

BUDGET



OF THE UNITED STATES GOVERNMENT

Fiscal Year 2004

THE BUDGET DOCUMENTS

Budget of the United States Government, Fiscal Year 2004 contains the Budget Message of the President and information on the President's budget and management priorities, including assessments of agencies' performance.

Analytical Perspectives, Budget of the United States Government, Fiscal Year 2004 contains analyses that are designed to highlight specified subject areas or provide other significant presentations of budget data that place the budget in perspective.

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

Historical Tables, Budget of the United States Government, Fiscal Year 2004 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 2008. To the extent feasible, the data have been adjusted to provide consistency with the 2004 Budget and to provide comparability over time.

Budget of the United States Government, Fiscal Year 2004—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 lan-

guage, 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.

Performance and Management Assessments, Budget of the United States Government, Fiscal Year 2004 contains evaluations and analyses of programs and management at federal departments and agencies.

AUTOMATED SOURCES OF BUDGET INFORMATION

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

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

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>

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GENERAL NOTES

1. All years referred to are fiscal years, unless otherwise noted.
2. Detail in this document may not add to the totals due to rounding.
3. At the time of this writing, 11 of the 13 appropriations bills for 2003 were not enacted, and the programs covered by them were operating under a continuing resolution. For these programs, references to 2003 spending, excluding current services or baseline estimates, in the text and tables reflect the Administration's 2003 policy proposals. The baseline estimates for the programs covered by the unenacted bills reflect the levels provided by the continuing resolution.

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THE BUDGET MESSAGE OF THE PRESIDENT

The budget for 2004 meets the challenges posed by three national priorities: winning the war against terrorism, securing the homeland, and generating long-term economic growth. It restrains the growth in federal spending and addresses the long-term fiscal challenge presented by Medicare and Social Security's unfunded promises. This year's budget also helps America meet its goals both at home and overseas.

We remain at war with an enemy that seeks to use murder, stealth, and fear against all free nations. Yet our response has been resolute. The people of Afghanistan have been freed from the oppressive regime that sponsors the terrorists who planned and carried out the attacks of September 11, 2001. We are hunting down the terrorist leaders and their collaborators, one by one. And we continue to disrupt their plots, shut down their financing, and deny them safe haven.

We have moved to secure the nation's safety. Just 10 days ago, the new Department of Homeland Security began operations in the biggest reorganization of the Federal Government in a half-century. The cabinet-level department unifies the work of 22 programs and agencies and will move quickly to better protect Americans from threats here at home. We also have moved to defend America's interests abroad, and to confront danger wherever it emerges. Working with our allies and partners, we will face down regimes that govern by fear and deception, and we will devote the necessary resources to protect ourselves and our friends against the use of weapons of mass destruction.

We are strengthening our economy by allowing American families to keep more of their own money and encouraging businesses to save, spend, and grow. While the economy is growing, it is not growing fast enough. Too many Americans who want to work can't find a job, and too many American families are falling behind.

The growth and jobs plan I outlined earlier this year will provide critical momentum to our economic recovery. For every American paying income taxes, I propose speeding up the tax cuts already approved by the Congress, because Americans need that relief today. And for America's 84 million investors, and those who will become investors, I propose eliminating the double taxation of stock dividends. Double taxation is unfair and bad for our economy.

Government cannot manage or control the economy. But government can remove the barriers blocking stronger economic growth. My plan will give Americans more tools to achieve that growth.

A recession and a war we did not choose have led to the return of deficits. My Administration firmly believes in controlling the deficit and reducing it as the economy strengthens and our national security interests are met. Compared to the overall federal budget and the \$10.5 trillion national economy, our budget gap is small by historical standards. By protecting our vital national security interests and promoting economic growth, we will meet the challenges and concerns of the American people. We will not let them down.

I will also insist on spending discipline in Washington D.C., so we can meet our priorities. We must prepare for the future costs of Social Security and Medicare. My budget takes the first steps toward modernizing Medicare and includes prescription drug coverage.

We will continue to focus on getting results from federal spending. A federal program's measure of success is not its size, but the value it delivers. And my budget will focus on this goal in a new and important way. If federal programs cannot show results, they should be overhauled, or retired.

And while human compassion cannot be summarized in dollars and cents, this budget addresses the many challenges our society faces: bridging the gap for low-income families, so they can buy affordable homes; helping communities of faith pull the addicted from the grip of drugs; lifting children out of poverty and hopelessness by creating good schools and offering them caring adult mentors; and easing the pain and hardship of the global epidemic of AIDS.

Some of the challenges we face will endure for many years and require great resources. As we look down that path, we will not always get to choose which battles we fight. It is, however, our duty to fight them. History may not remember every single way we contributed to this nation's betterment, but it will remember if we failed to try. The courage to take on challenges, and the enterprise with which we have succeeded in meeting them, have always distinguished America. This same courage and enterprise will help America meet these challenges, and prevail once again.

GEORGE W. BUSH
February 3, 2003

BUDGET AND MANAGEMENT HIGHLIGHTS

Budget Highlights

What We Will Accomplish		What We Will Spend (2004 levels except where noted)
<i>Create Jobs and Strengthen the Economy</i>		
Tax relief and job growth	\$1,083 average tax cut for 92 million Americans and create 2.1 million jobs.	Keep government spending from growing faster than the income of the American family (four percent).
Unemployment assistance	Five-month extension of unemployment benefits (enacted). Provide over one million unemployed individuals with up to \$3,000 to find work.	\$7.1 billion (2003). \$3.6 billion for Re-employment Accounts (2003 and 2004).
Corporate accountability	Protect shareholders from fraud and restore confidence in the corporate sector and financial markets by ensuring corporate financial information is accurate and accessible, corporate management is accountable, and auditors are independent.	SEC: \$842 million (nearly double the 2002 level). FBI: +\$16 million (+110 staff) for investigations. U.S. Attorneys: +\$9 million (+94 staff) for prosecutions.
<i>Secure America from Terrorism and Other Threats Abroad</i>		
Department of Defense (DoD)	Secure an orderly buildup in the defense budget to meet new threats.	\$380 billion (+\$15 billion or four percent). President Bush's DoD budget is \$84 billion higher than the budget he inherited -- the largest increase since the Reagan Administration.
Missile defense	Defend America against ballistic missiles with initial capability in late 2004.	\$9.1 billion in 2004.
Support foreign partners	Advance the global fight against terrorism by supporting foreign partners—particularly frontline states.	\$2.3 billion in 2004 assistance. Targeted assistance to Jordan (\$250 million), Pakistan and Turkey (\$200 million each), Afghanistan (\$150 million), and Colombia (\$463 million).
Millennium Challenge Account	Aid developing countries that demonstrate commitments to govern justly, invest in people, and encourage economic freedom.	\$1.3 billion as first step toward President's \$5 billion in annual funding by 2006.

