellowships and traineeships to 5,500 graduate students across the country, which is 1,800 more than in 2001.

National Science Foundation

Dr. Rita R. Colwell, Director

www.nsf.gov 703-292-8000

Number of Employees: 1,300

2005 Discretionary Budget Authority: \$5.7 billion

Major Assets: Antarctic facilities; five federally funded research and development centers.



Dr. Colwell emerges from the ALVIN submersible after a dive to the deep-sea vents of the Juan de Fuca Ridge.

OVERVIEW

The basic research investments of the National Science Foundation (NSF) form the backbone of many science and engineering disciplines and capabilities in the United States. Basic research has been responsible for many breakthroughs and has been strongly linked to economic growth. The agency provides merit-based awards to individual researchers and groups at over 2,000 U.S. colleges, universities, and other institutions. Although NSF represents about four percent of the total Federal budget for research and development (R&D), it accounts for approximately 45 percent of non-life-science basic research at U.S. academic institutions. NSF's broad support for basic research, particularly at U.S. academic institutions, provides crucial underwriting for discovery in many fields and supports the development of the next generation of scientists and engineers.

NSF awards research funding based on the merits of the proposed activities, including their potential impact on society. NSF ensures quality in its programs by using competitive merit review of grant proposals, coupled with periodic external review of its research and education programs that approve those grants. These practices are consistent with the Research and Development Investment Criteria, a component of the President's Management Agenda.

The 2005 Budget, which provides the highest amount ever requested for NSF and an increase of 29 percent since 2001, strengthens priority research investments in nanotechnology, information technology, and other fields of science and engineering; supports construction and operation of research facilities; advances development of the U.S. science and engineering workforce; and modernizes the tools that NSF uses to solicit, process, and review proposals, as well as monitor its awards. The Budget initiates construction of installations to support ecological observations, a ship that will drill samples of the ocean floor to give new insights into the earth's crust, and a facility to expand our understanding of fundamental particle physics.

America's economic strength depends on continuing our Nation's rich tradition of creativity and innovation provided through investment in fundamental research and development. To maintain and improve our Nation's security, prosperity, and quality of life, significant NSF resources are dedicated to delivering the scientific breakthroughs that will transform our future. Two top priority areas expected to have significant economic impact are the National Nanotechnology Initiative, funded at \$305 million, a 20-percent increase over 2004, and Networking and Information Technology R&D, funded at \$760 million, a four-percent increase over 2004.

UNDERWRITING DISCOVERY IN SCIENCE AND ENGINEERING

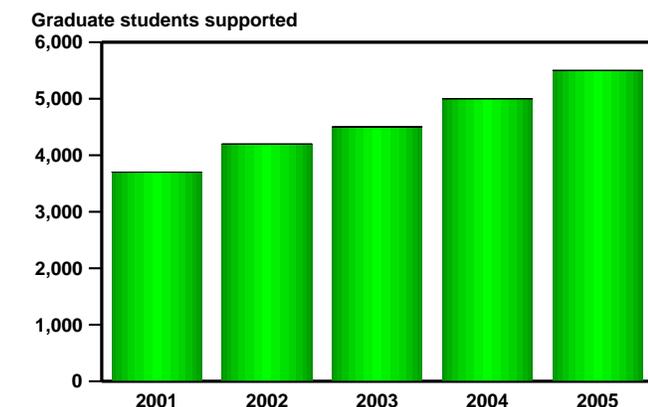
Most NSF awards are long-term investments that can have great payoffs, both in knowledge and in dollars. Basic research at NSF has yielded important scientific discoveries that have boosted economic growth and have enhanced the quality of life through, for example, earlier detection of cancer, better weather forecasting, and technologies that enabled the Internet. Basic research in nanotechnology and other emerging areas of science and engineering will provide more discoveries that will further improve the quality of life.

The Administration's policy is to reinforce NSF investment in areas that will link discovery to innovation and learning, to maximize the likely benefit to society. For example, nanotechnology, which enables scientists and engineers to build mechanisms and structures atom by atom, holds promise for the development of technologies ranging from higher-performance materials to more efficient manufacturing processes, and from higher-capacity computer storage to advanced, microscopic biomedical instruments that could assist diagnosis or deliver medication in new ways within a patient's bloodstream. Since 2001, NSF funding for nanoscale science and engineering has increased by 104 percent, from \$150 million to \$305 million proposed in 2005. In that time, NSF-funded nanotechnology research has advanced our understanding of how materials function at the molecular level and of how nanoscale mechanisms can be constructed to function wherever they are used.

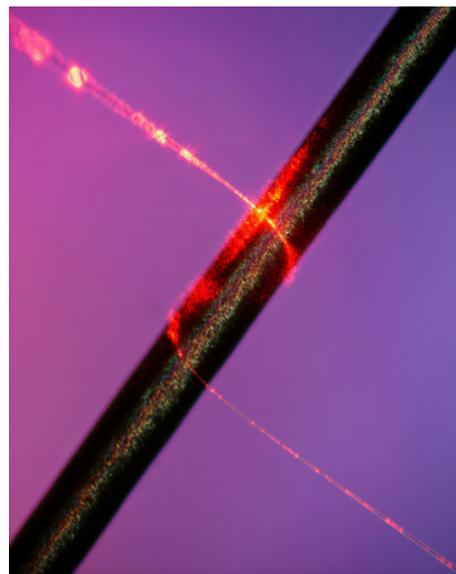
The 2005 Budget also provides significant NSF funding for fundamental research related to homeland security, information technology, and climate change. These investments will rapidly improve our understanding in these priority areas, while training the scientists and engineers who will spur innovation and transform these fields.

Strengthening the U.S. Science and Engineering Workforce

Three NSF Programs Will Support 5,500 Graduate Students in 2005



Source: National Science Foundation.



Wires Thinner than Light? NSF-funded researchers at Harvard are part of a team that has developed fibers—"nanowires"—that are thinner than the wavelengths of light they carry. As illustrated, they may be as thin as one-thousandth the width of a human hair.

The 2005 Budget will enable NSF to increase the agency's efforts to prepare U.S. students for the science and engineering workforce, with a focus on broadening participation in these fields. NSF makes strategic investments in K-12, undergraduate, graduate, and post-doctoral education. Through three graduate fellowship programs, the President's proposal will provide graduate fellowships and traineeships to 5,500 graduate students across the country, nearly 50 percent more than in 2001.

The President's Budget seeks to attract the most promising U.S. students into science and engineering programs by providing more

competitive graduate stipends. Annual stipends for NSF's fellowship and trainee programs have increased from \$18,000 in 2001 to a projected \$30,000 in 2005. Reducing the financial pressures students face significantly affects their choice of advanced education in science or engineering. Thanks in part to the increase in stipends in 2002, there was a dramatic increase in applications for NSF graduate fellowships, up from 5,560 in 2001 to 7,788 in 2003.

Sharpening Tools for Science and Engineering

NSF invests in science and engineering tools that are available to scientists throughout the world, including instruments, equipment, facilities, databases, and large surveys. The agency does not directly operate the large facilities that it supports, except those of the U.S. Antarctic Program. NSF primarily makes awards to universities and non-profit organizations to construct, manage, and operate large facility projects.

The Program Assessment Rating Tool (PART) analysis of these activities indicates the overall purpose of NSF's investment in research infrastructure is clear and that the program is meeting most of its annual goals.

Based on this performance, the President's 2005 Budget enhances science infrastructure capabilities in a wide range of fields of science and engineering, including astronomy, earthquake research, and environmental research. The Budget initiates construction of the National Ecological Observatory Network (NEON), the Scientific Ocean Drilling Vessel, and the Rare Symmetry Violating Processes (RSVP) installation. NEON is a proposed network of observatories across the country that would further advance ecology and climate research. The Scientific Ocean Drilling Vessel would provide a new resource to examine geological and biological processes beneath the ocean floor. RSVP would combine two groundbreaking experiments to address important scientific questions in physics that have the potential to transform our basic understanding of the universe.

Other continuing facility construction efforts include the Atacama Large Millimeter Array (ALMA), a telescope composed of 64 antennas, each 12 meters across, which will be located in Chile's Atacama Desert. The telescope is a joint effort among several countries, and is due to be completed by the end of 2011. ALMA's imaging qualities and its ability to change the configuration of its antennas will make ALMA astronomy's most versatile imaging instrument.

To enhance its ability to oversee the development and construction of research facilities, in 2003 NSF filled a new Deputy Director for Large Facility Projects position under the Chief Financial Officer and released a Facilities Management and Oversight Guide. The Large Facility Projects Deputy provides guidance for NSF projects to strengthen project management in accordance with policies and procedures that have been formalized in the Guide.



Imagine 64 of these in your back yard. The Atacama Large Millimeter Array will consist of an array of 64 mobile antennas based on one of these two prototypes.

Accelerating in the Fast Lane

The 2005 Budget modernizes the tools NSF uses to solicit, process, and review proposals, as well as monitor its awards. Funding for the agency has grown significantly in the past decade, while the agency's staffing level has remained relatively flat. The agency has accommodated the increase in funding and responsibilities through effective use of information technology. NSF's FastLane grants processing system enables NSF to electronically process virtually all of the nearly 40,000 proposals NSF receives each year. Over 200,000 scientists, engineers, educators, and research administrators use this system to submit and review proposals and report project results. While the information technology investments of recent years have provided impressive gains in efficiency, dramatic increases in both the number and complexity of proposals submitted to NSF pose increasing administrative challenges. To address this challenge, NSF continues to enhance existing tools, while also reinventing fundamental agency processes to pursue an integrated approach to human capital, competitive sourcing, and E-Government. The 2005 Budget requests improvements in information technology to further modernize and coordinate the systems and processes NSF uses for merit review and grant management.

PERFORMANCE EVALUATION OF SELECT PROGRAMS

The Budget continues to focus on improving program performance. Four of NSF's programs were assessed using the Program Assessment Rating Tool (PART), which evaluated each programs' design and purpose, strategic planning efforts, how well they are managed, and whether they are generating positive results for taxpayers. Below are some of the highlights and recommendations from the PART evaluations. For further details on NSF's performance assessments, see the White House budget website at www.whitehouse.gov/omb/budget/.

| Program | Rating | Explanation | Recommendation |
|---------------------------------------|---------------|---|---|
| Nanoscale Science and Engineering | Effective | The program has a clear purpose, is well-coordinated with other agencies, and is effective overall, but could be improved with additional attention to progress toward performance targets. | Increase support for peer-reviewed nanoscale science and engineering at NSF; continue to work with the agency to measure and assess progress as the program matures. NSF will initiate a more targeted review of the program in 2004. |
| Information Technology Research (ITR) | Effective | The program has had a clear purpose and has been effective in achieving that purpose. | The ITR priority area is being integrated into NSF's fundamental science and engineering core in 2005. It will be evaluated within that context in the future. |

| Program | Rating | Explanation | Recommendation |
|-------------|-----------|--|--|
| Facilities | Effective | The program is effective overall, but could be improved with additional attention to project management and progress toward performance targets. | Continue to monitor project management and progress toward performance targets. |
| Individuals | Effective | The program should continue to improve how it sets and meets its performance targets. | Continue to support NSF research and education to support individual researchers. Work with the agency to improve performance targets. |

UPDATE ON THE PRESIDENT’S MANAGEMENT AGENDA

The table below provides information on NSF’s implementation of the President’s Management Agenda for the quarter ending December 31, 2003.

| | Human Capital | Competitive Sourcing | Financial Performance | E-Government | Budget and Performance Integration |
|----------|---|---|---|---|---|
| Status |  |  |  |  |  |
| Progress |  |  |  |  |  |

NSF was recognized for its achievements in E-Government with a President’s Quality Award. NSF receives virtually all of its research proposals electronically, has a comprehensive plan for continued improvement of its information technology security program, and continues as an active partner in several interagency E-Gov initiatives, including Grants.gov and E-authentication. NSF prepared its 2003 audited financial statements in 45 days, meeting the Government-wide deadline a full year earlier than required, and earning an unqualified opinion in its 2003 audits. NSF can now report the full cost of achieving its performance goals. For instance, NSF can calculate the total direct and indirect costs for efforts such as its Centers program. Improvements in the Human Capital and Competitive Sourcing Initiatives have been more challenging for NSF. NSF now has a new Human Capital Management plan that should lay the foundation for improvements in succession planning, recruitment, development, retention and employee recognition to ensure the high quality of the NSF workforce. While NSF has begun to develop an ambitious, integrated business plan for the agency, it will take time for this business plan to guide the agency’s competitive sourcing strategy. NSF is one of 12 major R&D agencies that plan, manage, and assess their R&D programs consistent with the R&D Investment Criteria, which are discussed in detail in the Research and Development chapter in the *Analytical Perspectives* volume.

National Science Foundation
(In millions of dollars)

| | Actual | | Estimate | |
|---|--------|-------|----------|-------|
| | 2001 | 2003 | 2004 | 2005 |
| Spending | | | | |
| Discretionary Budget Authority: | | | | |
| Research and Related Activities | 3,357 | 4,069 | 4,251 | 4,452 |
| Education and Human Resources | 785 | 903 | 939 | 772 |
| Major Research Equipment and Facility | | | | |
| Construction..... | 122 | 149 | 155 | 213 |
| Salaries and Expenses..... | 161 | 189 | 219 | 294 |
| National Science Board..... | — | 4 | 4 | 4 |
| Inspector General..... | 6 | 9 | 10 | 10 |
| Total, Discretionary budget authority | 4,431 | 5,323 | 5,578 | 5,745 |
| Total, Discretionary outlays | 3,651 | 4,678 | 5,198 | 5,500 |
| Mandatory Outlays: | | | | |
| H-1B Fee Programs..... | 11 | 35 | 109 | 61 |
| All other | 28 | 23 | 39 | 25 |
| Total, Mandatory outlays | 39 | 58 | 148 | 86 |
| Total, Outlays | 3,690 | 4,736 | 5,346 | 5,586 |

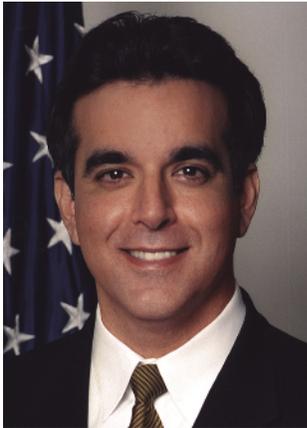
SMALL BUSINESS ADMINISTRATION

Since 2001, the Administration:

- Provided 23 million small business owners with tax relief averaging more than \$2,853 through 2003, by quadrupling the expensing provision to \$100,000, raising the expensing phase-out threshold to \$400,000, and raising the first year “bonus” depreciation deduction from 30 to 50 percent under the Jobs and Growth Tax Relief Reconciliation Act of 2003;
- Expanded the availability of capital for entrepreneurs to start and grow small businesses;
- Reduced the burden on small businesses of complying with Federal regulations;
- Provided over \$3.3 billion in disaster assistance relief for events ranging from terrorist attacks to hurricanes and wildfires;
- Improved contracting opportunities for small businesses to sell goods and services to the Federal Government; and
- Enabled more small businesses to cover workers for major medical problems by creating Health Savings Accounts, and supports legislation which will create Association Health Plans that allow multiple small businesses to purchase health insurance as a group at lower rates.

The President’s Budget:

- Helps spur job creation by funding \$24 billion in small business lending and equity programs;
- Establishes an online single-point-of-access to help small businesses comply with Federal regulations and access information (www.businesslaw.gov); and
- Ensures that small businesses receive a fair share of the \$200 billion in annual Federal purchases.



Administrator Hector Barreto

Small Business Administration

Hector V. Barreto, Administrator

www.sba.gov 202-205-6605

Number of Employees: 3,967

2005 Discretionary Budget Authority: \$678 million

OVERVIEW

The Small Business Administration (SBA) contributes to the President's economic agenda by helping entrepreneurs start, sustain, and grow small businesses and create jobs. SBA also helps families and businesses recover from physical disasters. The 2005 Budget for SBA supports small businesses with an increase in the availability of government-guaranteed capital, technical assistance to raise small businesses' competitiveness, and improved contracting opportunities to sell products and services to the Federal Government. SBA is also improving customer service and administering programs more efficiently by implementing the President's Management Agenda.

Assistance for small businesses is not limited to SBA's technical assistance and credit programs. Additional support is provided under the bipartisan tax relief enacted over the last three years. As a result, 23 million small business owners have benefited from lower marginal income tax rates and an increase in depreciation deductions for qualified investments.

Small business ownership is a great equalizer in America. The only connections you need are happy customers, and a good business plan. The only credentials you need are good products ... For millions of minorities and women and new Americans, small businesses provide a great chance to succeed in America, a chance to realize your dreams.

President George W. Bush
March 2002

2003 Tax Relief for Small Business Owners

The Jobs and Growth Tax Relief Reconciliation Act of 2003 provided major benefits for small business:

- Small business owners receive 79 percent—about \$9.7 billion—of the tax relief from accelerating (from 2006 to 2003) the reduction in the top income tax bracket to 35 percent.
- The amount of investment eligible for expensing quadruples—to \$100,000—beginning in 2003 for firms with investments less than \$400,000. This provides a large tax saving and investment incentive, and also reduces record-keeping burdens.

SMALL BUSINESSES LENDING

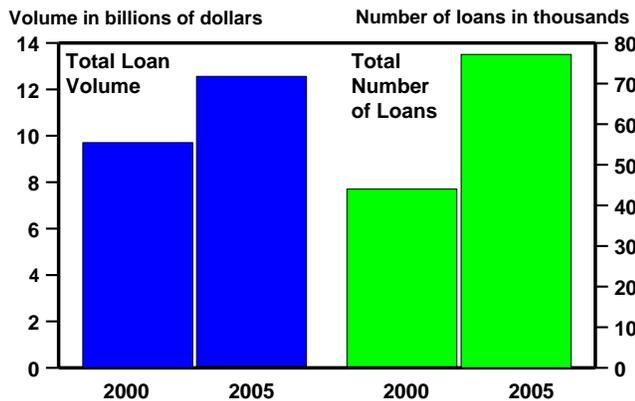
The Budget expands the Section 7(a) program to enable \$12.5 billion in guaranteed loan volume in 2005, a more than 25-percent increase from 2004. This will provide financing to entrepreneurs who could not obtain loans without a Government guarantee. Altogether, the 2005 Budget requests \$129 million in administrative expenses to support \$24 billion in guaranteed lending and equity investments for the Section 7(a) General Business Loan, Section 504 Certified Development Company Guaranteed Loan, and Small Business Investment Company (SBIC) programs.

To continue to effectively address the financing needs of small businesses, SBA will: 1) assess the impact and effectiveness of its capital access programs; 2) administer programs more efficiently; and 3) target and expand access to credit.

Assess Program Impact and Effectiveness. The Program Assessment Rating Tool (PART) revealed that although SBA's technical assistance programs provide similar education, training, and information services to over four million entrepreneurs annually, standard measures to compare the effectiveness of each program are lacking. To address this finding, SBA is developing methods to measure the impact of these programs in helping entrepreneurs to start, sustain, and grow their businesses. PART findings also revealed that the structural flaws in the SBIC program are based upon a number of factors: 1) the Federal Government's profit share is not commensurate with its investments; 2) SBICs do not have incentives to repay capital expeditiously, extending the government's risk exposure; and 3) the methodology for calculating the program's cost should be reexamined to more accurately capture the risk of subsidizing venture capital investments. The 2005 Budget takes necessary steps to address these issues.

The 2005 Budget also includes a legislative proposal to improve the performance of SBA's venture capital program, the SBIC program. The proposal would increase the government's share of profits, increase borrower fees, encourage SBICs to repay principal faster, and minimize the Government's risk exposure. With estimated losses to the taxpayer of about \$2 billion on the Federal Government's outstanding guarantees of about \$5 billion, these changes are necessary to make the program fiscally sound.

Section 7(a) General Business Loans



Source: Small Business Administration.

expensive relative to alternative programs. The 7(a) program is capable of serving the same clientele through the Lowdoc and Community Express programs for much lower cost to the Government.

Target and Expand Access to Credit. SBA seeks to target assistance more effectively to credit-worthy borrowers who would not get loans from the commercial markets in the absence of a Government guarantee to pay off loans. SBA is actively encouraging financial institutions to increase lending to start-up firms, low-income entrepreneurs, and borrowers in search of financing below \$150,000. Preliminary evidence shows that SBA's outreach for the 7(a) program has been successful. Average loan size has decreased from \$241,000 in 2000 to \$167,000 in 2003, while the number of small businesses served has grown from 43,748 to 67,306 during the same time period. In addition, SBA issued new regulations for the Section 504 program that foster additional competition among intermediaries, thereby allowing borrowers greater access to loans.

DISASTER LENDING



Administrator Barreto confers with other SBA officials after a fire destroyed buildings in San Diego in November 2003.

Manage More Efficiently. As part of the President's Management Agenda, SBA is administering its programs more efficiently to improve customer service and reduce program costs. Specifically, SBA is helping banks to issue Section 504 guaranteed loans faster by consolidating the origination process in a central location. SBA is reducing the amount of time that it takes for an entrepreneur to obtain a Section 504 loan from weeks to less than two days. SBA is also making progress in consolidating its loan liquidation function to minimize financial losses on its loan portfolio. The 2005 Budget also proposes to terminate the Microloan program, which has been excessively

expensive relative to alternative programs. The 7(a) program is capable of serving the same clientele through the Lowdoc and Community Express programs for much lower cost to the Government.

Target and Expand Access to Credit. SBA seeks to target assistance more effectively to credit-worthy borrowers who would not get loans from the commercial markets in the absence of a Government guarantee to pay off loans. SBA is actively encouraging financial institutions to increase lending to start-up firms, low-income entrepreneurs, and borrowers in search of financing below \$150,000. Preliminary evidence shows that SBA's outreach for the 7(a) program has been successful. Average loan size has decreased from \$241,000 in 2000 to \$167,000 in 2003, while the number of small businesses served has grown from 43,748 to 67,306 during the same time period. In addition, SBA issued new regulations for the Section 504 program that foster additional competition among intermediaries, thereby allowing borrowers greater access to loans.

Through SBA's Disaster Loan program, individuals and businesses adversely affected by physical disasters can borrow funds at low interest rates for extended periods. SBA's disaster loans help homeowners, renters, businesses of all sizes, and nonprofit organizations finance rebuilding and recovery efforts. Working primarily with the Department of Homeland Security, SBA sets up temporary field offices in disaster areas to help the public apply for low-interest construction and economic assistance loans. The 2005 Budget requests funding to support \$792 million in disaster loans.

Automate Disaster Loan Applications. To increase responsiveness to disasters and reduce administrative burdens, SBA's Disaster

Loan program is testing a paperless loan-application processing system. By 2005, the system is expected to result in a 25 percent productivity increase. More importantly, such a system will let staff readily review files anywhere, regardless of the city, town, or region of a disaster, thereby

improving service to the public. Under this new system, SBA will be able to minimize paperwork burdens on affected citizens by sharing data electronically with other SBA programs and with disaster relief agencies.

TECHNICAL ASSISTANCE

SBA and its partners provide technical assistance programs, including training, counseling and mentoring, and information services to more than four million existing and potential small business entrepreneurs annually. The assistance is provided on-line as well as in-person and ranges from guidance on starting a business to export counseling. SBA provides grants to a network of over 1,100 Small Business Development Centers, 389 SCORE chapters, and 84 Women's Business Centers.

Measuring the performance of these programs has been difficult because numerous external factors, such as the general state of the economy, can significantly affect small business sustainability. In addition, SBA partners do not always provide reliable or consistent data for measuring progress. As a result of the PART assessments, SBA has been developing new annual performance measures and outcome-oriented long-term goals that will reduce reporting burdens and improve data reliability. Coupled with better oversight of the reporting process, the improved data will enable policymakers to better measure program impact and performance. SBA will work more aggressively with its technical assistance grant recipients to collect information on business longevity, increased business activity, and the number of start-up firms assisted. The Budget requests approximately \$111 million for technical assistance programs in 2005.

FEDERAL PROCUREMENT

The Federal Government buys over \$200 billion in goods and services annually, and has a statutory goal of awarding at least 23 percent of its purchases to small businesses. As part of this effort, SBA assists agencies by negotiating agency-specific procurement goals, monitoring performance, and encouraging the use of small business sources.

Agencies in the 1990s increasingly grouped separate, and often unrelated, purchasing activities under a single contract. Effectively, this limited small businesses' participation in the bidding process. As part of the Administration's agenda to assist small businesses, the President assembled an interagency working group tasked with developing a strategy to "unbundle" Federal contracts, which may help the Government reach its 23 percent goal.¹

Consistent with the working group's recommendations, the Administration published regulations to: 1) ensure accurate reporting on contract bundling; and 2) require identification of alternative strategies for the proposed bundling (above certain agency-specific thresholds) and written justification when alternatives involving less bundling are not used.

¹ Contract bundling is the consolidation of two or more procurements previously provided under separate, smaller contracts into a single contract, which is unlikely to be suitable for awards to a small business.

Business Gateway

The Business Gateway Initiative (www.businesslaw.gov) consists of two main parts: the Business Gateway Portal and the E-Forms Portal. The Business Gateway Portal will be the single access point for businesses on government programs, services and information needed to start, run, and grow a business. It will also provide businesses with the tools to find information to comply with Government laws and regulations. In addition, the initiative will begin harmonizing the data collected on Federal forms for five industries to reduce the number of forms and related paperwork burden for those industries by 10 percent. The E-Forms Portal will be a single location where Government forms used by businesses and citizens can be found. The E-Forms Portal will also create a common Government-wide infrastructure for managing forms.

PERFORMANCE EVALUATION OF SELECT PROGRAMS

The Budget continues to focus on improving program performance. Six of SBA’s programs were assessed using the Program Assessment Rating Tool (PART), which evaluated the programs’ design and purpose, strategic planning efforts, how well they are managed, and whether they are generating positive results for taxpayers. Below are some of the highlights and recommendations from the PART evaluations. For further details on SBA’s performance assessments, see the White House budget website at www.whitehouse.gov/omb/budget/.

| Program | Rating | Explanation | Recommendations |
|--|----------------------|--|--|
| Disaster Loan Program | Moderately Effective | The program recently developed new annual and long-term performance measures. | SBA needs to strengthen administrative procedures relating to program eligibility and continue to implement technology and processes to reduce administrative costs. |
| 504 Certified Development Companies Guarantee Loan Program | Adequate | In 2003, SBA issued new regulations for the program that enhance competition among intermediaries, thereby increasing borrowers’ access to loans. However, the program overlaps with the Section 7(a) General Business Loan program and has a complex financing structure. | SBA will examine whether it would be more cost-effective to the Government and borrowers to concentrate fixed asset loans in the 504 loan program or the 7(a) program rather than dividing this service between both programs. |

| Program | Rating | Explanation | Recommendations |
|---|----------|--|---|
| Small Business Investment Company Program | Adequate | Program performance has been weak, with estimated losses to the taxpayer of about \$2 billion. The Federal Government's profit share is not commensurate with its investments, and the methodology for calculating the program's subsidy cost should be reexamined to more accurately capture the risk of subsidizing venture capital investments. | The 2005 Budget is proposing increased fees and profit-shares, which are necessary for the program to be fiscally sound. The Budget also improves the subsidy estimation methodology by including historical performance. |

UPDATE ON THE PRESIDENT'S MANAGEMENT AGENDA

The table below provides an update on the Small Business Administration's implementation of the President's Management Agenda as of December 31, 2003.

| | Human Capital | Competitive Sourcing | Financial Performance | E-Government | Budget and Performance Integration |
|----------|---|---|---|---|---|
| Status |  |  |  |  |  |
| Progress |  |  |  |  |  |

Arrow indicates change in status rating since evaluation on September 30, 2003.

SBA has made solid progress in implementing the President's Management Agenda. To improve service to the public, the agency has undertaken an assessment of its staff's skills, contracted for training, increased accountability of managers, and conducted competitive sourcing competitions in 2003. As the leader of the Business Gateway, SBA has launched the website *BusinessLaw.gov*, which helps small business owners easily find, understand, and comply with myriad Federal regulations and is working with other agencies to reduce the paperwork burden on businesses. In the area of Budget Performance and Integration, SBA is making progress by improving its ability to measure, monitor, and mitigate risk in its loan portfolio. SBA has also made progress in developing new estimation models to improve financial management and more accurately measure the cost of providing small businesses credit subsidies.

Small Business Administration
(In millions of dollars)

| | Actual | | Estimate | |
|---|--------|--------|----------|--------|
| | 2001 | 2003 | 2004 | 2005 |
| Spending | | | | |
| Discretionary Budget Authority: | | | | |
| Existing law | 900 | 761 | 757 | 678 |
| Total, Discretionary budget authority | 900 | 761 | 757 | 678 |
| Total, Discretionary outlays | 809 | 845 | 789 | 722 |
| Total, Mandatory outlays | -1,380 | 713 | 3,189 | -39 |
| Total, Outlays | -571 | 1,558 | 3,978 | 683 |
| Credit activity | | | | |
| Direct Loan Disbursements: | | | | |
| Direct Disaster Loans..... | 683 | 686 | 700 | 750 |
| Direct Business Loans..... | 67 | 27 | 23 | 3 |
| Total, Direct loan disbursements | 750 | 713 | 723 | 753 |
| Guaranteed Loan Commitments: | | | | |
| Guaranteed Business Loans..... | 10,963 | 12,800 | 15,004 | 21,003 |
| Total, Guaranteed loan commitments..... | 10,963 | 12,800 | 15,004 | 21,003 |

SOCIAL SECURITY ADMINISTRATION

Since 2001, the Administration:

- Decreased average processing time for initial disability claims from 106 to 97 days;
- Developed an electronic disability folder system, to be launched in January 2004, that will reduce delays in creating, locating, and transporting paper files;
- Expanded online service options on *www.socialsecurity.gov* that are secure, citizen-friendly, and available 24 hours a day; and
- Achieved the highest score (green) for the President's Management Agenda initiative on financial management, demonstrating that it is an effective steward of the Social Security trust funds.

The President's Budget:

- Increases SSA administrative funding by 6.8 percent from 2004 to maintain excellent service to the public and decrease hearing backlogs in the face of growing workloads;
- Enables the Social Security Administration to help administer the new Medicare prescription drug benefit;
- Combats identity fraud; and
- Continues to increase productivity by at least two percent.



Commissioner Barnhart reviews information with an employee of the Brooklyn Social Security Card Center.

Social Security Administration

Jo Anne B. Barnhart, Commissioner

www.socialsecurity.gov 800-SSA-1213

Number of Employees: 65,000

2005 Discretionary Budget Authority: \$9.1 billion

Field Offices: 1,336

OVERVIEW

The Social Security Administration (SSA) touches the lives of nearly everyone in America by issuing Social Security numbers, maintaining earnings records used to calculate Social Security benefits, and administering the benefit programs. SSA provides financial support to older Americans, Americans with disabilities, and their dependents. SSA manages the Old-Age, Survivors, and Disability Insurance (DI) programs, universally known as Social Security. SSA also runs the Supplemental Security Income (SSI) program for low-income aged and disabled persons.

SSA promotes fiscal responsibility by assisting beneficiaries who want to work to reduce their reliance on disability benefits, and by ensuring that payments only go to individuals who should get them. For the disability programs in particular, determining initial or continuing eligibility is often a complex task that requires analyzing detailed medical and financial information. The Program Assessment Rating Tool (PART) shows that SSA needs to improve the accuracy of DI decisions. SSA is developing proposals that would redesign the disability claims process and improve accuracy. To address SSI payment accuracy issues as identified by the PART, SSA is pursuing program simplification and other strategies.

As the retirement of the baby boom generation draws near, SSA will face the task of serving record numbers of beneficiaries and maintaining program integrity at the same time that a large portion of SSA's own workforce will be retiring. An important responsibility of SSA is public education about the choices that must be addressed to strengthen Social Security's long-term financial condition. A further long-standing challenge is the time and expense involved in processing claims for disability benefits, and, in particular, appeals of unfavorable decisions. To meet these challenges, SSA is improving service with new business processes and using technology to become more efficient.

Another important task of SSA is to insure the Nation's security by protecting against identity theft and misuse of Social Security numbers. In addition, SSA is facing new responsibilities as it prepares to play an important role in the implementation of the Medicare prescription drug law recently signed by the President. For example, SSA will help determine eligibility for subsidies for the drug benefit for low-income seniors.

The 2005 Budget includes resources to increase productivity in public service areas, detect and prevent erroneous payments, and effectively handle increasing workloads. With this Budget, SSA expects to achieve the performance targets outlined in the accompanying table that will ensure that citizens get decisions on their cases in an accurate and timely manner.

| Measures | 2003 Actual | Goals | |
|---|----------------|-------|------|
| | | 2004 | 2005 |
| Productivity | | | |
| SSA Hearing Decisions, Per Worker Per Year ¹ | 103 | 105 | 107 |
| Disability Decisions, Per Worker Per Year | 270 | 272 | 274 |
| Timeliness (in days) | | | |
| Average Processing Time for Initial Disability Claims | 97 | 97 | 97 |
| Average Processing Time for Hearing Decisions | 344 | 377 | 344 |
| Accuracy | | | |
| Disability Determination Services Accuracy Rate..... | NA | 97% | 97% |
| Accuracy Rate for Hearings Decisions | NA | 90% | 90% |

¹ In 2003, an SSA worker on average made 103 hearing decisions. The higher the number in a given year, the greater the productivity.

CITIZEN-CENTERED SERVICE

Enhancing Service Through Technology

In 2005, the disability claims process will become more efficient as the agency replaces its paper-driven process with an electronic one. The electronic disability claims filing process is expected to reduce processing time significantly over the long term. In the paper-driven process, when a claimant requests a hearing, it often takes more than a month simply to locate the claimant's folder and deliver it to the appropriate hearing office. That will change with the new paperless process, and costs related to locating, mailing, and storing paper files will be significantly reduced.



When the electronic disability claims process is fully implemented, SSA will no longer create, mail, and store paper disability folders.

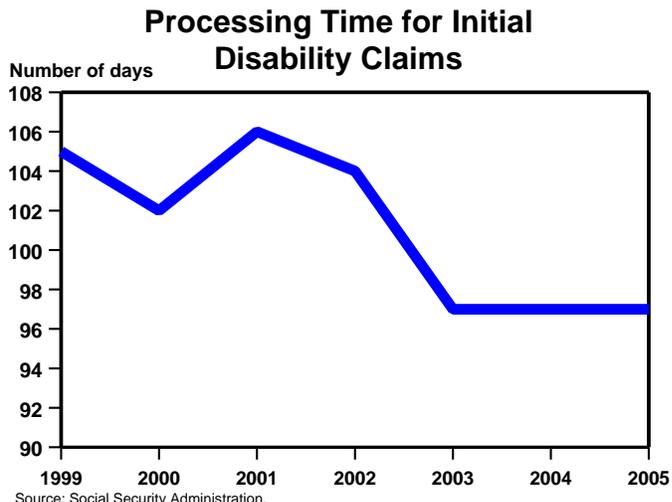
Improving the Disability Claims Process

Processing time for hearings continues to be a concern. In 2003, individuals who initially were denied benefits and who appealed had to wait nearly a year before a final decision was made. To begin addressing this issue, SSA is implementing several initiatives in 2004 and 2005. For example, SSA will allow Administrative Law Judges (ALJs) to make more decisions without a full hearing when additional evidence is not needed. Issuing decisions from the bench immediately following a hearing and using speech recognition technology to write decisions will also speed decision making. Expanding video teleconferencing to more hearings offices will enable ALJs to conduct more timely hearings in remote sites and will reduce the need for individuals appealing their cases to drive long distances.

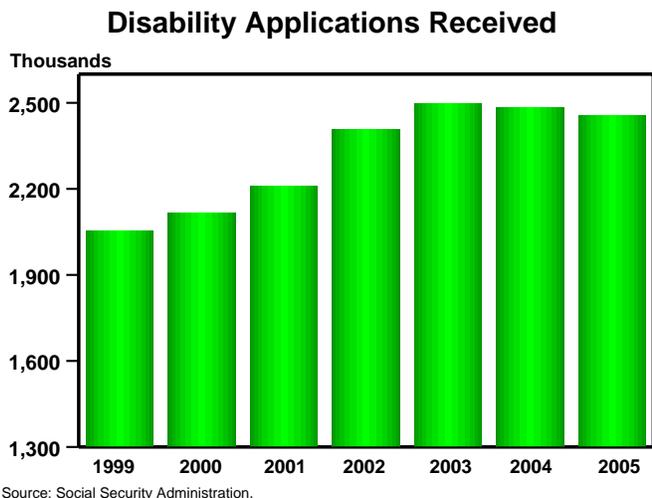
Beyond 2005, SSA is developing an improved process to significantly reduce processing times and improve decisional accuracy for initial disability claims and hearings. Commissioner Barnhart's proposed changes include making quick decisions about individuals who are determined to be disabled based on their described impairment and creating a central quality control unit to promote consistency. SSA also plans to add an attorney review level prior to ALJ review to improve service delivery. This will enable SSA to prioritize cases and decrease processing time. As part of these management reforms and the President's New Freedom Initiative, SSA will provide support services early in the disability determination process to help individuals with disabilities return to work. For example, SSA administers the Ticket to Work program under which eligible individuals receiving Social Security and/or Supplemental Security Income benefits due to disability or blindness receive a ticket that they may use to obtain vocational rehabilitation services, employment services, or other support services from an employment network or a State vocational agency of their choice.

Increasing Efficiency

SSA consistently focuses on and has made significant progress in improving efficiency within the agency. In particular, SSA has reduced its average processing time for initial disability claims by over eight percent since 2001 (see accompanying chart). These and other results are due to SSA’s commitment to improved efficiency gains through technological and procedural changes. More impressively, these successes have occurred at a time when the number of people applying for disability applications has increased by 22 percent from 1999 to 2003 (see Disability Applications Received chart). In 2003, SSA was able to reduce initial disability claim backlogs by 11,000 cases from the prior year. SSA also increased productivity for hearings decisions and initial disability claims by eight percent and two percent, respectively, over the previous year.



SSA also increased productivity for hearings decisions and initial disability claims by eight percent and two percent, respectively, over the previous year.



These successes are critical to maintaining public satisfaction as the agency continues to face growing workloads. For example, SSA’s actuaries estimate that disability applications will remain high in future years due to the baby boomers moving into their disability-prone years. SSA’s commitment to annual productivity gains of at least two percent per year will enable the agency to handle more claims while continuing to provide good service. Recognizing these pressures and management goals, the 2005 Budget proposes nearly a seven-percent increase in administrative resources to address these challenges.

Implementing Medicare Reform

The Medicare Prescription Drug Improvement and Modernization Act of 2003, signed by President Bush in December, includes a major role for SSA in administering the new Medicare prescription drug benefit. SSA is committed to the success of the new law and the Budget includes funding for start-up costs to allow the agency to prepare systems for implementation of the drug benefit and other program changes in 2006. SSA will play an instrumental role in identifying and enrolling low-income beneficiaries, calculating premiums for high-income beneficiaries, and withholding premiums appropriate to beneficiaries’ selected plans.

Discounted Drugs for Seniors

Starting in late 2005, applicants signing up for their Social Security retirement benefit and Medicare prescription drug benefit will be screened for eligibility for additional low-income prescription drug assistance that is part of the new Medicare drug benefit.

Senior citizens and individuals with disabilities who have income less than 135 percent of the poverty level and who have resources equal to or less than \$6,000 will be eligible for Medicare drug coverage with no premium and limited cost-sharing. Other beneficiaries—those with income below 150 percent of poverty and somewhat higher resources—will also be eligible for assistance with the new Medicare drug benefit. The beneficiary's application will be sent to the Centers for Medicare and Medicaid for final processing and enrollment. This screening will save seniors time and worry, and help ensure that those eligible will receive the benefits that they are entitled to. That's SSA working for you!

Assisting Low-Income Refugees

The Budget would allow refugees and asylees to receive SSI for eight years after entry into the country. Currently, refugees and asylees who have not become citizens can only receive SSI for seven years after entry. The proposal recognizes that some individuals have been unable to obtain citizenship within seven years due to a combination of processing delays, and for asylees, statutory caps on the number who can become permanent residents. The policy would continue through 2007.