What We Will Accomplish		What We Will Spend (2004 levels except where noted)
<i>Protect the Homeland</i>		
All federal homeland security programs (non-defense)	Prevent terrorist attacks within the United States, reduce America's vulnerability to attacks, and enhance emergency response and recovery capabilities.	\$35 billion (more than double compared to the pre-September 11 th level).
Department of Homeland Security	Integrate 22 agencies and programs into a new department of 179,000 employees, whose central mission is to protect the homeland.	\$36.2 billion (+64 percent compared to the pre-September 11 th level for these programs).
Bioterrorism	Strengthen and expand the capability to respond to a bioterrorism threat by maintaining and strengthening current Strategic National Stockpile.	\$400 million to maintain and strengthen the nation's existing vaccine and pharmaceuticals stockpile.
	Secure medical countermeasures to strengthen our preparedness against bioterror attacks.	\$890 million in mandatory spending in 2004 and \$5.6 billion over 10 years.
<i>Meet Other Priorities</i>		
No Child Left Behind	Test all students in grades 3-8 by the 2005-2006 school year and ensure all students reach proficiency in reading and math.	<p>\$12.4 billion (+\$1 billion or nine percent) for Title I programs in needy public schools.</p> <p>\$1 billion for Reading First (+\$50 million).</p> <p>\$100 million for Early Reading First (+\$25 million or 33 percent).</p> <p>\$220 million for Charter School grants (+\$20 million or 10 percent).</p> <p>\$75 million for a new School Choice Incentive Fund.</p>
Pell Grants	Provide nearly five million low-income students the opportunity to get postsecondary education.	\$12.7 billion in Pell Grants (\$4,000 maximum award for eligible students).
Special Education	Provide support to states to ensure over 6.5 million students with disabilities get a quality education.	<p>\$9.5 billion (+\$1 billion).</p> <p>\$447 million to serve infants and toddlers with disabilities and their families.</p>
Compassion	Expand the capacity of faith-based and community organizations to address problems, promote responsible fatherhood and marriage by targeting the 25 million children living in homes without fathers, and reach out to the five million people who need drug coverage but do not receive it.	<p>\$200 million for drug treatment vouchers.</p> <p>\$2.1 billion in charitable tax incentives (\$20 billion over 10 years).</p> <p>\$100 million for the Compassion Capital Fund.</p> <p>\$20 million to promote responsible fatherhood and marriage.</p>

What We Will Accomplish		What We Will Spend (2004 levels except where noted)
	Engage Americans in volunteer service through the USA Freedom Corps.	\$50 million in grants for mentoring children of prisoners, doubling the program. \$359 million for the Peace Corps.
Global AIDS prevention, research, and cure	Combat the spread of AIDS that currently afflicts 42 million people in the world and is destroying the social and economic fabric of many countries in Sub-Saharan Africa, as well as threatening other regions.	\$15 billion over five years for the hardest hit countries. \$627 million in Health and Human Services (HHS). \$790 million in Agency for International Development.
Famine	Presidential authority to respond to famine and other crises.	\$200 million contingency fund with flexible authorities to provide food, grants, or other emergency support.
Energy security	Accelerate widespread use of fuel-cell vehicles by focusing on hydrogen technologies. Work with other nations to develop fusion as a commercially viable energy source.	Devote more than \$1.5 billion over five years to the hydrogen initiative, more than doubling funding in this area. Contribute to the International Thermonuclear Experimental Reactor project.
Health insurance	Extend health insurance coverage to four million low and middle income Americans who do not have employer coverage.	Refundable tax credit to subsidize up to 90 percent of coverage for low and middle income Americans (\$89 billion over 10 years).
Health centers	Add 230 new and expanded sites to serve an additional one million people in rural and underserved urban areas.	\$1.6 billion (+\$169 million) to fund 3,685 health center sites serving 14 million people.
Disease prevention	Reduce the incidence of asthma (26.7 million people), diabetes (17 million people), and obesity.	+\$100 million for the Centers for Disease Control and Prevention, in partnership with other HHS agencies.
Homeownership	Increase minority homeownership by 5.5 million through 2010 and continue America's record overall homeownership rate (68 percent of households).	Add \$7.5 billion in Federal Housing Administration mortgages to 60,000 homebuyers with lower credit ratings. \$200 million to fully fund the Down Payment Assistance initiative. \$2.2 billion (+five percent) for HOME formula funding. Tax incentives for low-income homeowners (\$16 billion over 10 years).

What We Will Accomplish		What We Will Spend (2004 levels except where noted)
Medicare	Modernize and reform Medicare for its 41 million eligible beneficiaries to improve care, including a prescription drug benefit option while ensuring its long-term financial viability.	+\$400 billion (10-year increase).
Environment	Reduce powerplant emissions of sulfur dioxide, nitrogen oxide, and mercury by 70 percent.	\$150 million to cleanup orphan hazardous waste sites. Add \$10 million to the President's Brownfields initiative (doubled in 2003).
	Continue America's progress on clean air, clean water, and natural resource protection.	\$4.3 billion (+seven percent) for the Environmental Protection Agency's operating budget.
	Increase from 91 percent to 95 percent by 2005 the population served by community water systems that meets all health-based standards.	Increase the long-term Clean Water State Revolving Fund level to \$2.8 billion and the Drinking Water State Revolving Fund to \$1.2 billion.
Stewardship of parks and other federal lands	Eliminate the National Park Service maintenance backlog.	Double funding (2002–2006) to eliminate maintenance backlog. \$900 million to fully fund the Land and Water Conservation Fund.
	Reduce risk to the 73 million acres of federal forest vulnerable to catastrophic fire.	\$415 million for the Forest Service and Interior Department to implement the President's Healthy Forests Initiative.
	Enhance the nation's wildlife refuges.	\$402 million (+\$27 million) for national wildlife refuges.
Research and development	Promote scientific discovery and technological innovation to generate economic growth and jobs, and to improve national defense and the quality of life.	\$123 billion (+seven percent).
Veterans	Serve six million veterans participating in Veterans Affairs programs. Reduce disability claims processing from 209 days (2002) to 100 days (2004). Increase claims accuracy from 80 percent to 90 percent in this same time period.	\$63.6 billion.

Management Highlights

Recent Accomplishments

- Two years ahead of schedule, the Department of the Treasury and the Social Security Administration met the goal to produce audited financial statements by November 15th, 45 days after the end of the year compared with 151 days under previous administrations.
- For the first time ever, the Department of Agriculture received a clean opinion on its financial statements. Indications are that NASA will get a clean opinion, as well.
- The Department of Health and Human Services (HHS) has reduced its personnel offices from 40 to seven, and will eventually reduce to just one. This and other consolidations will allow HHS to redeploy hundreds of employees to the front lines to deliver services directly to the American people.
- The Department of Defense reduced headquarters staff by 11 percent, reducing civilian employees by over 3,000 in just the last year.
- Erroneous Medicare payments fell from 6.8 percent in 2000 to 6.3 percent in 2001. Erroneous Food Stamp payments fell from 8.9 percent in 2000 to 8.7 percent in 2001. These seemingly small gains prevented the waste of almost \$1 billion.
- Citizens are now only three clicks away from transactions and services on the redesigned *www.Firstgov.gov* that Yahoo!© rated as one of the “world’s 50 most incredibly useful websites.”
- The federal government began 2002 with 10 percent of its individually billed travel accounts delinquent. That amount has been cut to six percent, bringing total delinquent dollars for individually billed accounts down by over \$300 million.
- The President secured passage of legislation pulling 22 agencies and programs into one new Department of Homeland Security. The Department will have enhanced managerial flexibilities, including giving managers the ability to quickly move workers to better safeguard the nation from attack.
- *GovBenefits.gov* provides, with a minimum of red tape, an online tool for citizens to learn about federal benefit programs for which they may qualify.