PROGRAM STEWARDSHIP***Detecting and Preventing Payment Errors***

A crucial aspect of good management in income support programs is ensuring that only eligible individuals receive benefits, and that they receive their benefits in the correct amount. SSA undertakes a variety of program integrity activities to minimize erroneous payments through means such as verifying beneficiaries' eligibility status, collecting debt, and investigating and deterring fraud. The General Accounting Office (GAO) removed the SSI program from its high-risk list of Government programs considered especially vulnerable to waste, fraud or abuse. In doing so, GAO recognized SSA's efforts to improve the management of the program.

The Administration proposes \$561 million for conducting continuing disability reviews (CDRs) in 2005. This is a proven, sound investment since SSA generates savings of approximately \$10 for each \$1 spent on such activities. SSA's 2002 CDRs are expected to yield \$6 billion in program savings.

The Budget proposes several additional tools to improve SSA's payment accuracy. One initiative would review at least 50 percent of favorable SSI disability decisions before starting payments. Another would give SSA the ability to independently verify whether beneficiaries have pension income from employment not covered by Social Security. The law requires that Social Security benefits be reduced in such cases, recognizing, in effect, that these pensions are designed as a substitute for Social Security. It is estimated that when phased in, these proposals would save the Federal Government half a billion dollars a year.

A Concrete Case of Fraud

Sometimes Social Security goes undercover to crack down on fraudulent claims of disability.

SSA's Office of Inspector General uses Cooperative Disability Investigations (CDI) units to investigate allegations (often from neighbors or acquaintances) of individuals who claim to be too disabled to work but who in fact are employed. For example, working from unmarked vans, CDI units may videotape someone who claims to be disabled lifting heavy boxes into a truck.

A 57-year old man applying for disability benefits said he had not worked since he had a stroke. During the interview, though, the SSA employee noticed cement dust on the man's shoes and cap. The Nashville CDI unit investigated the case, and observed the man driving a commercial van, using construction tools, lifting equipment, and pouring concrete. His claim was denied.

SSA, Office of the Inspector General
Semiannual Report to Congress
October 1, 2002-March 31, 2003

Preventing Misuse of Social Security Numbers

Use of Social Security numbers (SSNs) as a universal identifier has led to increased incidents of SSN fraud and misuse. Individuals seeking an SSN must provide proof of identity, age, and U.S. citizenship or legal alien and work authorization status. To detect fraudulent documents and to prevent improperly issuing SSNs, SSA is developing ways to share information with other Federal and State agencies to decrease reliance on documents presented by SSN applicants. SSA is also developing additional automated checks to detect potential fraud.

Combating Identity Theft

SSA's Inspector General works together with other agencies, including the U.S. Postal Inspection Service, the FBI, and the Department of Justice, to investigate and prosecute identity theft crimes. This team recently uncovered and stopped the criminal activity of Michael Washington. Washington led a bank fraud and identity theft ring that attempted to obtain \$1.4 million from banks and title companies.

Washington and members of the ring would go to title companies for the purpose of selling homes through that title company to a buyer who was complicit in the scheme and who was using a stolen identity. The sales were then completed with counterfeit checks. The title companies would unknowingly accept the counterfeit checks from the buyer, deposit them into their own bank account, and then write checks drawn on their account payable to the seller. The seller of the property would negotiate the legitimate title company check at the title company's bank and convert it to cash or cashier's checks through a series of transactions, and the seller would later split the proceeds with the others. Through the work of the Federal team, the fraud ring was uncovered and stopped. In December 2003, Washington was sentenced to 12 years in prison and ordered to pay \$512,496.

PERFORMANCE EVALUATION OF SELECT PROGRAMS

The Budget continues to focus on improving program performance. SSA updated two assessments completed for 2004 using the Program Assessment Rating Tool (PART), which evaluated the programs’ design and purpose, strategic planning efforts, how well they are managed, and whether they are generating positive results for taxpayers. Below are some highlights and recommendations from the PART evaluations. For further details on SSA’s performance assessments, see the White House budget website at www.whitehouse.gov/omb/budget/.

| Program | Rating | Explanation | Recommendation |
|---|----------------------|---|--|
| Supplemental Security Income for the Aged | Moderately Effective | The program has a clear purpose and addresses a specific need. Annual processing time goals were met, but payment accuracy goals for the SSI program overall were not. Long-term targets for processing time and efficiency are not ambitious. | SSA will better match resources to performance benchmarks. SSA will aggressively pursue strategies in the SSI Corrective Action Plan. |
| Disability Insurance | Moderately Effective | The program has a clear purpose and addresses a specific need. Annual goals for initial claims processing time and hearings productivity were met while initial claims productivity improved. However, SSA made insufficient progress toward improving accuracy of denied claims. | SSA will significantly improve the claims process by implementing electronic disability. SSA will also finalize proposals to redesign the claims process and better match resources to performance benchmarks. |

UPDATE ON THE PRESIDENT’S MANAGEMENT AGENDA

The table below provides an update on Social Security’s implementation of the President’s Management Agenda as of December 31, 2003.

| | Human Capital | Competitive Sourcing | Financial Performance | E-Government | Budget and Performance Integration |
|----------|---|---|---|---|---|
| Status |  |  |  |  |  |
| Progress |  |  |  |  |  |

SSA continues to be a leader in financial performance. In 2003, SSA issued its financial statements within 45 days of the end of the year—for the second straight year—and received a clean audit for the tenth consecutive year. SSA also demonstrated that it has integrated financial and performance management systems. After several quarters of steady progress, SSA anticipates an improvement in status for Competitive Sourcing in the fourth quarter of 2004, when their first two full competitions are slated for completion. In the spirit of the President's New Freedom Initiative, SSA has also modified its competition plan to protect employees with disabilities. Further, SSA has contributed to several cross-agency E-Government initiatives aimed at improving public service, including one that will lead to more efficient access to vital records. In 2004, SSA is expected to move to green in status for E-Government. This improvement will reflect that SSA's information technology systems are secure, meet cost, schedule, and performance goals, and fit into a larger blueprint designed to achieve the goals of the agency.

SOCIAL SECURITY ADMINISTRATION
(In millions of dollars)

| | Actual | | Estimate | |
|--|---------|---------|----------|---------|
| | 2001 | 2003 | 2004 | 2005 |
| Spending | | | | |
| Discretionary Budget Authority: | | | | |
| Limitation on Administrative Expenses (LAE) ¹ ... | 7,124 | 7,885 | 8,313 | 8,878 |
| Office of the Inspector General | 69 | 82 | 88 | 92 |
| Research and Development | 23 | 31 | 31 | 20 |
| Subtotal | 7,216 | 7,998 | 8,432 | 8,990 |
| Medicare Reform Administrative Expenses ¹ | — | — | 500 | 100 |
| Total, Discretionary budget authority | 7,216 | 7,998 | 8,932 | 9,090 |
| Total, Discretionary outlays | 7,149 | 8,071 | 8,750 | 9,366 |
| Mandatory Outlays: | | | | |
| Old-age, Survivors, and Disability Insurance | 430,284 | 470,531 | 492,043 | 510,550 |
| Supplemental Security Income | 27,481 | 32,579 | 34,358 | 38,843 |
| Special Benefits for Certain World War II | | | | |
| Veterans | 7 | 9 | 10 | 11 |
| Offsetting Collections | -2,525 | -2,212 | -3,242 | -3,492 |
| Undistributed Offsetting Receipts | -7,910 | -9,602 | -10,654 | -11,199 |
| Legislative Proposals | — | — | — | -27 |
| Total, Mandatory outlays | 447,337 | 491,305 | 512,515 | 534,686 |
| Total, Outlays | 454,486 | 499,376 | 521,265 | 544,052 |

¹ The LAE account includes funding from the Hospital Insurance and Supplementary Medical Insurance trust funds for services that support the Medicare program, including implementation of Medicare Reform.

OTHER AGENCIES

COMMODITY FUTURES TRADING COMMISSION

The Commodity Futures Trading Commission (CFTC) regulates U.S. futures and options markets. It protects investors by preventing fraud and abuse and ensuring adequate disclosure of information. Major activities of the agency include: promulgating regulations governing commodities futures markets; detecting and prosecuting investor fraud schemes; and monitoring the markets in order to prevent illegal price manipulation efforts. In 2003, CFTC opened more than 100 investigations against suspected violators of commodity trading laws. The 2005 Budget proposes \$95 million for CFTC.

CONSUMER PRODUCT SAFETY COMMISSION

The Consumer Product Safety Commission (CPSC) is an independent health and safety regulatory agency that is responsible for protecting the American public from unreasonable risks of injury and death from about 15,000 types of consumer products. CPSC develops voluntary and mandatory safety standards for products, conducts recalls of hazardous products, and alerts the public to safe practices and safety hazards associated with consumer products. The work of CPSC has contributed significantly to the 30 percent decline in the rate of injuries and deaths related to hazardous products since the agency's inception in 1972.

The 2005 Budget includes \$62.7 million for CPSC. The Budget will enable the Commission to fund cost increases associated with current activities.

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

Through programs such as AmeriCorps, Senior Corps, and Learn and Serve America, the Corporation for National and Community Service (CNCS) provides service opportunities for more than 2.5 million Americans each year. Through the leadership of the USA Freedom Corps Coordinating Council, CNCS is helping Americans to answer the President's Call to Service, an initiative that has engaged an unprecedented number of volunteers in domestic and international service. The 2005 Budget proposes \$1,017 million for CNCS, \$82 million, or nine percent, above the 2004 Consolidated Appropriations Bill level. The request would support 75,000 AmeriCorps members, 600,000 senior volunteers, and engage over one million youth in service-learning activities. All of the Corporation's programs work with community and faith-based organizations to meet local needs. Activities include tutoring and mentoring children, assisting the elderly, preserving the environment, building homes for low-income families, responding to disasters, and generating broader volunteer activities across the country. According to the Bureau of Labor Statistics, the number of volunteers increased from 59.8 million to 63.8 million between September 2002 and September 2003.

Strengthening AmeriCorps and National Service

Americans have responded in record numbers to the President's call to dedicate at least 4,000 hours or two years of their lives in service to their communities. The Administration is committed to ensuring that service programs are well-managed and positioned to respond to those who want to serve. To ensure the financial integrity of the AmeriCorps program, the President signed the Strengthen AmeriCorps Program Act. The Act clarifies the proper accounting and management controls governing the AmeriCorps program and the National Service Trust, which finances the education awards earned by AmeriCorps members. In addition, CNCS has initiated comprehensive reforms to improve accountability and efficiency in the

administration of programs and the expenditure of funds authorized under the national service laws to build and reinforce a culture of service, citizenship, and responsibility throughout the Nation.

Expanding Opportunities for Service

The 2004 Consolidated Appropriations Bill is expected to include the highest funding level for AmeriCorps in the program's history. The 2005 Budget builds on the President's commitment to national service. The Budget includes a total of \$442 million to support the President's goal of funding 75,000 AmeriCorps members and finance their education awards. The Budget also proposes a total of \$225 million for the National Senior Service Corps programs, which meet a wide range of community needs such as helping seniors live independently in their homes, and providing support services to young ex-offenders. In addition, the Budget includes a total of \$20 million to provide Silver Scholarships to 10,000 older Americans who volunteer 500 hours of service tutoring and mentoring students. Each Silver Scholarship provides \$1,000 that can be transferred to a grandchild or other young person. Finally, the Budget proposes \$15 million for Special Volunteer

Senior Corps Fights Telemarketing Fraud

Volunteers in the Santa Monica, CA Retired Senior Volunteer Program (RSVP) work with the Federal Bureau of Investigation (FBI) to prevent seniors from becoming victims of telemarketing fraud. A common term for the place from which telemarketers, including illegal telemarketers, make their calls is a "boiler room." Using phones donated by AT&T Wireless, volunteers with WISE Senior Services operate a "reverse boiler room" for victims of telemarketing fraud and give them tips about protecting themselves against future scams. According to FBI Supervisory Special Agent Dan Bolick, "Because of these RSVP volunteers, thousands of crimes are prevented every year. Conservative estimates indicate that we prevent a crime for at least one in every ten people who receive peer counseling. Roughly 13,000 crimes have been prevented at a savings of approximately \$12,000 per crime." Over the past five years, CNCS estimates that these RSVP volunteers have protected some \$16 million in seniors' funds from telemarketing scams.



AmeriCorps members building homes with Habitat for Humanity.

Programs to support homeland security efforts including activities in public safety, public health, disaster relief, and preparedness.

DISTRICT OF COLUMBIA

The 2005 President's Budget provides \$103 million for the District of Columbia (D.C.). This includes \$40 million for D.C. school children, as well as \$63 million in funding for other D.C. programs. The \$40 million provides continued support for the D.C. School Choice program and Federal support of D.C. public schools and D.C. charter schools. The 2005 Budget continues the 2004 investment of \$14 million to support the D.C. School Choice program. This program will increase the capacity

of the District to provide parents—particularly low-income parents—more options for obtaining a quality education for their children who are trapped in low-performing schools. As part of the Administration's commitment to improving education in D.C., the Budget also continues funding for D.C. public schools and D.C. charter schools, with \$26 million. The Budget also continues to support the D.C. Resident Tuition Assistance program, with \$17 million. This program was started in 1999 and allows District residents to attend public colleges nationwide at in-state tuition rates.

The President's 2005 Budget includes new Federal support to assist the District with the capital needs of the city's first responders who are on the frontlines of homeland security. The Budget supports the renovation of two D.C. Fire and Emergency Medical Services Department facilities with \$10 million. These renovations will provide, for the first time, centralized headquarters for the D.C. Fire Department and for the D.C. Fire Department's Special Operations Unit. This Special Operations Unit responds to issues such as bomb threats or hazardous materials calls. The Budget also supports the purchase of technical systems, including telephone and radio dispatch systems, for the city's new Unified Communication Center (UCC), with \$7 million. The UCC will be a command center for all of the city's essential emergency operations functions. In addition, the 2005 Budget continues to support D.C.'s public safety response to events directly related to the Federal Government's presence in the District, with \$15 million going to defray the cost of events such as protests related to the annual World Bank and International Monetary Fund meetings.

The President's 2005 Budget continues support to help improve the Anacostia River for D.C.'s neighborhoods and visitors. The Budget proposes \$3 million to continue design and construction work on the Anacostia trailwalk. The trailwalk will create pedestrian and bicycle trail systems from the Potomac River to the District's border with Maryland. The 2005 Budget also proposes \$10 million in continued support of the local water and sewer authority's efforts to reduce combined sewer overflows in the Anacostia River.

The Administration also continues to support "budget autonomy" for D.C. This will allow D.C.'s local budget to go into effect without prior congressional approval, provided that any general provisions from the previous year stay in effect until the Congress acts and provided that the Congress retains the right to redirect by law portions of the local budget after it goes into effect.

I'm a strong advocate of quality educational choices, and I believe there are a variety of ways to reach that goal. The District has a very strong example of school choice in its successful charter schools movement. Parents also may exercise choice within District public schools. Still, parents of school-aged children frequently tell me they want better options and more rapid improvements that will lead to better results for their children. To that end, I believe it is time to look at other solutions to provide educational choices for students.

Mayor Anthony Williams
from the D.C. government website, www.dc.gov

DISTRICT OF COLUMBIA COURTS

The District of Columbia Courts continue to work on capital improvements necessary for the Family Court Division of the D.C. Superior Court. The President's 2005 Budget provides \$270 million to the Courts, which includes \$93 million for significant improvements in the Judiciary Square area. Judiciary Square is the center of many criminal justice functions in the District and is the home of the D.C. Superior Court, as well as a variety of other city and Federal criminal justice agencies. Improvements in the area will include a full restoration of the city's Old Courthouse. The Old Courthouse was originally built between 1821 and 1881 and is listed on the National Register of Historic Places. The D.C. Courts will also undertake significant design and renovation work on the H. Carl Moultrie Courthouse.

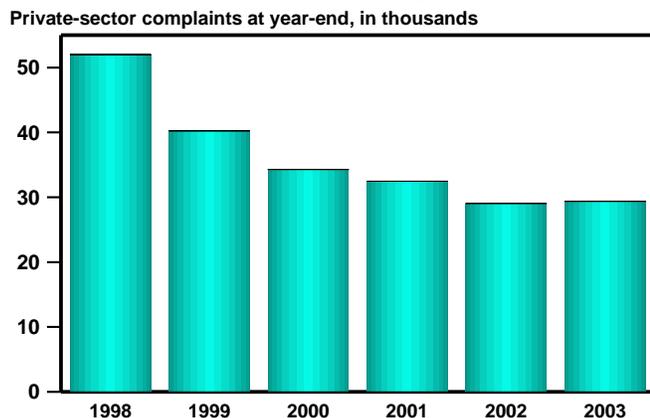
ELECTION ASSISTANCE COMMISSION

The Election Assistance Commission provides requirements payments to States to improve election equipment and the administration of Federal elections. To date, the Administration has endorsed over \$3.0 billion to upgrade voting systems, develop electronic voter registration lists, assure access for individuals with disabilities, and train election officials for all 50 States and five territories. The President's 2005 Budget proposes an additional \$50 million in 2005: \$40 million in new requirements payments and \$10 million for administrative expenses of the Commission.

EQUAL EMPLOYMENT OPPORTUNITY COMMISSION

The Equal Employment Opportunity Commission (EEOC) enforces Federal laws that prohibit employment discrimination based on race, color, sex, religion, national origin, age, and disability. EEOC also seeks to prevent discrimination through outreach, education, and technical assistance that promotes employers' voluntary compliance with law. During this Administration, EEOC reduced its inventory of private-sector discrimination complaints to 29,041 by the end of 2002—lower than it had been in three decades. The accompanying chart shows the number of such complaints pending for each of the years 1998 through 2003.

Record Low Number of Pending Discrimination Complaints



Source: Equal Employment Opportunity Commission.

The 2005 Budget provides \$351 million for EEOC, an increase of \$26 million, or eight percent, above the level in the 2004 Consolidated Appropriations Bill. The Budget would allow EEOC to add employees to enforce anti-discrimination law in private-sector businesses and organizations, helping maintain reductions in its complaints inventory. To support the President's New Freedom Initiative, the Budget also provides \$500,000 for a review of States' strategies for removing employment barriers faced by people with disabilities. EEOC will disseminate the results of this review, including posting them on its website (www.eeoc.gov), to encourage

widespread adoption of the “best practices.” In addition, EEOC will continue to implement the President’s management reforms by streamlining decision layers and using information technology to make the agency more accessible and responsive to citizens’ needs.

EXECUTIVE OFFICE OF THE PRESIDENT

The Executive Office of the President (EOP) includes a number of organizations dedicated to serving the President. As part of the 2005 Budget, the Administration requests a three-part financial restructuring initiative, which would:

- Consolidate the annual appropriations for the White House Office, the Office of Policy Development, Executive Residence, Office of Administration, White House Repair and Restoration, National Security Council, and the Council of Economic Advisers into a single appropriation called The White House.
- Provide a 10 percent transfer authority among the following accounts: The White House, Special Assistance to the President and Official Residence of the Vice President, Office of Management and Budget, United States Trade Representative, Office of National Drug Control Policy, Council on Environmental Quality, and Office of Science and Technology Policy. Transfers from the Special Assistance to the President and the Official Residence of the Vice President account are subject to the approval of the Vice President.
- Centralize the telecommunications infrastructure costs for the EOP into the Office of Administration program.

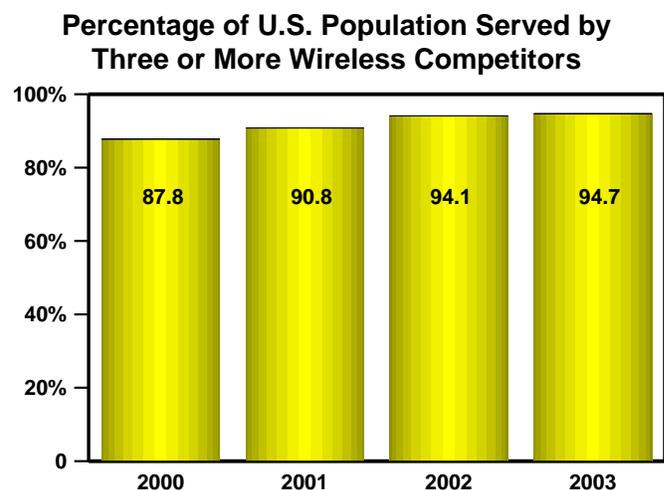
This initiative provides enhanced flexibility in allocating resources and staff in support of the President and the Vice President, and permits more rapid response to changing national needs and priorities.

Resources requested for the EOP in 2005 total \$341 million, or 0.5 percent, above the 2004 funding level. These resources will support approximately 1,850 personnel, as well as information technology and other infrastructure needs to serve the President and the Vice President.

FEDERAL COMMUNICATIONS COMMISSION

The President’s Budget proposes \$293 million for the Federal Communications Commission (FCC), \$273 million of which would be offset directly by regulatory fees. This funding provides inflationary increases and supports the Commission’s ongoing work to ensure that Americans have rapid and efficient communication services.

FCC’s spectrum auctions have proven to be an efficient and effective mechanism to assign licenses for certain spectrum-based services. New companies have entered the market and innovative wireless technologies have been developed. Ninety-five percent of the U.S. population has access to at least three



Source: Federal Communications Commission, WTB’s CMRS Report.

competing mobile phone service providers and 83 percent to at least five competing mobile phone service providers. As a result, consumers benefit from more choices and lower prices.

Since the auctions program's inception in 1994, communications service providers have won over 25,000 licenses and paid over \$14 billion into the Treasury. The Administration supports legislation introduced in 2003 to extend indefinitely the FCC's auction authority, which expires in 2007. Estimated additional receipts from this proposal are \$2.4 billion over the next 10 years.

To continue to promote efficient spectrum use, the Administration supports the 2003 legislative proposal granting new authority for the FCC to set user fees on unauctioned spectrum licenses, based on public-interest and spectrum-management principles. Fee collections are estimated to begin in 2005 and total \$3.1 billion in the first 10 years.

FEDERAL DEPOSIT INSURANCE CORPORATION AND NATIONAL CREDIT UNION ADMINISTRATION

The purpose of deposit insurance is to maintain stability and public confidence in the Nation's banking system. Federal deposit insurance, offered by the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Administration (NCUA), is designed to protect depositors from losses due to failures of insured commercial banks, thrifts (savings institutions), and credit unions. Individual deposits of up to \$100,000 are covered in virtually all U.S. banks, savings associations, and credit unions.

Currently, the Federal Government, through FDIC and NCUA, insures nearly \$4 trillion in deposits at more than 18,000 institutions. These agencies maintain insurance reserves to use when resolving failed institutions. FDIC and NCUA fund these reserves through assessments on insured institutions, recoveries of assets liquidated from failed institutions and interest credited to these reserves from U.S. Treasury securities. In 2003, 12 commercial banks and credit unions, worth approximately \$1.2 billion in combined assets, failed. This compares favorably to 2002, when 23 institutions with \$2.5 billion in assets failed.

While the deposit insurance system for banks and thrifts is generally sound and well managed, it has structural weaknesses that, in the absence of reform, could deepen over time. The Administration supports reforms that would strengthen the deposit insurance system managed by FDIC. In 2003, the Treasury Department and Federal banking regulatory agencies submitted to the Senate a draft bill that would accomplish this objective. The draft bill draws on a framework outlined by the FDIC and discussed in congressional testimony and elsewhere by Treasury Department officials.

- FDIC has been prohibited from charging premiums to "well-capitalized" and well-run institutions since 1996. Therefore, under the current pricing structure, fewer than 10 percent of banks and thrifts pay regular insurance premiums. The draft bill would restore the FDIC's ability to levy premiums for the benefit of deposit insurance, and to vary those premiums according to the relative risks to the insurance fund posed by each institution. It would also enable the FDIC to ensure that institutions compensate the fund for insured deposit growth.
- Under the current system, FDIC is required to maintain a designated reserve ratio (DRR, the ratio of insurance fund reserves to total insured deposits) of 1.25 percent. When the reserve ratio falls below the DRR, the FDIC must charge premiums that are either sufficient to restore the reserve ratio to the DRR within one year, or average no less than 23 basis points if the reserve ratio were to remain below the DRR for a longer period. Such a premium increase could occur when the banking system, and probably the economy, are under serious stress. The draft bill would permit FDIC to alter the DRR within a range and give FDIC broad discretion in managing reserves within this range. This flexibility will enable reserves to grow when economic

conditions are good, in order to enable the fund to better absorb losses under adverse conditions without sharp premium increases.

- The Administration supports merging the bank and thrift insurance funds, which offer an identical product. A single merged fund would be stronger and better diversified than either fund alone and therefore would improve the system's ability to withstand future losses.

FEDERAL ELECTION COMMISSION

The Federal Election Commission (FEC) administers the Federal laws governing financing of candidates for the Presidency, Vice Presidency, the U.S. Senate, and the U.S. House of Representatives. FEC requires candidate disclosure of campaign finance information, enforces financing and contribution limits, and oversees the public funding of Presidential elections. The President's Budget proposes \$52.2 million to fund these and other activities in 2005.

FEDERAL TRADE COMMISSION

The Federal Trade Commission (FTC) enforces consumer protection laws that prevent fraud, deception and unfair business practices, and promotes consumer choice and public understanding of free markets. The Commission also enforces Federal antitrust laws that prohibit anticompetitive mergers and other business practices that restrict competition and harm consumers. The President's 2005 Budget proposes \$206 million for the FTC, which will be primarily offset by fee collections from businesses for merger filings and from telemarketers for access to the Do-Not-Call list in order to avoid calling registered phone numbers.

FTC funding includes \$20 million for FTC to continue enforcing the National Do-Not-Call Registry, in partnership with States and the Federal Communications Commission. More than 50 million numbers were signed up for the Do-Not-Call Registry within the first few months of operation.

Unsolicited commercial e-mails (spam) account for nearly half of all global e-mail traffic, and the FTC found that 66 percent of spam contains false, fraudulent, or misleading information. Recently, the President signed the CAN-SPAM Act, which establishes a framework of administrative, civil and criminal tools to help America's consumers, businesses, and families combat spam. The Administration fully supports the fight against spam, and FTC has a major role in this fight. The President's Budget provides additional funds for FTC to enforce the CAN-SPAM Act and to prepare a plan to establish a Do Not E-Mail Registry that will protect consumers and businesses from unwanted and fraudulent e-mail.

Identity theft has affected the lives of more than 27.3 million victims over the past five years and has resulted in billions of dollars in losses for businesses and consumers. In response, the President recently signed the Fair and Accurate Credit Transactions Act, which places new identity theft and consumer credit protection responsibilities with FTC.

To meet these new requirements, the Budget includes \$12 million in additional funds for FTC to guard against identity theft, to combat spam, and to better combat Internet fraud.

GENERAL SERVICES ADMINISTRATION

The General Services Administration (GSA) assists Federal agencies in operating more efficiently and effectively by providing superior workplaces, expert information technology solutions, and best value acquisition services.

GSA owns nearly 1,700 buildings, accounting for 182 million square feet of space. In 2002, GSA implemented a portfolio restructuring strategy so that its portfolio will consist primarily of properties generating sufficient revenues to meet capital reinvestment needs. This will allow GSA to concentrate resources on improving and maintaining its owned inventory. Since 2001, GSA has completed 21 construction projects and 23 major repair and alteration projects. In 2005, the Budget proposes funding for 19 construction projects and 29 major repair and alteration projects. The most sizable project is funding for a new Federal courthouse (\$314 million) in Los Angeles, California.

In 2005, GSA will significantly advance the President's Management Agenda for E-Government by devoting \$40 million in surplus revenues obtained from the fees agencies pay when procuring goods and services from GSA. The President's Budget also includes \$5 million for the E-Gov Fund. These projects use improved Internet-based technology to streamline citizen-to-government communications, making it easier for citizens and businesses to interact with the Government and saving taxpayer dollars. For example, GSA created a "front-door" to the Federal Government for citizens seeking information through the award-winning *FirstGov.gov* website and the National Call Center, which resulted in 60 million website visits, 2.5 million phone calls, and 100,000 e-mails.

INSTITUTE OF MUSEUM AND LIBRARY SERVICES

Through its grant programs and leadership activities, the Institute of Museum and Library Services (IMLS) assists museums and libraries in sustaining their contributions to educating our citizens and strengthening our communities. The Administration continues to support the important role of libraries and museums with a 2005 Budget proposal of \$262 million.

The Budget invests in priority programs, providing a \$12 million increase for the Library State Grants program, which supports State efforts to promote access to the resources of all types of libraries for all individuals. The Administration is requesting \$23 million for the Librarians for the 21st Century program, a \$3 million increase, to support partnerships between libraries and institutions of higher education for the recruitment and education of a new generation of library professionals who are prepared to tackle the technological challenges of the information age. In addition, the Budget proposes a \$10 million increase for IMLS museum programs to support initiatives that enhance the educational and technological linkages between museums and their communities, and to foster better evaluation of the impact of these programs on the communities they serve.

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 records documenting the actions of Government officials and agencies. In 2005, the Budget proposes \$304 million for NARA. Of these resources, \$36 million will go toward development of the initial deployment of the Electronic Records Archive project, a comprehensive means for preserving and providing access to the Government's electronic records. NARA is also the lead partner in the Electronic Records Management initiative, one of the 24 E-Government initiatives. This effort provides guidance and tools Federal agencies need to manage their electronic records.

NATIONAL ENDOWMENT FOR THE ARTS

The National Endowment for the Arts (NEA) supports projects aimed at enriching the Nation's cultural heritage. In 2005, the Budget requests \$139 million, an \$18 million increase over 2004,

for core programs and NEA's new American Masterpieces initiative. American Masterpieces is a national program designed to acquaint Americans with the best of their own artistic legacy. The initiative will include special touring programs in dance, visual arts, and music; local presentations and joint ventures; arts education through in-school programs; and student visits to exhibitions, presentations, and performances. NEA will continue core programs that help extend the reach of the arts through supporting works of artistic excellence and promoting projects in geographically and economically isolated communities that traditionally have not had access to quality arts programming. These projects will be supported with public and private partners, including State arts agencies and regional arts organizations.

NATIONAL ENDOWMENT FOR THE HUMANITIES

The National Endowment for the Humanities (NEH) supports educational and scholarly activities in the humanities, preserves America's cultural and intellectual resources, and provides opportunities for Americans to engage in learning in the humanities. In 2005, the Budget requests \$162 million, a \$27 million increase over 2004, for core programs and to continue the President's We the People initiative. We the People, which was launched in collaboration with the USA Freedom Corps, promotes the understanding and study of our Nation's history, institutions, and culture. NEH also will continue partnerships with State humanities councils; the strengthening of humanities teaching and learning in schools and higher education institutions; efforts to preserve and increase access to brittle books, U.S. newspapers, documents, and other reference materials; and museum exhibitions, documentary media projects, and reading programs in the humanities that reach popular audiences.

NATIONAL LABOR RELATIONS BOARD

Averting an East Coast Port Crisis

Each year, the NLRB steps in swiftly to resolve thousands of labor-management disputes before they can paralyze commerce and impose large-scale economic hardship. One such case occurred in May 2003, when the Evergreen America Corporation and Virginia International Terminals filed charges alleging that the International Longshoremen's Association violated the National Labor Relations Act by picketing key East Coast shipping terminals. While protesting Evergreen's refusal to recognize its standing to represent 120 "port captains," the Longshoremen had prevented more than a dozen of Evergreen's ships from docking at major ports in New Jersey, Maryland, Virginia, South Carolina, and Georgia. As a result, vessels loaded with 48,000 tractor-trailer-sized containers were diverted to Canada or Panama. The NLRB responded to the charges immediately by launching an impartial investigation and explaining the legal responsibilities to both parties. Swift action by the NLRB spurred collective bargaining and helped the parties to sign a three-year contract on July 7th. As a result, the 2002 West Coast ports crisis was not repeated on the East Coast in 2003.

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. NLRB supervises elections in which employees determine whether to be represented by a union. The Board is also authorized to prevent and remedy unlawful acts, called unfair labor practices, by unions or employers. In 2005, NLRB expects to receive 30,000 unfair labor practice cases and 6,000 representation cases.

Fair and expeditious case resolution is 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. 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; in 2003, the settlement rate was 93 percent. Through its performance goals, NLRB will continue to place a high priority on reducing its case backlog, especially of the oldest pending cases.

The 2005 Budget provides \$249 million for NLRB's activities, including \$191 million for pay and benefits. The Budget also includes \$14 million for information technology projects, such as automated case management, and the maintenance of key administrative systems. In addition, the Budget provides \$500,000 to target resources on cases involving non-English speaking parties. These cases present special challenges and call for nontraditional case management techniques for a significant (and, in some jurisdictions, growing) portion of the agency's inventory.

NATIONAL TRANSPORTATION SAFETY BOARD

The National Transportation Safety Board (NTSB) is charged with determining the probable 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. The agency also coordinates Federal assistance to the families of victims of catastrophic domestic transportation accidents. In 2005, NTSB expects to investigate more than 2,000 transportation accidents.

The 2005 Budget provides \$74 million for salaries and expenses for the NTSB to fulfill its role of improving the Nation's transportation safety.

NUCLEAR REGULATORY COMMISSION

The Nuclear Regulatory Commission (NRC) regulates the commercial use of nuclear material in the United States. Its regulatory programs allow the Nation to use nuclear materials safely for civilian purposes. The Department of Energy is planning to submit its application to build a high-level waste repository at Yucca Mountain, Nevada, in December 2004, and NRC's workload will expand significantly to meet that goal. This first-of-a-kind undertaking will involve conducting thorough safety and security evaluations, performance assessments, adjudicatory hearings, and site inspections. NRC's goal is to complete its review and reach a license decision within three years. NRC also will conduct full-scale tests of two spent nuclear fuel shipping containers to further assess their safety in accidents and fires.

Since September 2001, NRC has strengthened its regulatory programs in support of the Nation's efforts to enhance homeland security and preparedness, including actions to improve security at the Nation's civilian nuclear power plants, nuclear fuel facilities, and other licensed users of radioactive materials. These efforts will continue in 2005.

NRC also must keep pace with the industry's interest in the renewal of nuclear power reactor licenses and the possible construction of new nuclear power plants. To date, NRC has renewed the operating licenses for 23 of the existing 104 nuclear power plants, and at least 26 more plants are under review or anticipated through 2005. In addition, the NRC will continue to improve the effectiveness and efficiency of its review of designs for advanced reactors.

To carry out these and other activities, the Budget proposes \$670 million in 2005 for NRC. User fees from NRC licensees will recover approximately 90 percent of NRC's budget. Appropriations from the Nuclear Waste Fund will cover the costs of the high-level waste repository effort.

OFFICE OF PERSONNEL MANAGEMENT

The Director of the Office of Personnel Management (OPM) is the President's chief advisor on civilian Federal human resources management. OPM's job is to build the high quality and diverse Federal workforce, protected by merit system principles, that America needs to guarantee freedom, promote prosperity, and ensure the security of the Nation. In 2003, OPM helped to set up the new Department of Homeland Security (DHS) and enact the National Security Personnel System Act of 2003 that will transform the Department of Defense (DOD). In 2004, OPM will complete its work on building a new Human Resources (HR) system with DHS and designing a new HR system with DOD.

Total discretionary funding of \$278 million in 2005 will finance OPM's efforts to manage and oversee its Government-wide human resources systems and strategies and administer the Federal employees' benefits trust funds (retirement, health benefits, and life insurance). In addition to this amount, the Budget proposes \$300 million for the Human Capital Performance Fund authorized by the Congress in 2003. OPM will administer the fund for the purpose of allowing agencies to deliver additional pay to certain civilian employees based on their performance, in accordance with OPM-approved agency plans.

OPM also oversees Government-wide implementation of one component of the President's Management Agenda—advancing Strategic Management of Human Capital. In this capacity, OPM is committed to providing agencies the tools to manage their workforce as described in the Human Capital Standards for Success.

In addition, OPM will pay out \$88 billion in benefits in 2005: \$55 billion to more than 2.4 million retired Federal employees, their survivors, and other beneficiaries; \$31 billion in health benefits for nine million enrollees and dependents; and over \$2 billion in life insurance claims from policyholders.

OPM has begun a review of Health Savings Accounts (HSAs) and their role within the Federal Employees Health Benefits Program (FEHBP). OPM will identify opportunities to extend this new benefit to the 3.1 million Federal employees, annuitants, their survivors, and their family members, under age 65, as they make decisions on how to spend their hard-earned dollars on health care. OPM will explore whether options may be available for this group of FEHBP participants in 2004 and will ask carriers to consider proposals that would include HSAs for programs in 2005.

OPM has made solid progress in advancing the President's Management Agenda in 2003. For example, with its comprehensive plan for managing its human capital, OPM certified that 99 percent of its employee performance plans are directly linked to the agency's strategic plan. To address competency gaps in mission-critical occupations identified in the human capital plan, OPM initiated 250 activities including specific training courses and targeted hiring. In a major reform of its internal Senior Executive hiring process, OPM made 17 new appointments in an average of 49 days, which reduced the hiring cycle time by 50 percent, and increased diversity among its Senior Executives.

OPM is the managing partner for five projects under the President's E-Government initiative: Recruitment One Stop, E-Training, E-Clearance, Enterprise Human Resources Integration, and E-Payroll. These initiatives will save the Government about \$2.7 billion dollars over the next 10 years. For example, Recruitment One Stop will reduce the complexity of Federal hiring and decrease the cost per hire. To date, over 50 million citizens have used the USAJOBS website to locate and apply for Federal jobs. In addition, the E-Training project offers the convenience of web-based training to the Federal workforce, leading to savings in tuition and travel costs and by compressing learning time. Over one million Federal civilian and military personnel used the *GoLearn.gov* site last year for online training. The E-Clearance project will reduce the time to process clearances and reduce duplicative investigative efforts, while the E-Payroll project alone will save the Government \$1.1 billion dollars over the next decade by consolidating civilian payroll processing. The Enterprise Human Resources Integration project will reduce the need for paper personnel records and improve

the currency and accuracy of Federal HR data. OPM's status rating for E-Government improved to green in the first quarter of 2004 because it met cost, schedule, and performance targets.

OPM completed competitions on 284 positions, including its first standard competition for OPM's test administrators who conduct Federal employment examinations. Federal employees won the competition by streamlining their operations and becoming more efficient at a savings to the taxpayer of approximately \$9.1 million over the next five years. Additionally, OPM has initiated eight additional streamlined competitions and one standard competition, involving an additional 393 positions, to be completed during 2004.

POSTAL SERVICE

On July 31, 2003, the President's Commission on the United States Postal Service delivered its final report pursuant to Executive Order 13278. On December 8, 2003, President Bush thanked the members of the Commission for their outstanding service and for delivering a comprehensive and balanced report. The President noted that the Postal Service provides an important service to the American people and to the American economy, and we should ensure that we have a healthy Postal Service for future generations. The Administration believes that the Postal Service should continue to provide affordable and reliable universal service, while limiting exposure to taxpayers and operating appropriately in the competitive marketplace. The Administration recommends the Congress enact comprehensive postal reform legislation that reflects the sensible, balanced approach the Commission recommended and is guided by the principles of Best Governance Practices, Transparency, Flexibility, Accountability, and Self-Finance, as expressed by the President on December 8, 2003.

REGIONAL ECONOMIC DEVELOPMENT AGENCIES

The President's 2005 Budget proposes \$74 million for three regional economic development agencies: the Appalachian Regional Commission (ARC), the Denali Commission, and the Delta Regional Authority. An additional \$22 million through the Department of Health and Human Services is included for health clinics in Alaska. To assist in the ARC's role in supporting economic development in Appalachia and the interagency coordination role it plays, the President's Budget proposes continuing ARC at the 2004 enacted level of \$66 million. The Administration will continue to pursue reauthorization of the highway bill to include \$450 million annually for the Appalachian Development Highway System. The President's proposal continues to refocus these agencies from being principally grant-makers to being regional planners and investment coordinators. The Department of Commerce's Economic Development Administration will also continue to focus funding on distressed communities. The goal is to decrease duplicative grant-making and increase efficient investment of Federal, State, and local resources in areas of high distress.