Sample Work in Progress

- The Free File program, launched by the IRS in January 2003, will enable 60 percent or more of taxpaying Americans to prepare and file their taxes online, for free.
- The number of federal payroll providers will be reduced from 22 to two, saving the American taxpayers \$1.2 billion in payroll processing costs.
- All major federal departments and agencies will produce audited financial statements 45 days after the end of 2004.
- The Department of Housing and Urban Development will cut its erroneous rental subsidy payments in half.
- Rules for conducting public-private competitions will be slashed by almost 12,000 words, cutting the time for holding competitions from up to four years to a maximum of just one.
- The Department of Veterans Affairs is opening up the activities of 52,000 employees to competition over the next five years, and 25,000 of them in 2003.
- The number of government-owned vehicles will decline by more than 10,000 in 2004.

WINNING THE WAR ON TERRORISM

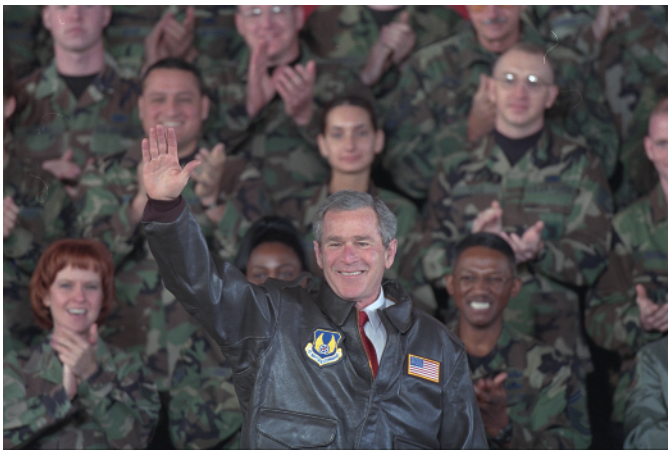
We are committed to defending the nation. Yet wars are not won on the defensive. The best way to keep America safe from terrorism is to go after terrorists where they plan and hide.

President George W. Bush
November 16, 2002

Overview

America is taking the fight to the terrorists. We have ended the Taliban regime and al Qaeda's safe haven in Afghanistan. The victory over the Taliban has been followed by successes in other areas of the world. Yet the war has only begun. As President Bush has repeated time and again, America is in the opening stages of a long struggle against terrorist groups and the nations that support them.

The United States and cooperating nations have brought a wide range of capabilities to bear on terrorism. The diverse activities undertaken illustrate the degree to which we are engaged in a new type of war. The United States and cooperating nations have:



- built and maintained a global coalition of more than 70 countries to fight terrorism;
- conducted successful military operations resulting in regime change in Afghanistan;
- provided freedom and humanitarian relief to oppressed people in Afghanistan;
- frozen terrorists' assets and restricted the flow of money that enables terror; and
- exploited unprecedented intelligence capabilities to locate, track, and apprehend terrorists on the run.

Achieving these kinds of successes in the years ahead will require a sustained commitment of resources.

Several recent high-profile events demonstrate that America and our allies are continuing to make progress:

- On September 11, 2002, Pakistani forces captured Ramzi Binalshibh. Binalshibh was a key member of the al Qaeda cell that planned and carried out the September 11th attacks.
- On September 14, 2002, five men arrested outside Buffalo were charged with providing material support to terrorists. The men are believed to have operated an al Qaeda-trained terrorist cell on U.S. soil.

- On October 2, 2002, U.S. troops in Afghanistan destroyed a massive Taliban weapons cache containing over 124,000 pounds of explosives.
- On November 4, 2002, six al Qaeda members were killed in Yemen. Included in the group was Abu Ali, a main planner in the October 2000 attack on the USS Cole that left 17 U.S. sailors dead.

These dramatic events received wide publicity. As important, however, are the every day successes in the war that by design go unnoticed.

America is committed to winning the war on terrorism. One measure of our commitment is the funding that has already been dedicated to this effort. The federal government has spent or committed to spend \$100 billion to respond to terrorism. This includes funding to fight the war on terrorism, to improve homeland security, and to finance recovery efforts in New York. This year's budget provides the resources necessary to advance the fight against terrorism.

The war on terrorism is being fought on two fronts. One is overseas and one is here at home, where our first order of business calls on us to protect our fellow Americans.

Homeland Security

In 2002, the United States took its first long steps in building a homeland security system by hiring thousands of new personnel, improving information sharing, and strengthening partnerships with states, localities, and the private sector. Immediately following the September 11th attacks, the Administration secured nearly \$11 billion in funding for the effort—a more than 70-percent increase in domestic homeland security spending (outside the Department of Defense (DoD)). In 2004, the budget includes \$41 billion to continue homeland efforts—more than doubling 2002 funding.

In addition to securing needed funding, the Administration developed a road map for securing the homeland. The *National Strategy for Homeland Security* lays out specific objectives for border and transportation security, emergency preparedness and response, protecting critical infrastructure, domestic counterterrorism, defending against catastrophic threats, and intelligence and warning. A key to this strategy was creating a new department whose primary mission is homeland protection. Late last year the Congress acted on the President's proposal to create the Department of Homeland Security (DHS). This new cabinet-level department marks the largest reorganization in the federal government in over 50 years. It absorbs 22 agencies and programs with a combined total of nearly 180,000 employees. With a clear vision and a clean organizational structure, the Administration will be able to meet and defeat the threats of the 21st Century.

The creation of DHS was a historic step forward in protecting America, but it was not the only accomplishment made during the past year. The federal government also took immediate measures to safeguard the nation in intelligence and warning, border security, aviation security, critical infrastructure protection, bioterrorism defense, and emergency response.

Intelligence and Warning

One of the federal government's top jobs is detecting where and when a future terrorist attack is planned and preventing it from happening. Examples of efforts to improve our nation's intelligence and warning capabilities include:

- Established a National Joint Terrorism Task Force and expanded local task forces to cover every state. As a result of work done by one local task force, a senior Hamas leader was indicted in Texas for conspiring to violate U.S. laws prohibiting financial support to terrorists.

- Expanded the intelligence reporting and analysis computer network to a wider range of domestic agencies. Also created a 24-hour network to pass along law enforcement information to energy producers.
- Expanded and improved the Federal Bureau of Investigation's (FBI's) databases to more readily identify suspected individuals within the country and to catch terrorists before they enter the United States.