SECURITIES AND EXCHANGE COMMISSION

The Securities and Exchange Commission (SEC) protects investors and works to maintain fair, honest, and efficient markets. The SEC's activities are critical to the health of our securities markets, which in turn are a vital part of our national economy. In 2003, the dollar volume of shares traded on the New York Stock Exchange and the Nasdaq Stock Market accounted for \$18 trillion. During that year, SEC oversaw roughly 7,900 broker-dealers with approximately 95,000 branch offices and 664,100 registered representatives. SEC also oversaw an estimated 5,000 investment companies with 33,700 portfolios and \$7 trillion in assets and 7,900 investment advisers with \$22 trillion in assets under management.

The Administration is committed to ensuring that SEC has the resources necessary to carry out its responsibilities effectively. Since passage of the Sarbanes-Oxley Act, the Administration has more than doubled SEC's budget, providing funds for 842 new accountants, attorneys, and examiners to protect investors, root out fraud, and strengthen corporate governance. The President's 2005 Budget continues its commitment to the SEC by providing \$893 million, an \$81 million increase over the 2004 level.

Protecting Investors

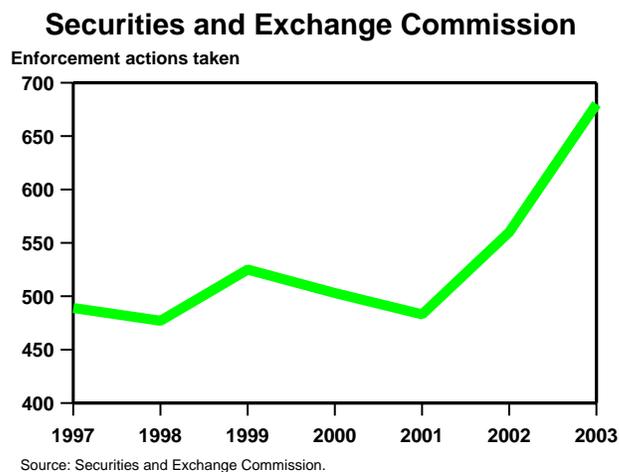
SEC is the preeminent enforcement agency in investor markets. SEC works to prevent fraud and misrepresentation in securities markets by reviewing corporate disclosure data, investigating investor complaints, and monitoring exchanges for unusual activities. SEC oversees all key participants in the securities world, including stock exchanges, broker-dealers, investment advisors, mutual funds, and public utility holding companies. Last year, SEC initiated a record 680 enforcement actions against individuals and companies for violations of securities laws. Through these efforts, the SEC is able to halt fraudulent activities quickly, seek civil penalties, and order violators to disgorge ill-gotten gains. Major enforcement actions of 2003 resulted in:

- A \$1.4 billion dollar settlement with major Wall Street firms over allegations that the independent investment research they provided to their customers was improperly influenced by investment banking activities. As part of the settlement, the firms agreed to alter practices in order to ensure that investors have access to independent investment advice.
- A \$155 million settlement with J.P. Morgan Chase & Co. and Citigroup Inc. for their roles in the manipulation of the financial statements of Enron Corporation.
- An order against Putnam Investment Management LLC over alleged market-timing trades by its employees. In the order, Putnam agreed to undertake far-reaching corporate governance, compliance, and ethics reforms. Putnam also agreed to a process for calculating and paying restitution for losses attributable to excessive short-term and market timing trades.

Maintaining Markets

The SEC works to ensure that all investors have access to certain basic facts about an investment and to prevent fraud and misrepresentation in securities markets. SEC requires that public companies submit detailed financial information, which it makes available to the public through its website. SEC also is responsible for the regulation of mutual funds, broker-dealers, and security exchanges. In its efforts to maintain fair, honest, and efficient markets, SEC undertook the following regulatory actions in 2003:

- Enhanced the integrity of corporate disclosures by adopting rules that strengthened auditor independence. In addition, the SEC oversaw the creation of Public Company Accounting Oversight Board which regulates the practices of the accounting profession.
- Began consideration of a package of rules and rule proposals to combat the late trading, market timing, and selective disclosure abuses that have beset the mutual fund industry.



SMITHSONIAN INSTITUTION

In 1829, James Smithson, a British scientist, bequeathed his estate to the American people for the “increase and diffusion of knowledge.” Today, the Smithsonian Institution supports that goal through its operation of National museums and research institutes. Approximately 70 percent of the Smithsonian’s funding is from direct Federal appropriations; the remainder comes from its endowment fund, private donations, business activities, and grants from other Federal agencies.

The 2005 Budget provides \$628 million in Federal funding for the Smithsonian, more than a five-percent increase from 2004. Funds are provided to complete the Federal aspects of the renovation of the Patent Office Building, which houses the National Portrait Gallery and the Smithsonian American Art Museum. The Budget also continues revitalization of the National Museum of American History and the National Museum of Natural History so that these museums can continue to educate and enlighten visitors for years to come.

The Smithsonian is confronting high-priority management challenges at the National Zoo and the Arts and Industries Building. The Zoo has faced a number of serious challenges and is at risk of losing its accreditation from the American Zoo and Aquarium Association. To complement management reforms underway, \$20 million is provided to improve the Zoo’s animal care facilities. The Arts and Industries Building requires critical structural repairs. The Budget proposes \$25 million to close and vacate the building until renovations are complete.

To ensure the effective use of Federal funds, the Smithsonian must continue to implement Institution-wide management reforms. Although there has been progress, the pace remains slow and unsteady and the Smithsonian remains behind most other agencies in achieving the goals of the President’s Management Agenda.

TENNESSEE VALLEY AUTHORITY

The Tennessee Valley Authority (TVA), a wholly-owned Federal corporation and the Nation’s largest public power company, was established in 1933 to provide flood control, navigation, and electricity in the Tennessee Valley region. TVA’s power service area includes 170 counties that span all or parts of seven States in the Tennessee Valley region. TVA provides low-cost, reliable electric power to 8.3 million citizens who live in this region. While TVA cannot sell power outside of its region, except to certain power generating organizations with which it had exchange power arrangements in 1957, it can enter into purchase transactions with surrounding utilities and allow outside utilities to transmit power across the TVA system. TVA has annual revenue of approximately \$7 billion, and its receipts and expenditures are included in the Federal budget. TVA uses internally generated funds to support two related but separate activities: a resource stewardship program, and power generation and transmission.



Raccoon Mountain hydro-pump storage.

Part of TVA's operating mandate requires it to provide resource stewardship services that include river management, recreational activities and navigation services in its customer area. TVA spends approximately \$80 million annually on these activities, and received a rating of effective on the Program Assessment Rating Tool (PART) last year.

TVA generates power at 66 plants using hydropower, nuclear, coal fired and alternative energy sources. TVA's most recent PART assessment of its power program rated the agency as moderately effective. TVA was viewed as doing an excellent job in generating power at its existing plants. The PART also noted that TVA corrected several technical and safety concerns existing during the previous decade. Plants such as TVA's Bull Run Fossil Plant have been rated among the most energy efficient coal-fired power plants in the Nation by industry observers.

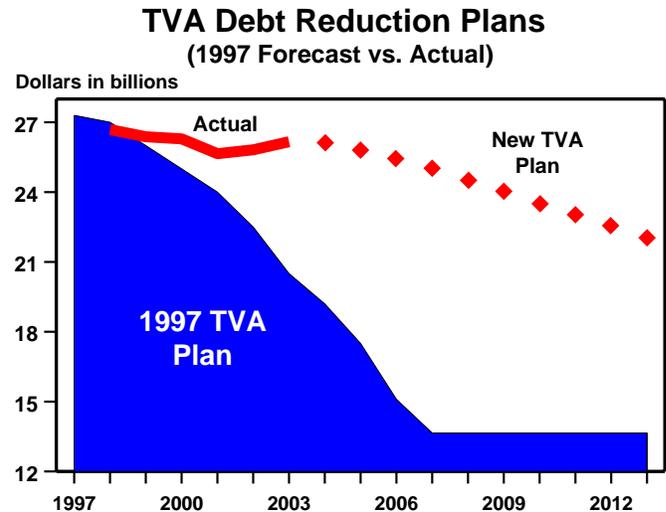
TVA operates within a dynamic and changing electricity market. It is burdened by an excessive debt level and may need to make significant power and pollution control capital investments over the next few years. To improve its financial health and ability to navigate future potential market changes, it is imperative that TVA minimize its risk exposure and increase its financial flexibility.

In 1997, TVA issued the *TVA Ten Year Business Outlook* which stated that in order to attain a competitive delivered price of power it needed to reduce interest expense and therefore debt by approximately half over 10 years. While it has reduced its statutory debt somewhat since then, it has fallen short of the 1997 goals as the associated chart shows.

In 2003, TVA undertook a major effort to develop a strategic plan to position itself for the future. This plan was issued in draft for public comment last fall and has recently been finalized. The plan includes an aggressive debt reduction target of \$3 billion to \$5 billion over the next 10 to 12 years. To responsibly implement this plan, the Budget includes annual debt reduction targets of \$300 million to \$500 million. Consistent with appropriate commercial practices, TVA is following up its strategic plan with a business plan that will be issued this summer. The President's 2005 Budget includes estimates for TVA net outlays and debt levels that reflect TVA's finalized strategic plan, beginning with \$325 million in debt reduction in 2005 and increasing thereafter. However, these estimates will likely be modified once TVA's business plan has been finalized later this year.

TVA's debt is statutorily capped at \$30 billion. While TVA showed \$24.9 billion of outstanding debt at the end of 2003, that amount does not include an estimated \$1.3 billion in debt-like liabilities that finance investments and operations. Since these "alternative financing" instruments, such as pre-paid power sales and lease/leasebacks, represent debt-like long-term liabilities, the Administration is recommending these TVA transactions, and similar transactions by other Federal agencies, be considered as debt. Accordingly, the Budget reflects this treatment; in addition, the Administration will propose legislation to count these transactions toward any agency-specific limitations on outstanding debt levels.

TVA's Inspector General (IG) became a Presidentially-appointed position in 2000. Currently, TVA's IG is funded directly from TVA revenues, subject to TVA Board approval, whereas annual funding for 27 of 29 Presidentially-appointed IGs is appropriated. The Budget proposes to appropriate funds for TVA's IG out of TVA's revenues beginning in 2005.



SUMMARY TABLES

Table S-1. Budget Totals
(Dollar amounts in billions)

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|------------------------------------|--------|--------|--------|--------|--------|--------|--------|
| In billions of dollars: | | | | | | | |
| Receipts | 1,782 | 1,798 | 2,036 | 2,206 | 2,351 | 2,485 | 2,616 |
| Outlays | 2,158 | 2,319 | 2,400 | 2,473 | 2,592 | 2,724 | 2,853 |
| Deficit ¹ | -375 | -521 | -364 | -268 | -241 | -239 | -237 |
| Gross Domestic Product (GDP) | 10,828 | 11,466 | 12,042 | 12,641 | 13,279 | 13,973 | 14,702 |
| As a percent of GDP: | | | | | | | |
| Receipts | 16.5% | 15.7% | 16.9% | 17.4% | 17.7% | 17.8% | 17.8% |
| Outlays | 19.9% | 20.2% | 19.9% | 19.6% | 19.5% | 19.5% | 19.4% |
| Deficit..... | -3.5% | -4.5% | -3.0% | -2.1% | -1.8% | -1.7% | -1.6% |

¹ The Budget incorporates the HHS actuaries' estimates for the Medicare Prescription Drug, Improvement, and Modernization Act of 2003. Because CBO's 10-year cost estimates of this bill were significantly below the HHS actuaries' estimates and because of the uncertainties involved in these estimates, Table S-13 also includes deficit calculations that reflect the lower CBO estimates.

Table S–2. Discretionary Totals
(Budget authority; dollar amounts in billions)

| | Actual | | | 2004 Enacted | 2005 Proposed | 2004–2005 Dollar Change |
|---|------------|------------|------------|-----------------|------------------|-------------------------------|
| | 2001 | 2002 | 2003 | | | |
| Discretionary budget authority: | | | | | | |
| Homeland Security (non-Defense)..... | 10 | 13 | 24 | 28 | 30 | 3 |
| Department of Defense | 303 | 328 | 365 | 375 | 402 | 26 |
| Other Operations of Government | 331 | 351 | 370 | 384 | 386 | 2 |
| Total, Discretionary budget authority | 644 | 691 | 758 | 787 | 818 | 31 |
| Percent change by category: | | | | | | |
| Homeland Security (non-Defense)..... | 13.9% | 21.5% | 84.9% | 18.2% | 9.7% | |
| Department of Defense | 5.3% | 8.3% | 11.5% | 2.7% | 7.1% | |
| Other Operations of Government | 14.9% | 6.0% | 5.4% | 4.0% | 0.5% | |
| Total, Percent change..... | 10.2% | 7.3% | 9.8% | 3.8% | 3.9% | |
| Supplementals: | | | | | | |
| Homeland Security..... | 3 | 12 | 6 | * | | |
| Defense and Other War on Terror | 14 | 18 | 80 | 87 | | |
| Non-Defense, non-Homeland | 3 | 14 | 5 | * | | |
| Total, Supplemental funding | 20 | 44 | 91 | 87 | | |
| Total, Discretionary budget authority with supplementals | 664 | 735 | 849 | 874 | 818 | –56 |
| Percent change by category with supplementals: | | | | | | |
| Homeland Security (non-Defense)..... | 41.6% | 86.3% | 21.8% | –5.5% | 9.3% | |
| Department of Defense | 10.3% | 9.1% | 28.9% | 3.7% | –13.1% | |
| Other Operations of Government | 16.0% | 9.2% | 2.6% | 2.7% | 0.4% | |
| Total, Percent change..... | 13.6% | 10.7% | 15.6% | 2.9% | –6.4% | |

*Less than \$0.5 billion.

Table S-3. Agency Growth in Discretionary Spending
(Budget authority; dollar amounts in billions)

| Agency | Growth | | | | | | | | |
|---|--------------|--------------|--------------|--------------|--------------|-------------|-------------|-------------|--------------|
| | Actual | | | Estimate | | 2004–2005 | | Average | Cumulative |
| | 2001 | 2002 | 2003 | 2004 | 2005 | Change | Percent | 2001–2005 | 2001–2005 |
| Agriculture | 19.2 | 20.1 | 21.7 | 20.7 | 19.1 | -1.7 | -8.1% | -0.2% | -0.9% |
| Commerce | 5.1 | 5.4 | 5.6 | 5.8 | 5.7 | -0.1 | -1.0% | 2.9% | 12.1% |
| Defense | 302.5 | 327.8 | 365.3 | 375.3 | 401.7 | 26.5 | 7.1% | 7.3% | 32.8% |
| Education | 40.1 | 48.5 | 53.1 | 55.7 | 57.3 | 1.7 | 3.0% | 9.3% | 43.0% |
| Energy | 20.0 | 20.9 | 21.9 | 23.3 | 23.6 | 0.3 | 1.2% | 4.2% | 17.7% |
| Health and Human Services | 54.0 | 59.5 | 65.7 | 69.3 | 68.2 | -1.1 | -1.6% | 6.0% | 26.2% |
| Homeland Security | 14.0 | 15.7 | 22.0 | 27.1 | 28.3 | 1.3 | 4.6% | 19.3% | 102.3% |
| Housing and Urban Development | 28.4 | 29.4 | 30.1 | 30.4 | 31.3 | 0.8 | 2.8% | 2.5% | 10.3% |
| Interior | 10.3 | 10.5 | 10.5 | 10.6 | 10.8 | 0.2 | 1.9% | 1.4% | 5.7% |
| Justice | 18.4 | 18.6 | 19.0 | 19.3 | 18.7 | -0.6 | -3.1% | 0.5% | 2.1% |
| Labor | 11.9 | 12.1 | 11.8 | 11.7 | 11.9 | 0.1 | 1.3% | -0.1% | -0.4% |
| State | 7.7 | 9.0 | 9.2 | 9.3 | 10.3 | 1.0 | 10.7% | 7.3% | 32.8% |
| Transportation | 14.6 | 12.8 | 13.5 | 13.9 | 13.3 | -0.5 | -3.9% | -2.1% | -8.3% |
| Treasury | 10.3 | 10.5 | 10.7 | 11.2 | 10.8 | -0.4 | -3.6% | 1.1% | 4.3% |
| Veterans Affairs | 22.4 | 23.8 | 26.4 | 29.1 | 29.7 | 0.5 | 1.8% | 7.3% | 32.5% |
| Corps of Engineers | 4.7 | 4.5 | 4.6 | 4.6 | 4.0 | -0.6 | -13.1% | -4.1% | -15.4% |
| Environmental Protection Agency | 7.8 | 7.9 | 8.1 | 8.4 | 7.8 | -0.6 | -7.2% | -0.2% | -1.0% |
| Executive Office of the President | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.0 | 0.5% | 6.8% | 30.2% |
| General Services Administration | 0.2 | 0.2 | 1.3 | 0.5 | 0.2 | -0.2 | -49.2% | 5.3% | 22.8% |
| International Assistance Programs | 12.6 | 12.7 | 13.6 | 15.7 | 19.3 | 3.7 | 23.5% | 11.3% | 53.6% |
| Judicial Branch | 4.0 | 4.3 | 4.6 | 4.8 | 5.4 | 0.6 | 11.5% | 7.8% | 35.2% |
| Legislative Branch | 2.8 | 3.0 | 3.4 | 3.6 | 4.0 | 0.4 | 12.3% | 9.8% | 45.4% |
| NASA | 14.3 | 14.8 | 15.3 | 15.4 | 16.2 | 0.9 | 5.6% | 3.3% | 14.0% |
| National Science Foundation | 4.4 | 4.8 | 5.3 | 5.6 | 5.7 | 0.2 | 3.0% | 6.7% | 29.7% |
| Small Business Administration | 0.9 | 0.8 | 0.8 | 0.8 | 0.7 | -0.1 | -10.4% | -6.8% | -24.7% |
| Social Security Administration | 6.0 | 6.4 | 6.7 | 7.2 | 7.6 | 0.4 | 5.9% | 5.9% | 25.8% |
| Other Agencies | 7.0 | 6.8 | 7.9 | 8.0 | 6.5 | -1.5 | -19.1% | -2.0% | -7.6% |
| Total, Discretionary Spending | 643.8 | 691.0 | 758.5 | 787.3 | 818.4 | 31.1 | 3.9% | 6.2% | 27.1% |
| Emergency Response Funds and Supplementals | 20.0 | 43.8 | 90.9 | 87.3 | | | | | |

Table S-4. Percentage Year-to-Year Growth in Discretionary Budget Authority

| Agency | 2000 to 2001 | 2001 to 2002 | 2002 to 2003 | 2003 to 2004 | 2004 to 2005 | Average Growth 2001–2005 |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------------------|
| Agriculture | 13% | 4% | 8% | -4% | -8% | * |
| Commerce..... | -41% | 6% | 3% | 4% | -1% | 3% |
| Defense | 5% | 8% | 11% | 3% | 7% | 7% |
| Education..... | 37% | 21% | 10% | 5% | 3% | 9% |
| Energy | 13% | 4% | 5% | 6% | 1% | 4% |
| Health and Human Services | 19% | 10% | 10% | 5% | -2% | 6% |
| Homeland Security..... | -4% | 12% | 39% | 23% | 5% | 19% |
| Housing and Urban Development | 34% | 4% | 2% | 1% | 3% | 2% |
| Interior..... | 21% | 2% | * | 1% | 2% | 1% |
| Justice..... | 14% | 1% | 2% | 2% | -3% | 1% |
| Labor | 36% | 2% | -2% | -1% | 1% | * |
| State | -1% | 16% | 3% | * | 11% | 7% |
| Transportation | 40% | -12% | 5% | 3% | -4% | -2% |
| Treasury | 12% | 2% | 2% | 5% | -4% | 1% |
| Veterans Affairs | 7% | 6% | 11% | 10% | 2% | 7% |
| Corps of Engineers..... | 14% | -4% | 3% | -1% | -13% | -4% |
| Environmental Protection Agency | 3% | 1% | 2% | 3% | -7% | * |
| Executive Office of the President..... | -4% | 5% | 14% | 8% | * | 7% |
| International Assistance Programs | -8% | 1% | 7% | 15% | 23% | 11% |
| Judicial Branch | 8% | 9% | 6% | 5% | 12% | 8% |
| Legislative Branch | 9% | 10% | 13% | 5% | 12% | 10% |
| NASA | 5% | 4% | 4% | * | 6% | 3% |
| National Science Foundation | 13% | 8% | 11% | 5% | 3% | 7% |
| Small Business Administration | 1% | -15% | * | -1% | -10% | -7% |
| Social Security Administration | 7% | 6% | 5% | 7% | 6% | 6% |
| Other Agencies..... | 23% | -3% | 33% | -9% | -21% | -2% |
| Percent Growth by Category: | | | | | | |
| Defense (DOD)..... | 5% | 8% | 11% | 3% | 7% | 7% |
| Homeland Security..... | 14% | 21% | 85% | 18% | 10% | 31% |
| Non-Defense, non-Homeland | 15% | 6% | 5% | 4% | 1% | 4% |
| Total, excluding emergency supplementals..... | 10.2% | 7.3% | 9.8% | 3.8% | 3.9% | 6% |
| Total, including emergency supplementals..... | 13.6% | 10.7% | 15.6% | 3.0% | -6.4% | 5% |

*0.5 percent or less

Table S–5. Discretionary Proposals by Appropriations Subcommittee
(Budget authority in billions of dollars)

| Appropriations Subcommittee | 2004 Enacted | 2005 Proposed | Change: 2004–2005 |
|---|-----------------|------------------|----------------------|
| Agriculture and Rural Development | 17.7 | 16.4 | –1.2 |
| Commerce, Justice, State, and the Judiciary | 38.7 | 39.4 | 0.7 |
| Defense | 366.1 | 392.5 | 26.4 |
| District of Columbia | 0.5 | 0.6 | * |
| Energy and Water Development..... | 27.3 | 27.0 | –0.3 |
| Foreign Operations..... | 17.5 | 21.3 | 3.8 |
| Homeland Security..... | 27.1 | 28.3 | 1.3 |
| Interior and Related Agencies..... | 20.0 | 20.0 | –0.1 |
| Labor, Health and Human Services, and Education | 140.9 | 141.8 | 0.9 |
| Legislative Branch..... | 3.5 | 4.0 | 0.4 |
| Military Construction | 9.3 | 9.5 | 0.2 |
| Transportation, Treasury, and General Government..... | 28.7 | 26.0 | –2.7 |
| Veterans Affairs, Housing and Urban Development..... | 90.1 | 92.0 | 1.9 |
| Allowances | — | –0.4 | –0.4 |
| Total, excluding supplemental funding | 787.3 | 818.4 | 31.1 |
| Supplemental funding..... | 87.3 | — | |

*0.5 percent or less

Table S-6. Homeland Security Funding by Agency
(Budget authority in millions of dollars)

| | 2003 | | 2004 | | 2005 |
|--|---------------|--------------|---------------|--------------|---------------|
| | Actual | Supplemental | Estimate | Supplemental | Proposed |
| Homeland Security Funding: | | | | | |
| Department of Agriculture | 300 | 110 | 327 | — | 651 |
| Department of Commerce..... | 112 | — | 131 | — | 150 |
| Department of Defense-Military ¹ | 8,442 | — | 7,024 | — | 8,023 |
| Department of Energy | 1,247 | 162 | 1,363 | — | 1,497 |
| Department of Health and Human Services..... | 4,002 | 142 | 4,109 | — | 4,276 |
| Department of Homeland Security..... | 18,652 | 4,411 | 23,492 | 91 | 27,214 |
| Department of Justice..... | 1,893 | 457 | 2,166 | 16 | 2,581 |
| Department of State | 633 | 1 | 701 | — | 955 |
| Department of the Treasury..... | 80 | — | 90 | — | 87 |
| Department of Transportation | 383 | — | 284 | — | 243 |
| Department of Veterans Affairs | 154 | — | 271 | — | 297 |
| Corps of Engineers..... | 36 | 39 | 103 | — | 84 |
| Environmental Protection Agency | 133 | — | 123 | — | 97 |
| Social Security Administration..... | 132 | — | 143 | — | 155 |
| National Aeronautics and Space Administration..... | 205 | — | 191 | — | 207 |
| National Science Foundation | 285 | — | 328 | — | 344 |
| Other Agencies..... | 429 | 7 | 461 | — | 525 |
| Total, Homeland Security Funding | 37,118 | 5,329 | 41,307 | 107 | 47,386 |
| Less Department of Defense-Military ¹ | -8,442 | — | -7,024 | — | -8,023 |
| Less Department of Homeland Security Project BioShield ² | — | — | -885 | — | -2,528 |
| Total, Homeland Security Funding, excluding Defense and BioShield | 28,676 | 5,329 | 33,398 | 107 | 36,835 |
| Less Mandatory Homeland Security Funding ³ | -1,760 | — | -1,948 | — | -2,261 |
| Less Discretionary Fee-Funded Activities ⁴ | -3,414 | 705 | -3,655 | — | -4,081 |
| Net Non-Defense Discretionary Homeland Security Budget Authority | 23,502 | 6,034 | 27,795 | 107 | 30,493 |

¹ Defense homeland security funding declines in 2004 due to one-time force protection investments in 2003.

² The Administration is proposing a separate BEA category for the DHS BioShield program (see Chapter 14 in the *Analytical Perspectives* volume).

³ Mandatory homeland security programs include Agriculture Quarantine and Inspections, Border Protection, and Immigration Enforcement.

⁴ Discretionary fee-funded homeland security programs include Visa Processing, Airport Security, and Social Security physical and computer security measures.

Table S-7. Adjustments of 2004 Discretionary Levels
 (Budget authority in billions of dollars)

| | |
|--|--------------|
| CBO Estimate of 2004 Likely Enacted | 786.0 |
| Estimating differences: | |
| Receipt estimates in housing and homeland security programs | -0.9 |
| Differences due to scoring interpretations | -0.3 |
| Other technical scoring differences | 0.1 |
| OMB Estimate of 2004 Enacted | <u>784.9</u> |
| Post-enactment adjustments: | |
| Reclassifications and technical reestimates: | |
| Medicare administrative costs for P.L. 108-173, shift mandatory to discretionary | 1.5 |
| Remove Project BioShield from discretionary category | -0.9 |
| Rebase appropriations changes to Justice and USDA mandatory programs | 1.5 |
| Technical revisions | 0.3 |
| Revised OMB Estimate of 2004 Enacted Current Year Levels | <u>787.3</u> |

Table S–8. Mandatory Proposals
(In millions of dollars)

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | Total | |
|--|------|--------|--------|--------|--------|--------|-----------|-----------|
| | | | | | | | 2005–2009 | 2005–2014 |
| Agriculture: | | | | | | | | |
| Forest Service Recreation Fee Proposal | — | — | –17 | –12 | –7 | –2 | –38 | — |
| Extend expiring National School Lunch Act provisions | 11 | 18 | — | — | — | — | 18 | 18 |
| Subtotal, Agriculture | 11 | 18 | –17 | –12 | –7 | –2 | –20 | 18 |
| Education: | | | | | | | | |
| Reform the Federal Student Loan Programs to Help Students Afford College: | | | | | | | | |
| Expand Teacher Loan Forgiveness | — | 227 | 50 | 52 | 54 | 57 | 440 | 763 |
| Retain Variable Interest Rates | — | — | 103 | 200 | 198 | 175 | 676 | 1,783 |
| Increase Loan Limits for First-Year Students from \$2,625 to \$3,000 | — | 20 | 58 | 75 | 78 | 82 | 313 | 775 |
| Standardize FFEL and DL Extended Repayment Plans | — | 184 | 112 | –33 | 41 | 86 | 390 | 1,022 |
| Additional Benefits to Students | — | 251 | 286 | 373 | 293 | 287 | 1,490 | 3,062 |
| Subtotal | — | 682 | 609 | 667 | 664 | 687 | 3,309 | 7,405 |
| Standardize Guaranty Agency Insurance Premium | — | –497 | –352 | –337 | –339 | –341 | –1,866 | –3,952 |
| Eliminate Rollover of Tax-Exempt Special Allowance | — | –490 | –448 | –418 | –430 | –456 | –2,242 | –4,949 |
| Other Student Loan Reforms | — | 116 | –65 | –92 | –95 | –90 | –226 | –807 |
| Subtotal, Education | — | –189 | –256 | –180 | –200 | –200 | –1,025 | –2,303 |
| Energy: | | | | | | | | |
| Reclassification of Nuclear Waste Disposal Fees as discretionary | — | 749 | 754 | 757 | 767 | 767 | 3,794 | 7,655 |
| Arctic National Wildlife Refuge (ANWR), lease bonuses | — | — | –1,200 | — | — | — | –1,200 | –1,200 |
| Subtotal, Energy | — | 749 | –446 | 757 | 767 | 767 | 2,594 | 6,455 |
| Health and Human Services (HHS): | | | | | | | | |
| Medicaid/State Children’s Health Insurance Program: | | | | | | | | |
| Medicaid proposals | 175 | 889 | 846 | 959 | 1,098 | 1,252 | 5,044 | 7,863 |
| Program Integrity | — | –1,542 | –1,737 | –1,924 | –2,120 | –2,327 | –9,650 | –23,553 |
| Temporary Assistance for Needy Families Reauthorization | 96 | 279 | 328 | 337 | 350 | 361 | 1,657 | 3,390 |

Table S–8. Mandatory Proposals—Continued
(In millions of dollars)

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | Total | |
|--|------|------|--------|--------|--------|--------|-----------|-----------|
| | | | | | | | 2005–2009 | 2005–2014 |
| Healthy Marriages: | | | | | | | | |
| Healthy Marriage and Family Formation Initiative ... | –118 | –59 | 13 | 38 | 40 | 40 | 72 | 272 |
| State-based Abstinence Grants | 9 | 30 | 45 | 49 | 50 | 50 | 224 | 474 |
| Child Support Enforcement: Increase Collections and Improve Program Effectiveness | — | –63 | 10 | 70 | 49 | 39 | 105 | 248 |
| Subtotal, Healthy marriages..... | –109 | –92 | 68 | 157 | 139 | 129 | 401 | 994 |
| Foster Care: Clarify Statutory Eligibility Definition | — | –67 | –69 | –72 | –75 | –78 | –361 | –807 |
| Child Welfare Program Option | — | 7 | 90 | 120 | –26 | –195 | –4 | — |
| Compensation for 2000–01 Military Wage Credits (non-paygo): | | | | | | | | |
| Payment to Medicare trust funds | — | 181 | — | — | — | — | 181 | 181 |
| Medicare trust fund receipts | — | –181 | — | — | — | — | –181 | –181 |
| Subtotal, HHS..... | 163 | –526 | –474 | –422 | –633 | –857 | –2,912 | –12,113 |
| Homeland Security: | | | | | | | | |
| Extend Bureau of Customs and Border Protection’s Fees..... | — | –820 | –1,391 | –1,448 | –1,507 | –1,570 | –6,736 | –15,691 |
| Interior: | | | | | | | | |
| ANWR, lease bonuses: | | | | | | | | |
| State of Alaska’s share: | | | | | | | | |
| Receipts..... | — | — | –1,201 | –1 | –101 | –1 | –1,304 | –1,359 |
| Expenditures..... | — | — | 1,201 | 1 | 101 | 1 | 1,304 | 1,359 |
| Federal share | — | — | –1 | –1 | –101 | –1 | –104 | –159 |
| Permanent Recreation Fee Authority | — | — | –19 | –3 | 32 | 70 | 80 | 465 |
| Correct trust accounting deficiencies in individual Indian money investments..... | 6 | — | — | — | — | — | — | — |
| Increase Indian Gaming Commission Fees ¹ | — | — | 3 | 4 | 5 | 5 | 17 | 42 |
| Bureau of Land Management Land Sale Authority: | | | | | | | | |
| Receipts | — | –24 | –33 | –38 | –48 | –48 | –191 | –471 |
| Expenditures | — | 6 | 17 | 25 | 32 | 38 | 118 | 379 |
| Subtotal, Interior | 6 | –18 | –33 | –13 | –80 | 64 | –80 | 256 |

Table S-8. Mandatory Proposals—Continued
(In millions of dollars)

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | Total | |
|---|------|--------|--------|--------|--------|--------|-----------|-----------|
| | | | | | | | 2005-2009 | 2005-2014 |
| Labor: | | | | | | | | |
| Unemployment Insurance fiscal integrity..... | — | -11 | -23 | -35 | -37 | -39 | -145 | -371 |
| Federal Employees' Compensation Act..... | — | -7 | -15 | -15 | -22 | -28 | -87 | -290 |
| Pension Benefit Guaranty Corporation | — | — | -39 | -160 | -154 | -163 | -516 | -310 |
| Black Lung Disability Trust Fund debt refinancing (non-paygo): | | | | | | | | |
| Black Lung Disability Trust Fund..... | — | 2,764 | -517 | -512 | -506 | -507 | 722 | -2,121 |
| Interest receipts on repayable advances | — | -2,764 | 517 | 512 | 506 | 507 | -722 | 2,121 |
| Subtotal, Labor..... | — | -18 | -77 | -210 | -213 | -230 | -748 | -971 |
| Treasury: | | | | | | | | |
| Outlay effects of refundable tax credits: ¹ | | | | | | | | |
| Health care tax credit..... | — | 82 | 3,760 | 5,041 | 6,388 | 7,133 | 22,404 | 65,355 |
| Child tax credit..... | — | — | -145 | -147 | -149 | -150 | -591 | -1,368 |
| Earned income tax credit..... | — | -440 | 131 | 130 | 119 | 134 | 74 | 643 |
| Contingent offset for refundable portion of the health care tax credit | — | -82 | -3,760 | -5,041 | -6,388 | -7,133 | -22,404 | -65,355 |
| Move Asset Forfeiture Fund to the Department of Justice: | | | | | | | | |
| Treasury Asset Forfeiture Fund..... | — | -251 | -251 | -251 | -251 | -251 | -1,255 | -2,510 |
| Justice Asset Forfeiture Fund | — | 251 | 251 | 251 | 251 | 251 | 1,255 | 2,510 |
| Extend the Rum Carryover for Puerto Rico..... | 58 | 79 | 21 | — | — | — | 100 | 100 |
| Subtotal, Treasury..... | 58 | -361 | 7 | -17 | -30 | -16 | -417 | -625 |
| Veterans Affairs: | | | | | | | | |
| Reverse Allen Case providing compensation for drug and alcohol abuse-related disabilities..... | -51 | -162 | -235 | -259 | -304 | -321 | -1,281 | -3,130 |
| Limit home loan guarantees to one-time use | — | — | — | — | — | — | — | 91 |
| Eliminate the "45 Day Rule" for Death Pension | — | 1 | 1 | 1 | 1 | 1 | 6 | 13 |
| Accelerated education benefit payment..... | — | * | * | * | * | * | * | * |
| Subtotal, Veterans Affairs..... | -51 | -161 | -234 | -258 | -303 | -320 | -1,275 | -3,026 |
| Army Corps of Engineers: | | | | | | | | |
| Additional user fees..... | — | -7 | -7 | -7 | -7 | -7 | -35 | -70 |
| Program expenditure of fees..... | — | — | 6 | 7 | 7 | 7 | 27 | 62 |
| Subtotal, Army Corps of Engineers..... | — | -7 | -1 | — | — | — | -8 | -8 |

Table S-8. Mandatory Proposals—Continued
(In millions of dollars)

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | Total | |
|---|------|------|------|-------|-------|--------|-----------|-----------|
| | | | | | | | 2005-2009 | 2005-2014 |
| Federal Communications Commission (FCC): | | | | | | | | |
| Analog Spectrum Lease Fee | — | — | — | -500 | -500 | -480 | -1,480 | -2,580 |
| Extend Spectrum Auction Authority and Authorize Fees | — | — | -50 | 1,850 | 1,700 | -3,100 | 400 | -5,525 |
| Spectrum Relocation Fund | — | — | 200 | 400 | 500 | 600 | 1,700 | 2,500 |
| Subtotal, FCC | — | — | 150 | 1,750 | 1,700 | -2,980 | 620 | -5,605 |
| Federal Deposit Insurance Corporation: | | | | | | | | |
| Merge Bank Insurance Fund and Savings Association Insurance Fund | — | — | 568 | 742 | -60 | -63 | 1,187 | 861 |
| Social Security Administration (SSA): | | | | | | | | |
| Cross-program recovery of SSA overpayments: | | | | | | | | |
| On-Budget | — | -49 | -69 | -48 | -11 | -8 | -185 | -211 |
| Off-Budget (non-paygo) | — | -2 | -3 | -3 | -3 | -3 | -14 | -27 |
| Close Loophole that Allows Some Workers to Avoid Government Pension Offset (non-paygo) | — | -1 | -3 | -5 | -7 | -9 | -25 | -109 |
| Reduce Improper Payments by Requiring Reporting of Non-Social Security Covered Pension Income (non-paygo) | — | — | — | -215 | -323 | -282 | -820 | -2,313 |
| Compensation for 2000-01 Military Wage Credits (non-paygo): | | | | | | | | |
| On-Budget | — | 759 | — | — | — | — | 759 | 759 |
| Off-Budget | — | -759 | — | — | — | — | -759 | -759 |
| Supplemental Security Income Pre-Effectuation Reviews and Other Technical Adjustments | — | -3 | -26 | -58 | -99 | -142 | -328 | -1,803 |
| Extend SSI Eligibility to Refugees and Asylees to eight Years after Entry | — | 64 | 68 | 74 | — | — | 206 | 206 |
| Mandate Expedited, Electronic Reporting of Death Information by States: | | | | | | | | |
| On-Budget | * | * | * | * | * | * | * | * |
| Off-Budget (non-paygo) | * | * | * | * | * | * | * | * |
| Subtotal, SSA | * | 9 | -33 | -255 | -443 | -444 | -1,166 | -4,257 |

Table S–8. Mandatory Proposals—Continued
(In millions of dollars)

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | Total | |
|--|------------|---------------|---------------|--------------|--------------|---------------|---------------|----------------|
| | | | | | | | 2005–2009 | 2005–2014 |
| Indirect Impact of Other Proposals (Third Scorecard): | | | | | | | | |
| Power Marketing Administrations to directly fund Corps of Engineers and Bureau of Reclamation's hydro operations and maintenance expenses and other proposals..... | — | 168 | 163 | 150 | 147 | 160 | 788 | 1,585 |
| Total, Mandatory Proposals | 187 | –1,156 | –2,074 | 584 | –862 | –5,691 | –9,199 | –35,424 |
| Paygo..... | 181 | –1,321 | –2,231 | 657 | –676 | –5,557 | –9,128 | –34,560 |
| Non-Paygo..... | 6 | 165 | 157 | –73 | –186 | –134 | –71 | –864 |
| Spending effects of permanent extension of 2001 and 2003 tax cuts, included in baseline: | | | | | | | | |
| Child tax credit ¹ | — | — | 4,265 | 4,131 | 4,003 | 3,936 | 16,335 | 47,809 |
| Earned income tax credit ¹ | — | — | — | — | — | — | — | 5,676 |
| Total | — | — | 4,265 | 4,131 | 4,003 | 3,936 | 16,335 | 53,485 |

* \$500,000 or less.

¹ Affects both receipts and outlays. Only the outlay effect is shown here.