Border Security

Over the past year the federal government has made significant progress improving the nation's security at the borders. Aside from arrests, the various agencies previously responsible for border security made great advances in detection and prevention using data resources, new technology and international partnerships as key tools.

- As a result of efforts by the Foreign Terrorist Tracking Task Force, the Immigration and Naturalization Service (INS) apprehended more than 1,000 immigrants for a variety of offenses and deported over 500 of them.
- Established the Student and Exchange Visitor Information System, enabling schools to transmit data electronically to the INS and the Department of State at many points during a student's stay. When a student drops out of school or changes course of study, the INS will be kept up to date.
- Entered into agreements with Canada and Mexico to protect our common borders and shared economic interests.
- Launched the Container Security Initiative, establishing a tough new international security standard for high-risk cargo containers before they arrive at U.S. ports. As of December 2002, the Customs Service reached agreements with 9 of the top 20 ports to screen approximately 1.2 million sea containers destined for our shores.
- Required all flagged vessels to provide 96-hour notification prior to arrival in a U.S. port rather than the previously required 24-hour notification, giving officials more time to check for potentially dangerous crew, passengers, and cargo.



A customs inspector oversees the unloading of cargo containers from a ship at the Miami seaport.

Building on the border initiatives to date, the 2004 Budget includes \$480 million to continue building a comprehensive system to track both the entry and exit of all visitors to the United States. In addition, about \$120 million in new funding is provided to support technology investments along the border, including radiation detection machines to inspect cargo containers.

Aviation Security

Following the September 11th attacks, there was no area of security more worrisome to the American public, or more in need of dramatic improvement, than aviation security. Congress and the President responded by creating the Transportation Security Administration (TSA), now part of DHS. Over the past year, TSA has:

- Hired tens of thousands of new security personnel to perform screening duties and other security functions at commercial airports.
- Instituted 100 percent checked baggage screening and modernized passenger screening at America's airports to protect against unknown passengers or luggage on-board at take-off.
- Expanded the Federal Air Marshal program so that thousands of protective air marshals are now flying on commercial aircraft and began installing hardened cockpit doors on all 6,000 large commercial aircraft (to be completed in 2003).
- Mandated international airlines to provide information on U.S.-bound passengers prior to their arrival, which is then checked against the FBI's and other relevant databases. The result is advanced screening and warning of potentially dangerous passengers.



Passenger screening is more efficient and effective at every checkpoint in the country as a result of better training, pay, and improved accountability.

Protection of Critical Infrastructure

Terrorism poses a significant threat to our critical infrastructure (e.g., nuclear power plants, water facilities, and telecommunications networks). The government has worked to increase awareness of threats and vulnerabilities and has:

- Created a national critical infrastructure protection outreach and awareness program. Developed a closer integration of information sharing with state and local law enforcement and private owners and operators resulting in a better method of detection and warning with these key assets.
- Expanded the focus of the National Infrastructure Protection Center to include physical protection, in addition to cyber security, across the 14 designated critical infrastructure sectors. The federal government is now more capable of providing timely and comprehensive indications and warning information to key public and private sector stakeholders.
- Provided additional resources to protect our public transit and passenger railroad systems. For example, the Washington Metropolitan Transit Authority has acquired biohazard and chemical detection systems for deployment in its Metrorail subway system.

Defense Against Bioterrorism

Over the past year the federal government has been committed to ensuring the safety of our citizens, food, and healthcare systems from the dangers of a bioterrorist attack. The President requested and the Congress provided a 10-fold increase in bioterrorism funding for the Department of Health and Human Services from about \$350 million to over \$3 billion in 2002. A third of this amount, over \$1 billion, was specifically provided to states and major cities to improve their public health and medical infrastructures. In addition, the federal government:

- Acquired enough smallpox vaccines for every man, woman and child in the United States. It also drafted the smallpox vaccine policy to enhance America's health care and first responders' preparedness to respond to a smallpox attack.
- Stocked enough antibiotics to treat up to 20 million persons for anthrax exposure.
- Increased from eight to twelve the number of emergency response "push packs" that contain critical medical supplies. These packs can be sent anywhere in America within 12 hours.
- Increased research and development funding three-fold for new vaccines and medical supplies to address bioterrorist threats.
- Increased the number of food safety inspectors by 700, doubling the Food and Drug Administration's (FDA's) capacity to conduct safety inspections of our food systems.

In 2004, \$400 million is provided to maintain the nation's medical stockpile and strengthen its future capacity. In addition, the Administration proposes three new authorities to speed the arrival of medications and vaccines that can be used to protect the American people. This first authority will allow the government to pre-purchase a medication or vaccine as soon as experts agree it is safe and effective enough to stockpile for use in an emergency. The 2004 Budget for DHS includes about \$900 million to make these purchases. The second authority will provide experts at the National Institutes of Health with the flexibility they need to hire the best experts, make special purchases, and face other management challenges that can be barriers to quick progress in converting basic scientific discoveries into usable products. The third authority will allow FDA to work more proactively with researchers and industry to allow emergency-use authorization licensure of these countermeasures.

Emergency Response

At the same time, however, the United States must work equally hard to be prepared to respond quickly and effectively if there is another terrorist attack. Over the past year, the federal government:

- Awarded almost \$1 billion in grants to help state and local first responders and emergency managers become better prepared to respond to acts of terrorism and other disasters.
- Distributed \$360 million for planning, enhancing urban search and rescue capability, and state emergency operations centers.
- Developed a framework for a National Incident Management System ensuring that federal, state, and local entities are capable of an integrated response to emergencies. This national system will ensure that personnel and equipment from any agency are able to be integrated into a single response organization.
- Maryland, Virginia, and the District of Columbia approved eight commitments to action for the National Capital Region, including: citizen involvement in preparedness; decision-making and coordination; emergency protective measures; infrastructure protection; media relations and communication; mutual aid; terrorism prevention; and, training and exercises.

The 2004 Budget proposes \$3.5 billion to ensure that first responders are properly trained and equipped. This includes funds to purchase protective gear for working in hazardous environments and devices for detecting and disarming explosives and other dangerous materials. Out of this amount, \$500 million will support assistance to firefighters, particularly for terrorism preparedness, and \$500 million will support state and local law enforcement's anti-terrorism efforts.

Safeguarding Americans at home also means hunting down terrorists abroad. An unprecedented campaign has been waged and sustained to that effect.

Building on Global Military Successes

Winning the war on terrorism will require a sustained commitment of resources for DoD and intelligence agencies. Following September 11, 2001, the United States responded to the terrorist attacks using existing budget resources first. Congress quickly appropriated \$17 billion in emergency funds for DoD and the intelligence community to pursue al Qaeda and its allies, to recover from the devastation of the September 11th attacks, and to protect the country from future attacks. The Congress then appropriated an additional \$14 billion requested by the President to continue military efforts in the war in the summer of 2002. The Congress also appropriated an extra \$10 billion in annual 2003 appropriations for DoD and the intelligence community to continue the war on terrorism.

In 2004, DoD is requesting \$379.9 billion to meet its myriad military missions. In addition to funding in the base for the war on terrorism, the total defense request includes about \$10 billion specifically dedicated to a select group of programs aimed at fighting terrorism including combat air patrols over U.S. cities, special equipment and forces to protect U.S. forces, and facilities to detain terrorists. DoD's technological research and procurement efforts are well funded to help put the latest technology in the hands of our troops to find and defeat terrorists around the world.

The President gave the Taliban regime opportunities to turn over the terrorists it was harboring and renounce terrorism. After the Taliban refused to cooperate, the United States and our coalition allies removed the regime, freed the Afghan people, and inflicted a tremendous blow against al Qaeda. The campaign was an unprecedented success. Although Afghanistan has historically been a tough battle-ground, the military was able to swiftly remove the Taliban by working with local forces, coalition allies, and other U.S. government agencies.

Facts and Figures on the War

- 27 coalition countries have had forces in Afghanistan.
- 39 nations have had representatives at Central Command Headquarters, the command responsible for Afghanistan and Southwest Asia.
- 9,000 U.S. personnel are in Afghanistan.
- Over 8,000 coalition personnel have been in the Afghanistan theatre.
- 24,000 bombs (including 13,000 precision-guided weapons) were dropped during the war.
- 55,150 sorties were flown.

Our work is not yet done though. United States and coalition forces continue to comb through the Afghan frontier, searching for Taliban and al Qaeda fugitives and gathering critical intelligence information. U.S. forces are helping to train a new Afghan National Army, and in July 2002 the first battalion of soldiers graduated from the program.

Around the world, over 90 nations are playing their part in the war against terrorism. The United States has taken significant measures to help those who have joined the fight. For example:

- **Philippines.** More than 1,300 U.S. personnel, including 160 Special Operations advisors, deployed in support of the Balikatan counterterrorism exercises for six months. The United States helped raise Philippine military capabilities to combat Abu Sayyaf terrorists, who had previously seized and murdered American hostages. U.S. Special Operations personnel conducted training with 25 field companies of the Armed Forces of the Philippines. The United States has provided the Armed Forces of the Philippines with one C-130 aircraft, 30,000 M-16A1 rifles, two Point-class Coast Guard cutters, and eight UH-1H helicopters.

- Republic of Georgia.** In April 2002, the United States responded to Georgia's request for assistance to enhance its counter-terrorism capabilities through the Georgia Train and Equip Program. The program consists of command center staff training and unit level training in light infantry tactics and combat skills. Military equipment will also be provided. The Republic of Georgia is strategically situated between the Black Sea and the Caucasus Mountains but has become an outpost for terrorists, smugglers, and revolutionaries. It has been working to build democratic institutions but is constrained by ethnic and civil strife and serious criminal activity.
- Yemen.** U.S. Special Forces trained approximately 200 Yemeni military forces in counter-terrorism tactics. The U.S. military also established an Office of Defense Cooperation to facilitate training and provide equipment.



Georgian soldiers take aim in the Georgia Train and Equip Program.

In addition to military assistance, the United States is providing significant financial support to frontline states in the war on terrorism. Since September 11, 2001, the United States has provided over \$1 billion to Pakistan, \$350 million to Jordan, and \$250 million to Turkey to support anti-terror efforts undertaken by these key allies.

Humanitarian Relief, Terrorist Finances, International Law Enforcement, and Intelligence

Humanitarian Relief

The people of Afghanistan suffered greatly at the hands of the Taliban and al Qaeda. The Department of State and the U.S. Agency for International Development have provided over \$850 million for relief and reconstruction in Afghanistan since September 11, 2001. With these funds, the United States has:

- Helped two million Afghan refugees return to their homes.
- Provided food to over 10 million Afghans.
- Supplied seeds and fertilizer to over 140,000 farmers.
- Furnished 10 million textbooks and 6,000 temporary classrooms, allowing over three million children to return to school; and
- Funded measles vaccinations for over four million children.

With the help of Japan and Saudi Arabia, the United States is rebuilding the highway that connects Kabul, Kandahar, and Herat. This road is key to restoring trade and commerce throughout the region. U.S. military civil affairs teams also have assisted by digging wells, building hospitals, and repairing roads, bridges, and irrigation canals. These troops rebuilt 49 schools in eight different regions.



Soldiers deliver food and supplies in Afghanistan.

The United States has been encouraging other donors to increase their reconstruction and humanitarian assistance to Afghanistan. At the donors conference in January 2002 in Tokyo, the international community pledged \$4.5 billion for Afghanistan, including humanitarian and reconstruction assistance. Donor pledges varied from one to five years. Since then, additional pledges have pushed the total commitment to \$5 billion.

Terrorist Finances

The Departments of the Treasury, Justice, and State, along with the intelligence community, are engaged in diplomatic, enforcement, intelligence, and financial activities in an effort to starve terrorists of their finances. The United States has designated over 250 persons and entities as terrorists or terrorist supporters. These designations have so far resulted in the freezing of \$36 million in assets here at home and \$87 million in assets overseas.

Public attention has focused on the use of charities as conduits for financing terrorism. The vast majority of charities and their donors support noble causes. Unfortunately, whether known by the donors or not, some charities funnel contributions into illegal activities. The government is working to ensure that legitimate charities do not unwittingly provide support to terrorist organizations and is shutting down those charities that knowingly finance terrorist operations.

- The United States has designated 15 charitable organizations as having ties to al Qaeda or other terrorist groups. To date, the United States and our allies have frozen over \$13 million of these organizations' assets.
- The Financial Action Task Force (FATF), an international body dedicated to combating money laundering and comprised of 31 key countries around the world, recently recommended steps on how to protect charities from abuse or infiltration by terrorists.
- Consistent with the FATF recommendations, the Department of the Treasury has frozen the accounts of several societies and properties of key suspects and issued best practices to U.S.

Fifteen Charities Have Been Designated as Supporters of Terrorism

- Afghan Support Committee
- Al Haramain Islamic Foundation—Bosnia-Herzegovina
- Al Haramain Islamic Foundation—Somalia
- Al Rashid Trust
- Benevolence International Foundation
- Benevolence International Fund
- Bosanska Idealna Futura
- Global Relief Foundatio
- Holy Land Foundation
- Makhtab al-Khidamat / Al Kifah
- Rabita Trust
- Revival of Islamic Heritage Society
- The Aid Organization of the Ulema
- Ummah Tameer E-Nau
- WAFA Humanitarian Organization

charities interested in taking precautionary measures to ensure that terrorists are not able to divert their resources.

The federal government will continue to work with partners around the world to deprive terrorists of the money needed to plan and execute attacks.

International Law Enforcement

Bringing terrorists to justice will take a combined, determined, and sustained effort by countries around the world. The United States and key partners have stepped up to this challenge.