Table S–9. Effect of Proposals on Receipts
(In millions of dollars)

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | Total | |
|---|------|---------|---------|---------|---------|---------|-----------|-----------|
| | | | | | | | 2005–2009 | 2005–2014 |
| Make Permanent the Tax Cuts Enacted in 2001 and 2003, assumed in the baseline: | | | | | | | | |
| Extend certain provisions through 2010: | | | | | | | | |
| Child tax credit ¹ | — | –2,166 | –8,930 | –9,023 | –9,067 | –8,325 | –37,511 | –42,079 |
| Marriage penalty relief | — | –5,318 | –6,634 | –3,883 | –1,850 | –423 | –18,108 | –18,108 |
| 10 percent individual income tax rate bracket..... | — | –4,005 | –5,981 | –6,435 | –4,036 | –2,956 | –23,413 | –27,343 |
| Total, extend certain provisions through 2010..... | — | –11,489 | –21,545 | –19,341 | –14,953 | –11,704 | –79,032 | –87,530 |
| Permanently extend certain provisions: | | | | | | | | |
| Dividends tax rate structure..... | — | 498 | 486 | 485 | 642 | –17,272 | –15,161 | –81,280 |
| Capital gains tax rate structure..... | — | — | — | — | –5,268 | –7,366 | –12,634 | –49,970 |
| Expensing for small business..... | — | 226 | –3,336 | –5,711 | –4,102 | –3,205 | –16,128 | –24,798 |
| Marginal individual income tax rate reductions | — | — | — | — | — | — | — | –395,269 |
| Child tax credit ² | — | — | — | — | — | — | — | –72,786 |
| Marriage penalty relief ³ | — | — | — | — | — | — | — | –32,426 |
| Education incentives | — | –11 | –16 | –22 | –24 | –37 | –110 | –6,758 |
| Repeal of estate and generation-skipping transfer taxes, and modification of gift taxes | — | –1,000 | –1,609 | –1,732 | –1,977 | –2,244 | –8,562 | –180,111 |
| Modifications of pension plans | — | — | — | — | — | — | — | –1,804 |
| Other incentives for families and children..... | — | — | — | — | — | — | — | –3,531 |
| Total, permanent extensions..... | — | –287 | –4,475 | –6,980 | –10,729 | –30,124 | –52,595 | –848,733 |
| Total, extensions of tax cuts enacted in 2001 and 2003, assumed in baseline..... | — | –11,776 | –26,020 | –26,321 | –25,682 | –41,828 | –131,627 | –936,263 |
| Tax Incentives: | | | | | | | | |
| Simplify and encourage saving: | | | | | | | | |
| Expand tax-free savings opportunities | — | 3,949 | 8,192 | 5,488 | 2,798 | 685 | 21,112 | 5,558 |
| Consolidate employer-based savings accounts..... | — | –214 | –318 | –337 | –358 | –380 | –1,607 | –11,763 |
| Establish Individual Development Accounts (IDAs) .. | — | –134 | –286 | –326 | –300 | –255 | –1,301 | –1,380 |
| Total simplify and encourage saving | — | 3,601 | 7,588 | 4,825 | 2,140 | 50 | 18,204 | –7,585 |

Table S–9. Effect of Proposals on Receipts—Continued
(In millions of dollars)

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | Total | |
|---|------|--------|--------|--------|--------|--------|-----------|-----------|
| | | | | | | | 2005–2009 | 2005–2014 |
| Invest in health care: | | | | | | | | |
| Provide refundable tax credit for the purchase of health insurance ⁴ | — | –24 | –1,417 | –1,059 | –854 | –632 | –3,986 | –4,700 |
| Provide an above-the-line deduction for high-deductible insurance premiums..... | — | –173 | –1,764 | –2,014 | –2,292 | –2,501 | –8,744 | –24,775 |
| Provide an above-the-line deduction for long-term care insurance premiums..... | — | –68 | –489 | –805 | –1,572 | –2,435 | –5,369 | –21,428 |
| Provide an additional personal exemption to home caregivers of family members..... | — | –71 | –460 | –398 | –398 | –415 | –1,742 | –3,759 |
| Allow the orphan drug tax credit for certain pre-designation expenses..... | — | — | — | — | — | — | –1 | –2 |
| Clarify the Health Coverage Tax Credit ⁵ | — | — | — | — | — | — | — | — |
| Total invest in health care..... | — | –336 | –4,130 | –4,276 | –5,116 | –5,983 | –19,841 | –54,662 |
| Provide incentives for charitable giving: | | | | | | | | |
| Provide charitable contribution deduction for nonitemizers..... | — | –1,248 | –1,103 | –1,111 | –1,144 | –1,173 | –5,779 | –12,036 |
| Permit tax-free withdrawals from IRAs for charitable contributions..... | –68 | –450 | –341 | –327 | –330 | –329 | –1,777 | –3,498 |
| Expand and increase the enhanced charitable deduction for contributions of food inventory | — | –42 | –87 | –96 | –106 | –116 | –447 | –1,224 |
| Reform excise tax based on investment income of private foundations | — | –133 | –83 | –84 | –86 | –90 | –476 | –1,009 |
| Modify tax on unrelated business taxable income of charitable remainder trusts..... | — | –8 | –5 | –6 | –6 | –6 | –31 | –68 |
| Modify basis adjustment to stock of S corporations contributing appreciated property | — | –21 | –13 | –15 | –18 | –21 | –88 | –239 |
| Repeal the \$150 million limitation on qualified 501(c)(3) bonds | — | –8 | –10 | –11 | –10 | –10 | –49 | –94 |
| Repeal certain restrictions on the use of qualified 501(c)(3) bonds for residential rental property | — | –5 | –6 | –12 | –18 | –25 | –66 | –299 |
| Total provide incentives for charitable giving..... | –68 | –1,915 | –1,648 | –1,662 | –1,718 | –1,770 | –8,713 | –18,467 |

Table S–9. Effect of Proposals on Receipts—Continued
(In millions of dollars)

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | Total | |
|--|------|------|------|------|------|--------|-----------|-----------|
| | | | | | | | 2005–2009 | 2005–2014 |
| Strengthen education: | | | | | | | | |
| Extend, increase, and expand the above-the-line deduction for qualified out-of-pocket classroom expenses | –23 | –229 | –240 | –249 | –260 | –263 | –1,241 | –2,611 |
| Encourage telecommuting: | | | | | | | | |
| Exclude from income the value of employer-provided computers, software, and peripherals | — | –27 | –45 | –43 | –48 | –55 | –218 | –668 |
| Increase housing opportunities: | | | | | | | | |
| Provide tax credit for developers of affordable single-family housing | — | –7 | –81 | –327 | –776 | –1,352 | –2,543 | –16,409 |
| Protect the environment: | | | | | | | | |
| Extend permanently expensing of brownfields remediation costs | –178 | –243 | –212 | –201 | –191 | –181 | –1,028 | –1,858 |
| Exclude 50 percent of gains from the sale of property for conservation purposes | — | –45 | –88 | –101 | –58 | — | –292 | –292 |
| Total protect the environment | –178 | –288 | –300 | –302 | –249 | –181 | –1,320 | –2,150 |
| Increase energy production and promote energy conservation: | | | | | | | | |
| Extend and modify the tax credit for producing electricity from certain sources | — | –401 | –337 | –305 | –278 | –139 | –1,460 | –2,175 |
| Provide tax credit for residential solar energy systems | — | –12 | –11 | –17 | –23 | –10 | –73 | –73 |
| Modify treatment of nuclear decommissioning funds | — | –193 | –147 | –154 | –162 | –169 | –825 | –1,767 |
| Provide tax credit for purchase of certain hybrid and fuel cell vehicles | — | –79 | –223 | –376 | –556 | –542 | –1,776 | –2,211 |
| Provide tax credit for energy produced from landfill gas | — | –34 | –67 | –91 | –104 | –117 | –413 | –737 |
| Provide tax credit for combined heat and power property | — | –154 | –107 | –64 | –62 | –13 | –400 | –349 |
| Extend excise tax exemption (credit) for ethanol ⁵ | — | — | — | — | — | — | — | — |

Table S-9. Effect of Proposals on Receipts—Continued

(In millions of dollars)

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | Total | |
|---|-------|--------|--------|--------|--------|---------|-----------|-----------|
| | | | | | | | 2005–2009 | 2005–2014 |
| Permit electric utilities to defer gain from sales of electric transmission property | -11 | -475 | -615 | -532 | -227 | 100 | -1,749 | 361 |
| Modify tax treatment of certain income of electric cooperatives..... | — | -14 | -20 | -21 | -22 | -23 | -100 | -235 |
| Total increase energy production and promote energy conservation..... | -11 | -1,362 | -1,527 | -1,560 | -1,434 | -913 | -6,796 | -7,186 |
| Total tax incentives..... | -280 | -563 | -383 | -3,594 | -7,461 | -10,467 | -22,468 | -109,738 |
| Simplify the Tax Laws for Families: | | | | | | | | |
| Establish uniform definition of a qualifying child ⁶ | — | -38 | -34 | -29 | -20 | -9 | -130 | -142 |
| Simplify adoption tax benefits..... | — | -4 | -39 | -40 | -42 | -43 | -168 | -411 |
| Eliminate household maintenance test for head-of-household filing status | — | -123 | -297 | -284 | -285 | -281 | -1,270 | -2,555 |
| Reduce computational complexity of refundable child tax credit ⁷ | — | — | — | — | — | — | — | 21 |
| Simplify EITC eligibility requirements regarding filing status, presence of children, investment income, and work and immigration status ⁸ | — | 64 | -36 | -35 | -32 | -33 | -72 | -272 |
| Simplify the taxation of dependents..... | — | -11 | -25 | -20 | -25 | -43 | -124 | -498 |
| Consolidate rules for lifetime learning credit, Hope credit, and education expense deductions, and simplify other higher education provisions | — | -19 | -94 | -311 | -294 | -282 | -1,000 | -2,558 |
| Allow annual reporting and payment of combined State and Federal unemployment insurance taxes by employers of household employees | — | -20 | -1 | -1 | -1 | -1 | -24 | -30 |
| Simplify taxation of capital gains on collectibles, small business stock, and other assets..... | — | -4 | 5 | 11 | -1 | -17 | -6 | -35 |
| Total simplify the tax laws for families | — | -155 | -521 | -709 | -700 | -709 | -2,794 | -6,480 |
| Strengthen the Employer-Based Pension System: | | | | | | | | |
| Ensure fair treatment of older workers in cash balance conversions and protect defined benefit plans | — | — | — | — | — | — | — | 2,373 |
| Improve the accuracy of pension liability measures..... | 8,537 | 12,297 | 7,340 | 3,042 | -1,586 | -5,467 | 15,626 | -15,869 |
| Total strengthen the employer-based pension system. | 8,537 | 12,297 | 7,340 | 3,042 | -1,586 | -5,467 | 15,626 | -13,496 |

Table S–9. Effect of Proposals on Receipts—Continued
(In millions of dollars)

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | Total | |
|---|------|-------|-------|-------|-------|-------|-----------|-----------|
| | | | | | | | 2005–2009 | 2005–2014 |
| Close Loopholes and Improve Tax Compliance: | | | | | | | | |
| Combat abusive tax avoidance transactions..... | — | 46 | 63 | 85 | 113 | 128 | 435 | 1,071 |
| Limit related party interest deductions | — | –51 | 93 | 146 | 203 | 265 | 656 | 3,116 |
| Modify qualification rules for tax-exempt property-casualty insurance companies | — | 67 | 114 | 116 | 119 | 121 | 537 | 1,184 |
| Prevent abusive overvaluations on donations of patents and other intellectual property | — | 432 | 270 | 273 | 277 | 287 | 1,539 | 3,207 |
| Prevent overvaluations and other abuses in charitable donations of used vehicles..... | — | 158 | 102 | 105 | 108 | 112 | 585 | 1,197 |
| Reform the treatment for leasing transactions with tax-indifferent parties..... | 340 | 1,591 | 2,712 | 3,285 | 3,565 | 3,766 | 14,919 | 33,385 |
| Ensure foreign subsidiaries of U.S. companies cannot inappropriately avoid U.S. tax on foreign earnings invested in U.S. property through use of the exception for bank deposits | — | 24 | 21 | 22 | 22 | 23 | 112 | 234 |
| Modify tax rules for individuals who give up U.S. citizenship or green card status | 1 | 23 | 20 | 22 | 24 | 25 | 114 | 272 |
| Require increased reporting for noncash charitable contributions | — | 49 | 31 | 32 | 33 | 34 | 179 | 367 |
| Clarify and simplify qualified tuition programs..... | — | 7 | 12 | 13 | 13 | 17 | 62 | 194 |
| Total close loopholes and improve tax compliance... | 341 | 2,346 | 3,438 | 4,099 | 4,477 | 4,778 | 19,138 | 44,227 |
| Tax Administration, Unemployment Insurance, and Other: | | | | | | | | |
| Improve tax administration: | | | | | | | | |
| Implement IRS administrative reforms..... | — | 52 | 47 | 46 | 47 | 49 | 241 | 505 |
| Increase continuous levy for certain Federal payments..... | — | 10 | 18 | 19 | 20 | 20 | 87 | 202 |
| Permit private collection agencies to engage in specific, limited activities to support IRS collection efforts..... | — | — | 47 | 151 | 190 | 153 | 541 | 1,531 |
| Total improve tax administration | — | 62 | 112 | 216 | 257 | 222 | 869 | 2,238 |

Table S–9. Effect of Proposals on Receipts—Continued
(In millions of dollars)

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | Total | |
|--|------|--------|---------|--------|--------|--------|-----------|-----------|
| | | | | | | | 2005–2009 | 2005–2014 |
| Strengthen financial integrity of unemployment insurance: | | | | | | | | |
| Strengthen the financial integrity of the unemployment insurance system by reducing tax avoidance and improper benefit payments ⁹ | — | — | –2 | 108 | 142 | 120 | 368 | –216 |
| Other proposals: | | | | | | | | |
| Increase Indian gaming activity fees | — | — | 4 | 4 | 5 | 5 | 18 | 43 |
| Total tax administration, unemployment insurance, and other..... | — | 62 | 114 | 328 | 404 | 347 | 1,255 | 2,065 |
| Reauthorize Funding for the Highway Trust Fund: | | | | | | | | |
| Deposit full amount of excise tax imposed on gasohol in the Highway Trust Fund ⁹ | — | — | 648 | 666 | 681 | 699 | 2,694 | 6,443 |
| Impose additional registration requirements on the transfer of tax-exempt fuel by pipeline, vessel, or barge ⁹ | — | 76 | 93 | 96 | 91 | 87 | 443 | 747 |
| Repeal installment method for payment of heavy highway vehicle use tax ⁹ | 407 | 30 | 31 | 32 | 31 | 32 | 156 | 341 |
| Allow tax-exempt financing for private highway projects and rail-truck transfer facilities | — | –20 | –49 | –77 | –94 | –97 | –337 | –619 |
| Total reauthorize funding for the Highway Trust Fund.. | 407 | 86 | 723 | 717 | 709 | 721 | 2,956 | 6,912 |
| Expiring Provisions (excludes proposals assumed in the baseline): | | | | | | | | |
| Minimum tax relief for individuals..... | –86 | –9,383 | –13,881 | — | — | — | –23,264 | –23,264 |
| Research & Experimentation (R&E) tax credit..... | –672 | –3,610 | –5,187 | –6,291 | –7,129 | –7,775 | –29,992 | –78,351 |
| Repeal the disallowance of certain deductions of mutual life insurance companies..... | — | –85 | –51 | –48 | –45 | –43 | –272 | –471 |
| Combined work opportunity/welfare-to-work tax credit | –12 | –187 | –268 | –162 | –86 | –46 | –749 | –768 |
| DC tax incentives | –47 | –97 | –54 | –7 | –9 | –24 | –191 | –363 |
| Authority to issue Qualified Zone Academy Bonds | –2 | –9 | –15 | –22 | –28 | –30 | –104 | –254 |
| Deduction for corporate donations of computer technology..... | — | –180 | –46 | — | — | — | –226 | –226 |

Table S–9. Effect of Proposals on Receipts—Continued
(In millions of dollars)

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | Total | |
|--|--------|---------|---------|---------|---------|---------|-----------|------------|
| | | | | | | | 2005–2009 | 2005–2014 |
| Net operating loss offset of 100 percent of alternative minimum taxable income..... | -1,326 | -755 | -101 | 203 | 154 | 129 | -370 | 82 |
| IRS user fees..... | — | 32 | 44 | 45 | 46 | 47 | 214 | 464 |
| Disclosure of tax return information related to terrorist activity ⁵ | — | — | — | — | — | — | — | — |
| Abandoned mine reclamation fees..... | — | 239 | 245 | 252 | 256 | 262 | 1,254 | 2,550 |
| Authority to issue Liberty Zone Bonds..... | — | -8 | -27 | -45 | -62 | -79 | -221 | -616 |
| Excise tax on coal ⁹ | — | — | — | — | — | — | — | 180 |
| Total extend other expiring provisions..... | -2,145 | -14,043 | -19,341 | -6,075 | -6,903 | -7,559 | -53,921 | -101,037 |
| Promote Trade: | | | | | | | | |
| Implement free trade agreements with Morocco, Australia, and Central American countries ⁹ | — | -389 | -583 | -675 | -749 | -831 | -3,227 | -8,305 |
| Total budget proposals, including proposals assumed in the baseline | 6,860 | -12,135 | -35,233 | -29,188 | -37,491 | -61,015 | -175,062 | -1,122,115 |
| Total budget proposals, excluding proposals assumed in the baseline | 6,860 | -359 | -9,213 | -2,867 | -11,809 | -19,187 | -43,435 | -185,852 |

* \$500,000 or less.

¹ Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is \$4,265 million for 2006, \$4,131 million for 2007, \$4,003 million for 2008, \$3,936 million for 2009, \$16,335 million for 2005–2009 and \$18,906 million for 2005–2014.

² Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is \$28,903 million for 2005–2014.

³ Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is \$5,676 million for 2005–2014.

⁴ Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is \$82 million for 2005, \$3,760 million for 2006, \$5,041 million for 2007, \$6,388 million for 2008, \$7,133 million for 2009, \$22,404 million for 2005–2009 and \$65,355 million for 2005–2014.

⁵ Policy proposal with a receipt effect of zero.

⁶ Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is \$36 million for 2006, \$36 million for 2007, \$36 million for 2008, \$37 million for 2009, \$145 million for 2005–2009 and \$333 million for 2005–2014.

⁷ Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is -\$181 million for 2006, -\$183 million for 2007, -\$185 million for 2008, -\$187 million for 2009, -\$736 million for 2005–2009 and -\$1,701 million for 2005–2014.

⁸ Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is -\$440 million for 2005, \$131 million for 2006, \$130 million for 2007, \$119 million for 2008, \$134 million for 2009, \$74 million for 2005–2009 and \$643 million for 2005–2014.

⁹ Net of income offsets.

Table S-10. Receipts by Source—Summary
(In billions of dollars)

| Source | 2003 | Estimate | | | | | |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| | Actual | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
| Individual income taxes..... | 793.7 | 765.4 | 873.8 | 956.5 | 1,049.3 | 1,133.4 | 1,209.9 |
| Corporation income taxes..... | 131.8 | 168.7 | 230.2 | 250.0 | 251.0 | 252.1 | 255.7 |
| Social insurance and retirement receipts..... | 713.0 | 732.4 | 793.9 | 834.0 | 878.7 | 918.8 | 960.2 |
| (On-budget)..... | (189.1) | (198.4) | (218.8) | (230.9) | (242.4) | (251.2) | (261.2) |
| (Off-budget)..... | (523.8) | (534.0) | (575.1) | (603.1) | (636.3) | (667.6) | (698.9) |
| Excise taxes..... | 67.5 | 70.8 | 73.2 | 75.8 | 77.9 | 80.0 | 82.2 |
| Estate and gift taxes..... | 22.0 | 23.9 | 21.4 | 23.9 | 21.5 | 22.2 | 23.6 |
| Customs duties..... | 19.9 | 22.6 | 22.1 | 24.4 | 26.2 | 27.6 | 30.0 |
| Miscellaneous receipts..... | 34.5 | 34.3 | 36.5 | 41.2 | 46.2 | 51.2 | 54.8 |
| Adjustment for revenue uncertainty ¹ ... | — | -20.0 | -15.0 | — | — | — | — |
| Total, receipts..... | 1,782.3 | 1,798.1 | 2,036.3 | 2,205.7 | 2,350.8 | 2,485.3 | 2,616.4 |
| (On-budget)..... | (1,258.5) | (1,264.1) | (1,461.2) | (1,602.5) | (1,714.5) | (1,817.7) | (1,917.5) |
| (Off-budget)..... | (523.8) | (534.0) | (575.1) | (603.1) | (636.3) | (667.6) | (698.9) |

¹ These amounts reflect an additional adjustment to receipts beyond what the economic and tax models forecast and have been made in the interest of cautious and prudent forecasting.