For example:

- **Germany** has arrested numerous suspects including Abdelgahani Mzoudi, a Moroccan believed to have provided money and shelter to members of the Hamburg-based terrorist cell that planned the September 11th attacks.
- **Indonesia** is conducting a credible, serious investigation of the horrific bombing on Bali, and has arrested several suspected terrorist leaders and operatives.
- **Morocco** has arrested several al Qaeda suspects believed to be planning attacks on American and British targets.
- **Pakistan** has intercepted hundreds of fleeing al Qaeda terrorists along its border with Afghanistan. Coordinated law enforcement operations have netted key suspects involved in the killing of U.S. journalist Daniel Pearl, the church bombing in Islamabad, and the attack on the U.S. Consulate in Karachi. In addition, on September 11, 2002, Pakistani forces captured Ramzi Binalshibh, a key member of the al Qaeda cell that planned and carried out the September 11th attacks.
- **Singapore**, during 2002, captured a number of members of a cell linked to al Qaeda that were planning attacks against American and other targets in the region.
- **Spain** arrested several terrorist suspects, including a suspected senior al Qaeda financier.

Intelligence

The nation's intelligence agencies have played an indispensable role in the war on terrorism. Most intelligence community accomplishments are kept secret in order to safeguard national security and preserve the capabilities that produce intelligence. However, a few of their successes can be brought to light:

- The Central Intelligence Agency has actively assisted in the arrest of terrorists around the world. In all, the United States and our allies have detained nearly 3,000 al Qaeda operatives and associates in over 90 countries since September 2001.
- The National Imagery and Mapping Agency has extensively supported U.S. Central Command, which is leading DoD efforts in the Middle East, by providing targeting information for combat operations and locating refugee groups in need of humanitarian assistance.
- The Defense Intelligence Agency initiated the largest reserve mobilization in its history by sending over 500 intelligence reservists to locations across the country and around the world.
- The National Security Agency (NSA) increased terrorism intelligence production by over 250 percent while tripling the number of NSA personnel in counterterrorism activity.
- The Office of Naval Intelligence and Coast Guard Intelligence stepped up efforts to identify the ships, organizations, and individuals involved in illicit maritime activities linked to terrorism. Such information will enable the United States and our allies to disrupt terrorist logistics operations and weaken their capabilities.

Sustaining the Effort

The United States and our allies must continue all efforts currently underway. We must continue the task of supporting and rebuilding Afghanistan so that it does not become again a sanctuary for terrorists. We have to close the valves through which money flows to terrorist groups. We must maintain the diplomatic cooperation, intelligence sharing, and law enforcement coordination that are tightening the cordon around terrorist fugitives. We must protect our people at home. Finally, we must continue military operations against terrorists and prepare for unforeseen events.

The President's 2004 Budget provides the resources to help us meet these challenges. The budget requests significant funding for programs across the federal government that contribute to the war on terrorism and protection at home. The budget provides approximately \$2.3 billion in assistance to countries that have joined us in the war on terrorism. The Economic Support Fund provides grant assistance to countries such as Afghanistan and Pakistan. The Foreign Military Financing Program provides equipment, training and defense services. These and other anti-terrorist programs are described in more detail in the chapter on the Department of State and International Assistance Programs.



President Karzai reviews the first soldiers of the Afghan National Army.

The 2004 Budget provides \$41 billion to support domestic efforts against terrorism—more than doubling funding since 2002 (excluding DoD funding). The budget moves forward on a range of key initiatives from the *National Strategy for Homeland Security*: provide funding increases to enhance the FBI's analytical capability, build DHS's ability to map terrorist threats to our nation's critical infrastructure and initiate protective action; develop sensors to detect terrorist attempts to smuggle nuclear weapons into the United States; and buy cutting-edge vaccines and medications for biodefense. See the Department of Homeland Security chapter for more details.

Military operations will continue to play a significant role in the war on terrorism. To ensure our military is prepared for the challenges it is assigned, the budget requests \$379.9 billion for DoD, an increase of over \$15 billion over the 2003 enacted level of \$364.7 billion. Within the total, the request for DoD provides strong support for:

- Base operational budgets for the military services and the intelligence agencies to sustain current operations to defend U.S. national interests against terrorist attacks;
- Continuing funding for a \$10 billion cluster of programs aimed at fighting terrorism, including combat air patrols over U.S. cities to protect Americans at home, special equipment and personnel to protect U.S. military forces at home and abroad, and facilities to detain terrorists;
- Research and development budgets to help bring new technologies to troops in the field to improve our ability to move rapidly to deter and defeat terrorists; and
- Procurement of smart munitions, unmanned aerial vehicles and other systems critical to our ability to defeat terrorist forces and minimize the risk to innocent civilians.

In addition to the activities currently underway, we need to face new challenges that lay ahead—particularly the threat of terrorists acquiring nuclear, biological, and chemical weapons of mass destruction.

Preventing Terrorists from Acquiring Weapons of Mass Destruction

There is no greater danger to the United States than the connection between terrorists and weapons of mass destruction (WMD). The spread of chemical technologies and advances in biotechnology have caused chemical and biological weapons to become less expensive and easier to produce. Uneven controls and safeguards on nuclear and radiological materials around the world create the constant danger that these components could be stolen or illegally transferred.

As the attacks of September 11th demonstrated, the new breed of terrorists seek to inflict massive casualties on civilian populations. They have shown the will to use the most destructive weapons available to them. Terrorists may not be readily deterred from using WMD by the threat of massive response. The United States and the international community must ensure that world's most dangerous weapons do not fall into the hands of extremists eager to use them.

As described in *The National Strategy to Combat Weapons of Mass Destruction*, our efforts to combat WMD rest on three pillars:

- Pursuing robust counterproliferation policies and capabilities to actively deter and defend against the use of weapons of mass destruction;
- Strengthening non-proliferation measures to prevent states and terrorists from acquiring weapons of mass destruction; and
- Increasing our preparations to respond to, and mitigate the effects of, a weapons of mass destruction attack against the United States, our forces, or our friends and allies.

These three pillars of the National Strategy apply to both sovereign states and non-sovereign actors. Regardless of an attack's source, immediate measures will be taken to contain and mitigate the damage from a WMD attack. The United States will also stand ready to assist friends and allies in response to WMD use.

However, just reacting to the use of weapons of mass destruction is not sufficient. We must actively ensure that such weapons are not used against us or our friends and allies. The United States must engage in counterproliferation activities, including interdicting WMD assets in transit to terrorists and destroying WMD already in the hands of terrorists.

A primary means by which terrorist groups can acquire weapons of mass destruction is through transactions with WMD-armed states that support terrorism. Because each of these regimes poses unique challenges, the National Strategy states that we will pursue "country-specific strategies" to counter the different threats.

International treaties aimed at curbing proliferation, cooperation programs to safeguard materials in Russia, and global controls on nuclear and radiological materials help prevent terrorist groups from stealing WMD materials or acquiring them on the black market. In June 2002, the G-8 nations agreed to a new comprehensive nonproliferation effort known as the Global Partnership. To advance this goal, G-8 leaders committed to raise up to \$20 billion over 10 years to fund nonproliferation programs in the former Soviet Union. The United States intends to provide half that total through the Departments of Energy, Defense, and State.

In combination, these efforts are designed to keep the most deadly weapons from the people most likely to use them.

Promoting Hope, Democracy, and Economic Opportunity

In March 2002, President Bush stated that "persistent poverty and oppression can lead to hopelessness and despair. And when governments fail to meet the most basic needs of their people, these failed states can become havens for terror." One of the most important weapons in the war on terror is the hope of hundreds of millions of impoverished people for a better future.

To make this hope a reality, the United States is promoting development as the shared responsibility of developed and developing countries. The chapter on the Department of State and International Assistance Programs describes in more detail partnerships and initiatives the United States is fostering with other countries, such as the Millennium Challenge Account, the Middle East Partnership Initiative, and the African Education Initiative.

In facing down and defeating terrorism of global reach, America is engaged in a new kind of war that requires new tools and new ways of thinking. Although we have made tremendous progress so far, the war will not be over soon. Our enemies hide in shadows and patiently plan their next round of attacks. But the United States will stay the course for as long as it takes. We will secure ourselves at home while we aggressively take the fight to the terrorists and their sponsors overseas. We will also promote hope, democracy, and economic opportunity abroad to combat the conditions that can breed terrorism. The war will require constant vigilance and the commitment of resources on all fronts. The cost of liberty is high, but it is a price Americans always have been, and always will be, willing to pay.

FOR EVERYONE WILLING TO WORK, A JOB

The recession of 2001 has been over for a year, but its effects linger. Though the economy has expanded, the rate of growth has not been fast enough. Too many Americans remain out of work; too many Americans are concerned about their economic futures; and too many businesses hold back in the face of this economic uncertainty, unwilling to make the investments in new production facilities, new machinery, and new technologies needed to re-ignite the full potential of our economy. To deal with this situation, the President has proposed a bold, new jobs and growth program. This program, when combined with the effects of earlier actions by the Administration, will help the economy achieve maximum growth.

The ground is fertile for strong and sustained growth. Inflation is firmly under control. Interest rates are at historic lows. Our markets enjoy a flexibility that is envied around the world. And the rate of growth in worker productivity at 5.6 percent for the first full year of recovery is astounding for this, indeed any, stage of a business cycle.

Yet the economy has suffered a series of shocks that have cost tens of thousands of jobs. Just as economic recovery was poised to begin, the attacks of September 11, 2001 caused a massive disruption. Flights were cancelled, tourism fell, stock trading was halted, and consumers and businesses retrenched as they sorted through the implications of this new threat to the nation.

Our economy then faced a new threat from within when Americans discovered serious abuses of trust by some corporate leaders. We learned that a handful of companies across a wide range of industries had engaged in dishonest practices that cost innocent people their jobs and savings. Penalties in the marketplace and the courts were prompt and severe, but much damage was done to investor confidence.

The President has acted aggressively. In 2001, just when relief was needed most, he signed the most sweeping tax relief in a generation. He followed this action by winning passage in 2002 of investment incentives to help businesses sustain their level of employment and output and to invest more, further strengthening the recovery.

The Administration pushed terrorism insurance through the Congress so building and real estate projects could go forward. Historic reforms were enacted to assure corporate integrity and to defend the interests of workers and investors. And the Administration successfully completed the first phase in the war on terrorism by eliminating the safe haven for terrorists in Afghanistan.

Despite this progress, the threat of terrorism continues, as do many purely economic uncertainties. The President has decided to act again to ensure the strongest possible economy, one in which every willing worker can find a job.

A Program to Move from Slow Growth to Real Prosperity

The growth and jobs package the President unveiled on January 7th of this year is a focused effort to clear the way for faster growth and greater prosperity. This program will operate quickly to accelerate recovery but also to produce a stronger, more resilient economy for years to come. The four key elements of the program are:

- Accelerating in 2003 certain elements of the Economic Growth and Tax Reform Reconciliation Act of 2001 (EGTRRA), such as the marginal rate reductions and the marriage penalty relief, that would otherwise take effect later.
- Eliminating the unfair double taxation of dividends paid to individuals.
- Immediately increasing the amount that small businesses are allowed to deduct from \$25,000 to \$75,000.
- Creating new Personal Re-employment Accounts to help unemployed workers search for new jobs and to provide a “re-employment bonus” for those finding work quickly.

Under the President’s proposal, 92 million taxpayers would receive a tax cut averaging \$1,083 in 2003, and would receive a similar reduction in their tax bills in future years. The proposal would provide an average tax cut of \$1,716 to married couples in 2003, and families with children would see their tax burden fall by an average of \$1,473. Six million single women with children would keep an average of \$541 more of their own money, and 32 million seniors would receive, on average, a tax cut of \$2,042.

Accelerating Tax Relief

The President’s 2001 tax cut played a vital role in sustaining the economy as it struggled to recover in the face of a declining stock market, the September 11th attacks, and the corporate governance scandal. The increase in the child tax credit, the creation of the new 10 percent tax bracket, and the first tax rate reductions all contributed to consumer confidence and purchasing power.

The tax cut was not originally designed as a remedy for recession, however, and much of the proposed tax relief was delayed. Much of the delayed relief, such as the full reduction in the tax rates and the full increase in the child tax credit, would have major short-term impacts on the economy. It would be foolish to wait to implement this tax relief when it is needed today. So the Administration proposes to accelerate this relief to January 1, 2003. In addition, the Administration proposes to change the individual Alternative Minimum Tax (AMT) to prevent the AMT from depriving taxpayers of the tax relief intended for them. Specifically, the Administration proposes that:

- The remaining tax rate reductions scheduled to take effect in 2004 and 2006 take effect at the start of this year, 2003.
- The increases in the 10 percent tax bracket amounts scheduled for 2008 and beyond take effect at the start of this year.
- The remaining marriage tax penalty relief provisions that would take effect in later years would take effect at the start of this year.
- The increase in the child tax credit from \$600 to \$1,000 scheduled to phase in from 2005 to 2010 would instead take effect at the start of this year.
- The AMT exemption would be raised to \$8,000 for couples filing joint returns, and to \$4,000 for single filers through 2005.

Accelerating these provisions will have powerful, positive effects on the economy. One reason the recovery has been subpar is that uncertainties about the future have restrained the willingness of

businesses to invest in new factories and new equipment. Lower tax rates will increase the reward to investment, economic risk-taking, and starting new businesses. These tax rate reductions, along with the elimination of double taxation of dividends and the less punitive tax rules on business depreciation described later, are the right measures to reignite business investment.

To be truly effective in supporting the economy's growth as soon as possible, the 2003 tax relief needs to be put into effect as soon as possible. Much of this tax relief will begin to work into the economy by changing the withholding tables employers use to determine the amount of federal income tax held back from employees' wages. However, to ensure that the most tax relief possible makes its way into taxpayers' hands as soon as possible, the Administration is prepared to deliver promptly to qualifying taxpayers the benefit of the \$400 increase in the child tax credit through advance refund checks.