Table S–11. Comparison of Economic Assumptions
(Calendar years)

| | Projections | | | | | | Average |
|---|-------------|--------|--------|--------|--------|--------|-----------|
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2004–2009 |
| GDP (billions of current dollars): | | | | | | | |
| CBO January | 11,629 | 12,243 | 12,814 | 13,389 | 14,023 | 14,686 | |
| Blue Chip Consensus January ¹ | 11,660 | 12,291 | 12,929 | 13,588 | 14,292 | 15,045 | |
| 2005 Budget..... | 11,612 | 12,187 | 12,796 | 13,449 | 14,151 | 14,890 | |
| Real GDP (chain-weighted): ² | | | | | | | |
| CBO January | 4.8 | 4.2 | 3.1 | 2.7 | 2.8 | 2.8 | 3.4 |
| Blue Chip Consensus January ¹ | 4.6 | 3.7 | 3.3 | 3.1 | 3.2 | 3.2 | 3.5 |
| 2005 Budget..... | 4.4 | 3.6 | 3.4 | 3.3 | 3.2 | 3.1 | 3.5 |
| Chain-weighted GDP Price Index: ² | | | | | | | |
| CBO January | 1.1 | 1.1 | 1.5 | 1.8 | 1.9 | 1.9 | 1.5 |
| Blue Chip Consensus January ¹ | 1.4 | 1.6 | 1.8 | 1.9 | 2.0 | 2.0 | 1.8 |
| 2005 Budget..... | 1.2 | 1.3 | 1.5 | 1.7 | 2.0 | 2.0 | 1.6 |
| Consumer Price Index (all-urban): ² | | | | | | | |
| CBO January | 1.6 | 1.7 | 2.0 | 2.2 | 2.2 | 2.2 | 2.0 |
| Blue Chip Consensus January ¹ | 1.7 | 2.1 | 2.3 | 2.4 | 2.4 | 2.4 | 2.2 |
| 2005 Budget..... | 1.4 | 1.5 | 1.8 | 2.1 | 2.4 | 2.5 | 2.0 |
| Unemployment rate: ³ | | | | | | | |
| CBO January | 5.8 | 5.3 | 5.0 | 5.1 | 5.2 | 5.2 | 5.3 |
| Blue Chip Consensus January ¹ | 5.8 | 5.5 | 5.4 | 5.3 | 5.3 | 5.2 | 5.4 |
| 2005 Budget..... | 5.6 | 5.4 | 5.2 | 5.1 | 5.1 | 5.1 | 5.3 |
| Interest rates: ³ | | | | | | | |
| 91–day Treasury bills: | | | | | | | |
| CBO January..... | 1.3 | 3.0 | 4.0 | 4.6 | 4.6 | 4.6 | 3.7 |
| Blue Chip Consensus January ¹ | 1.3 | 2.6 | 3.7 | 3.9 | 4.1 | 4.1 | 3.3 |
| 2005 Budget..... | 1.3 | 2.4 | 3.3 | 4.0 | 4.3 | 4.4 | 3.3 |
| 10–year Treasury notes: | | | | | | | |
| CBO January..... | 4.6 | 5.4 | 5.5 | 5.5 | 5.5 | 5.5 | 5.3 |
| Blue Chip Consensus January ¹ | 4.7 | 5.4 | 5.5 | 5.6 | 5.6 | 5.6 | 5.4 |
| 2005 Budget..... | 4.6 | 5.0 | 5.4 | 5.6 | 5.8 | 5.8 | 5.4 |

Sources: Congressional Budget Office; Aspen Publishers, Inc., Blue Chip Economic Indicators.

All forecasts reflect December 2003 comprehensive revisions to the National Income and Product Accounts.

¹ January 2004 Blue Chip Consensus forecast for 2004 and 2005; Blue Chip October 2003 long run extension for 2006–2009.

² Year-over-year percent change.

³ Annual averages, percent.

Table S-12. Budget Summary by Category
(In billions of dollars)

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | Total 2005–2009 |
|----------------------------|-------|-------|-------|-------|-------|-------|-------|--------------------|
| Outlays: | | | | | | | | |
| Discretionary: | | | | | | | | |
| Defense (DOD)..... | 388 | 433 | 429 | 415 | 426 | 447 | 467 | 2,183 |
| Nondefense | 438 | 475 | 485 | 478 | 479 | 476 | 476 | 2,393 |
| Total, Discretionary..... | 826 | 908 | 914 | 892 | 904 | 923 | 942 | 4,576 |
| Mandatory: | | | | | | | | |
| Social Security..... | 470 | 492 | 510 | 529 | 552 | 576 | 608 | 2,775 |
| Medicare | 246 | 266 | 290 | 336 | 372 | 393 | 418 | 1,809 |
| Medicaid and SCHIP..... | 165 | 183 | 188 | 198 | 213 | 232 | 251 | 1,081 |
| Other | 298 | 314 | 320 | 305 | 305 | 325 | 335 | 1,590 |
| Total, Mandatory..... | 1,179 | 1,254 | 1,308 | 1,368 | 1,441 | 1,527 | 1,612 | 7,256 |
| Net interest | 153 | 156 | 178 | 213 | 246 | 275 | 299 | 1,211 |
| Total Outlays..... | 2,158 | 2,319 | 2,400 | 2,473 | 2,592 | 2,724 | 2,853 | 13,043 |
| Receipts | 1,782 | 1,798 | 2,036 | 2,206 | 2,351 | 2,485 | 2,616 | 11,694 |
| Deficit ¹ | -375 | -521 | -364 | -268 | -241 | -239 | -237 | -1,349 |
| On-budget deficit | -536 | -675 | -543 | -470 | -466 | -487 | -501 | -2,466 |
| Off-budget surplus..... | 161 | 154 | 179 | 202 | 225 | 248 | 263 | 1,117 |

¹ The Budget incorporates the HHS actuaries' estimates for the Medicare Prescription Drug, Improvement, and Modernization Act of 2003. Because CBO's 10-year cost estimates of this bill were significantly below the HHS actuaries' estimates and because of the uncertainties involved in these estimates, Table S-13 also includes deficit calculations that reflect the lower CBO estimates.

Table S–13. Outlay Impact of Prescription Drug and Medicare Improvement Act of 2003 (P.L. 108–173)
(Dollar amounts in billions)

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | Total | |
|---|-------|-------|-------|-------|-------|-------|-----------|-----------|
| | | | | | | | 2004–2008 | 2004–2013 |
| Department of Health and Human Services (HHS) | | | | | | | | |
| Actuaries' Estimate ¹ | 8 | 13 | 43 | 56 | 58 | 60 | 178 | 534 |
| CBO Estimate ¹ | 4 | 6 | 28 | 40 | 44 | 47 | 122 | 395 |
| President's Budget Deficit Estimates | | | | | | | | |
| As a percent of GDP | –4.5% | –3.0% | –2.1% | –1.8% | –1.7% | –1.6% | –1,632 | |
| Administration's Deficit Adjusted for CBO Estimate ² | | | | | | | | |
| As a percent of GDP | –4.5% | –3.0% | –2.0% | –1.7% | –1.6% | –1.5% | –1,571 | |

Note: See the HHS chapter in this volume for further information.

¹ Excludes revenue effects, debt service, and intrabudgetary transactions.

² Includes debt service.

Explanation of Difference in Estimates:

The largest portion of the difference in these cost estimates is attributable to assumptions regarding beneficiary participation, market behavior, and cost growth rates. Even small differences in these assumptions can dramatically change the overall cost estimates. For example, CBO and the Medicare actuaries both assume comparable savings from private-plan management of the drug benefit. CBO, however, assumes that these savings will be realized earlier; the Medicare actuaries assume that it will take longer for plans to achieve maximum savings.

Table S-14. Current Services Baseline Summary by Category
(In billions of dollars)

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | Total 2005-2009 |
|------------------------------------|-------|-------|-------|-------|-------|-------|-------|--------------------|
| Outlays: | | | | | | | | |
| Discretionary: | | | | | | | | |
| Defense (DOD)..... | 388 | 433 | 420 | 398 | 402 | 413 | 423 | 2,056 |
| Nondefense | 438 | 475 | 490 | 487 | 495 | 501 | 510 | 2,481 |
| Total, Discretionary..... | 826 | 908 | 910 | 885 | 896 | 914 | 933 | 4,537 |
| Mandatory: | | | | | | | | |
| Social Security..... | 470 | 492 | 510 | 529 | 552 | 577 | 608 | 2,776 |
| Medicare | 246 | 266 | 290 | 336 | 372 | 393 | 418 | 1,809 |
| Medicaid and SCHIP..... | 165 | 182 | 188 | 198 | 214 | 233 | 252 | 1,086 |
| Other | 298 | 314 | 320 | 306 | 303 | 325 | 339 | 1,593 |
| Total, Mandatory..... | 1,179 | 1,254 | 1,309 | 1,370 | 1,441 | 1,528 | 1,618 | 7,265 |
| Net interest..... | 153 | 156 | 178 | 213 | 245 | 273 | 296 | 1,206 |
| Total Outlays..... | 2,158 | 2,319 | 2,397 | 2,468 | 2,583 | 2,715 | 2,847 | 13,008 |
| Receipts | 1,782 | 1,791 | 2,037 | 2,215 | 2,354 | 2,497 | 2,636 | 11,738 |
| Surplus/deficit ¹ | -375 | -527 | -360 | -253 | -229 | -218 | -211 | -1,270 |
| On-budget deficit | -536 | -682 | -539 | -455 | -453 | -465 | -474 | -2,385 |
| Off-budget surplus..... | 161 | 154 | 179 | 202 | 224 | 247 | 263 | 1,115 |

¹ The Budget incorporates the HHS actuaries' estimates for the Medicare Prescription Drug, Improvement, and Modernization Act of 2003. Because CBO's 10-year cost estimates of this bill were significantly below the HHS actuaries' estimates and because of the uncertainties involved in these estimates, Table S-13 also includes deficit calculations that reflect the lower CBO estimates.

Table S-15. Impact of Budget Policy
(Dollar amounts in billions)

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | Total 2005–2009 |
|---|------|------|------|------|------|------|--------------------|
| Current Services Baseline Deficit | –527 | –360 | –253 | –229 | –218 | –211 | –1,270 |
| Proposals: | | | | | | | |
| Discretionary policy: | | | | | | | |
| Department of Defense..... | — | –9 | –17 | –26 | –36 | –49 | –137 |
| Homeland security..... | — | –1 | –2 | –4 | –5 | –6 | –18 |
| Other spending | * | 6 | 12 | 21 | 31 | 43 | 113 |
| Subtotal, discretionary..... | * | –4 | –8 | –9 | –10 | –12 | –43 |
| Revenue proposals ¹ | 7 | * | –13 | –8 | –19 | –29 | –69 |
| Mandatory proposals | –* | 1 | 6 | 5 | 8 | 14 | 33 |
| 2005 Budget Deficit ² | –521 | –364 | –268 | –241 | –239 | –237 | –1,349 |
| Percent of GDP | 4.5% | 3.0% | 2.1% | 1.8% | 1.7% | 1.6% | |

* \$500 million or less.

Note: Each line includes debt service.

¹ Includes outlay impact of revenue proposals.

² The Budget incorporates the HHS actuaries' estimates for the Medicare Prescription Drug, Improvement, and Modernization Act of 2003. Because CBO's 10-year cost estimates of this bill were significantly below the HHS actuaries' estimates and because of the uncertainties involved in these estimates, Table S-13 also includes deficit calculations that reflect the lower CBO estimates.

Table S-16. Baseline Adjustments
(In billions of dollars)

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | Total | |
|--|------|------|------|------|------|------|-----------|-----------|
| | | | | | | | 2005-2009 | 2005-2014 |
| Budget Enforcement Act Baseline Deficits..... | -527 | -393 | -305 | -292 | -288 | -271 | -1,549 | |
| Extend certain tax provisions: | | | | | | | | |
| Permanently extend individual income tax rate cuts..... | — | — | — | — | — | — | — | -395 |
| Permanently extend estate and gift tax changes | — | -1 | -2 | -2 | -2 | -2 | -9 | -180 |
| Extend other provisions of the 2001 and 2003 tax acts ¹ | — | -11 | -29 | -29 | -28 | -44 | -139 | -414 |
| Subtotal, tax extenders..... | — | -12 | -30 | -30 | -30 | -46 | -148 | -990 |
| Assume emergencies are one-time only | — | 43 | 79 | 86 | 89 | 92 | 388 | |
| Adjust pay factor to more accurately reflect changes in pay costs | — | 2 | 2 | 2 | 2 | 3 | 11 | |
| Debt service related to all changes | — | * | 2 | 5 | 8 | 12 | 27 | |
| Current Services Baseline Deficit..... | -527 | -360 | -253 | -229 | -218 | -211 | -1,270 | |

* \$500 million or less.

¹ Table S-9 provides a detailed list of expiring tax provisions assumed in the baseline.

Table S-17. Federal Government Financing and Debt
(Dollar amounts in billions)

| Function | 2003 Actual | Estimate | | | | | |
|---|----------------|----------|------|------|------|------|------|
| | | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
| Financing: | | | | | | | |
| Unified budget deficit (-) | -375 | -521 | -364 | -268 | -241 | -239 | -237 |
| Financing other than the change in debt held by the public: | | | | | | | |
| Net purchases (-) of non-Federal securities by the National Railroad Retirement Investment Trust | -20 | -1 | * | * | * | * | * |
| Changes in: ¹ | | | | | | | |
| Treasury operating cash balance | 26 | —* | — | — | — | — | — |
| Compensating balances ² | -5 | 22 | — | — | — | — | — |
| Checks outstanding, etc. ³ | 8 | — | — | — | — | — | — |
| Seigniorage on coins..... | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Less: Net financing disbursements: | | | | | | | |
| Direct loan financing accounts | -6 | -12 | -11 | -19 | -20 | -20 | -21 |
| Guaranteed loan financing accounts | -1 | 3 | 3 | 3 | 1 | 2 | 2 |
| <hr/> | | | | | | | |
| Total, financing other than the change in debt held by the public | 2 | 14 | -8 | -15 | -18 | -17 | -18 |
| Total, requirement to borrow from the public..... | -373 | -507 | -371 | -282 | -259 | -256 | -255 |
| <hr/> | | | | | | | |
| Change in debt held by the public..... | 373 | 507 | 371 | 282 | 259 | 256 | 255 |
| Change in Debt Subject to Statutory Limitation: | | | | | | | |
| Change in debt held by the public..... | 373 | 507 | 371 | 282 | 259 | 256 | 255 |
| Change in debt held by Government accounts..... | 188 | 219 | 275 | 311 | 333 | 357 | 378 |
| Change in other factors | 15 | * | 1 | * | 1 | 1 | 1 |
| Total, change in debt subject to statutory limitation | 576 | 727 | 647 | 594 | 592 | 614 | 634 |

Table S–17. Federal Government Financing and Debt—Continued
(Dollar amounts in billions)

| Function | 2003 | Estimate | | | | | |
|--|--------|----------|-------|-------|-------|-------|--------|
| | Actual | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
| Debt Subject to Statutory Limitation, End of Year: | | | | | | | |
| Debt issued by Treasury | 6,733 | 7,459 | 8,106 | 8,700 | 9,292 | 9,906 | 10,540 |
| Adjustment for discount, premium and coverage ⁴ | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Total, debt subject to statutory limitation ⁵ | 6,738 | 7,464 | 8,111 | 8,705 | 9,297 | 9,911 | 10,545 |
| Debt Outstanding, End of Year: | | | | | | | |
| Gross Federal debt: ⁶ | | | | | | | |
| Debt issued by Treasury | 6,733 | 7,459 | 8,106 | 8,700 | 9,292 | 9,906 | 10,540 |
| Debt issued by other agencies | 27 | 27 | 26 | 26 | 26 | 25 | 24 |
| Total, gross Federal debt | 6,760 | 7,486 | 8,133 | 8,726 | 9,318 | 9,931 | 10,564 |
| Held by: | | | | | | | |
| Debt held by Government accounts | 2,846 | 3,066 | 3,341 | 3,652 | 3,985 | 4,342 | 4,720 |
| Debt held by the public ⁷ | 3,914 | 4,421 | 4,792 | 5,074 | 5,333 | 5,589 | 5,844 |
| As a percent of GDP | 36.1% | 38.6% | 39.8% | 40.1% | 40.2% | 40.0% | 39.8% |

* \$500 million or less.

¹ A decrease in the Treasury operating cash balance or compensating balances (which are assets) would be a means of financing a deficit and therefore has a positive sign. An increase in checks outstanding (which is a liability) would also be a means of financing a deficit and therefore also has a positive sign.

² Compensating balances are non-interest bearing Treasury bank deposits that Treasury mainly uses to compensate banks for collecting tax and non-tax receipts under financial agency agreements. Most of the balances at the end of 2003 were required to be invested in nonmarketable Depository Compensation Securities issued by the Treasury; the rest of the balances, and the entire amount in previous years, was invested in the way that the banks decide.

³ Besides checks outstanding, 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 and compensating balances), miscellaneous asset accounts, and profit on sale of gold.

⁴ Consists mainly 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.

⁵ The statutory debt limit is \$7,384 billion.

⁶ 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).

⁷ At the end of 2003, the Federal Reserve Banks held \$656.1 billion of Federal securities and the rest of the public held \$3,257.5 billion. Debt held by the Federal Reserve Banks is not estimated for future years.

GLOSSARY

Accrual Method of Measuring Cost

This accounting method records cost when the liability is incurred. As applied to Federal employee retirement benefits, cost is recorded when the benefits are earned rather than when they are paid or at some other time.

Appropriation

An appropriation provides legal authority for Federal agencies to incur obligations and to make payments out of the Treasury for specified purposes. Thirteen regular appropriations bills are considered every year by the Congress and supplemental appropriations are considered from time to time.

Authorization

An authorization is an act of the 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 a recently expired law that was designed to limit discretionary spending while ensuring that any new entitlement program or tax cut did not increase deficits. It set annual limits on spending.

Budget Resolution

The budget resolution is the annual framework that the Congress uses to set targets for total, discretionary and mandatory spending, total revenues, and the deficit, as well as allocations within the spending targets. These targets guide the appropriations committees' deliberations. 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.

Continuing Resolution

A continuing resolution provides for the ongoing operation of the Government in the absence of enacted appropriations, usually at the same spending rate as the prior year.

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 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.

Deficit

A deficit is the amount by which outlays exceed receipts in a fiscal year.

Discretionary Spending

Discretionary spending is what the President and the Congress decide to spend through annual appropriations bills. Examples include money for such activities as the FBI, the Coast Guard, housing and education, space exploration, highway construction, defense, and foreign aid. See Mandatory Spending.

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.

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 2005 begins on October 1, 2004 and ends on September 30, 2005.

Full-time Equivalent (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. Thus, 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.

Mandatory Spending

Mandatory spending is provided by permanent law rather than annual appropriations. An example is Social Security. The President and the Congress can change the law with respect to the eligibility criteria or the payment formula, and thus change 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 income that are deducted from outlays, rather than counted on the receipts side of the budget. They result from business-like activities such as the sale of stamps by the Postal Service.

Off-Budget

By law, Social Security and the Postal Service are accounted for separately from all other programs in the Federal 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.

PART

The Program Assessment Rating Tool is an analytical device used to evaluate program effectiveness and inform budget, management, and legislative decisions. It consists of a series of questions about program purpose and design, strategic planning, management, and results. Answers to PART questions require specific evidence to prove program effectiveness.

Pay-As-You-Go

Created by the Budget Enforcement Act, 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. The purpose of these rules is to ensure that the deficit does not rise or the surplus does not fall. See Budget Enforcement Act.

President's Management Agenda

A strategy to improve the management and performance of the Federal Government in areas with the greatest need. The Agenda includes five Government-wide initiatives and multiple program-specific initiatives.

Budget and Performance Integration—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 agencies' strategic goals and objectives.

Competitive Sourcing—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.

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.

Financial Performance—A management initiative to upgrade the accuracy and timeliness of financial information. Meeting requirements and standards while supporting day-to-day operations is central to this initiative. Areas of emphasis include reducing erroneous payments and strengthening the management of Government-held assets.

Human Capital—Refers to the education, knowledge, skills, and competencies of the personnel of an agency.

Receipts

Receipts are the collections of money that primarily result from taxes and similar Government powers to compel payment. Examples of receipts include income taxes, payroll 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 designated as "trust funds" 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 measure of the Government's finances.

Unobligated Balance

Funding that has been approved or is available, but not yet committed to any particular purpose.

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