Ending Double Taxation of Dividends

The Administration has proposed to end the unfair double taxation of dividends by allowing individuals to exclude their corporate dividend income from income tax. Under current law corporate income is taxed once at the corporate level and taxed again when paid out to shareholders. As a general rule, all income should be taxed once; it is unfair to subject any income to double taxation, and especially unfair to millions of senior citizens who rely extensively on dividend income in their retirement and who receive over half of all dividend payments.

Doubly taxing dividend income is also bad economic policy. Knowing that a business' income will be taxed once at the business level and again as dividend income, prospective shareholders demand an unnecessarily high rate of return before risking their savings. In effect, this raises the price of capital to businesses that need to raise new equity to expand. Ending double taxation is especially important to small and medium-sized businesses that are ready to take the important step of issuing new equity.

The double taxation of dividends also creates a perverse incentive for businesses as they manage their mix of debt and equity financing. Because interest income is taxed only once while dividend income is taxed twice, the tax system creates a well-known incentive for businesses to carry too much debt and too little equity. This distortion in how some corporations finance their investments can make the corporations more susceptible to economic downturns.

The tax system should not affect how a business chooses to finance itself or how much of its earnings it retains and how much it pays out as dividends. Eliminating the double taxation of dividends would be a great stride forward in achieving this kind of tax neutrality. Under the Administration's proposal, businesses will have more ready access to less expensive capital. Investors will have a stronger incentive to put money back into the market and investor confidence will improve. And business investment will accelerate in the near term and be permanently and significantly higher in future years.

Small Business Expensing

Small business is the "job factory" and special advantage of the American economy. Most of the new jobs created in recent years have occurred in our small enterprises.

To simplify the tax system, and especially to encourage small businesses to invest and hire additional workers, the income tax allows small businesses to "expense"—or deduct immediately—all of their investments in a year up to a total of \$25,000. To increase small businesses' ability to invest and grow, the Administration proposes to triple the expensing limit to \$75,000 and index the limit for inflation. Larger investments by small firms, and investments made sooner triggered by this step will help restart America's job factory and lead to more rapid jobs growth.

Unemployment Assistance

The President proposed this jobs and growth package because the economy is not growing fast enough to create new jobs. As part of his package, the President called on the Congress to act as quickly as possible to extend Unemployment Insurance benefits to those workers currently between jobs. The Congress responded immediately to this appeal and, just one day later, on January 8th, the President signed legislation extending these benefits.

Even with the extension of unemployment insurance benefits, many individuals will exhaust their benefits before finding work. To help speed re-employment, the President has proposed \$3.6 billion in new Personal Re-employment Accounts for unemployment insurance recipients who need the most help in getting back to work. These funds will enable states to offer accounts of up to \$3,000 to eligible individuals who will have the power to choose whatever training and services, such as child care and transportation, they believe will help them get back to work. Recipients will be able to keep the balance of the account as a cash re-employment bonus if they succeed in finding a job within 13 weeks. About 1.2 million Americans who are most in need of help will be assisted under this flexible, new program. Personal Re-employment Accounts will inaugurate a new era in unemployed worker assistance with greater emphasis and rewards for transitioning from unemployment to work.

The Budget Effects of the Jobs and Growth Package

(In billions of dollars)

	Estimate		Total
	2003	2004	2003-2008
Accelerate EGTRRA Tax Relief	23.4	76.7	226.9
Alternative Minimum Tax Relief	3.1	8.5	29.0
Full Dividend Exclusion	3.8	24.9	144.0
Small Business Investment Incentive	1.0	1.7	9.4
Extending Unemployment Benefits/Personal Re-employment Accounts	8.7	1.5	8.8
Total	40.0	113.3	418.1

CHARTING A COURSE FOR THE FEDERAL BUDGET

When this Administration took office, the budget forecast a surplus for 2004 of \$387 billion. The outgoing Administration, the Congressional Budget Office (CBO), and most private sector analysts all predicted the same basic result. The Department of the Treasury, the Chairman of the Federal Reserve Board, and the financial markets were heavily focused on the question of whether it was wise or even possible to retire as much of the federal debt as the budget proposed. President Bush's first budget, recognizing the hazards and uncertainties of long-term forecasting, set aside \$841 billion, or 15 percent, of expected surpluses as a contingent reserve to protect against shortfalls. It turned out to be not nearly enough.

The surpluses will not materialize, at least for the next few years, because circumstances changed radically. Though few believed it in January 2001, our economy was entering a recession. And, no one knew at the time that the 1997 to 2000 revenue surge, like the stock market that in large part created it, was a bubble already in the process of popping. Above all, no one could foresee the terrorism of September 11th, its detrimental impact on the economy, and the unplanned spending of scores of billions of dollars for response and recovery efforts.

Limiting and reducing the federal debt remains a priority for this Administration. But it is not the sole or even the top priority. Ahead of it come national security and economic security—protecting the nation from aggression and protecting the financial futures of America's families.

Instead of surpluses, we now face a period of budget deficits. By all historical standards, these deficits are modest and manageable. And the choices that contribute to them, winning a war against terror, building a homeland security infrastructure, and generating stronger economic growth, are indisputably necessary.

The re-emergence of deficits is not welcome news. The President continues to believe that, under normal circumstances, the federal budget should be in balance. But there are objectives of even greater importance the nation must confront immediately.

The federal government will spend \$2.1 trillion in 2003, but this spending will not produce the investments, the businesses, and the jobs that are the heart of the American economy. The federal government should not imagine that its role is to "run the economy." Rather, it should remove obstacles standing in the way of economic growth and create an environment in which the American people can produce and enjoy maximum prosperity.

The President's Budget includes an aggressive economic growth and jobs package. Only a sustained period of strong economic growth will produce the kind of increases in federal receipts that will, if combined with restraint in spending growth, balance the budget once again. The President's Budget will hold the growth in federal appropriations to four percent, the same growth rate projected for family incomes in 2004.

New Policies to Meet New Challenges

Any budget and economic forecast is based on numerous assumptions, many of which will turn out to be wrong. But rarely has the world changed so completely, so unforeseeably, or in such a short period of time as it did in the first nine months of the Bush Presidency. These changes affected the economy, increased the need for federal spending, and drastically reduced the level of receipts flowing into federal coffers.

One of the early signs that the economy was in trouble was the decline in the stock market which began in March 2000, almost a year before the President took office. Significant ups and downs in the stock market are normal, so the general belief was that the market would shortly resume its previous strong upward trend. Instead, the U.S. stock market, like markets around the world, continued its decline through 2001 and on through 2002. The plunge in the market reduced the household wealth of millions of Americans and popped a government receipts bubble that had begun to appear in the mid-1990s.

Even with these early signs, the strong consensus of economists in January 2001 predicted a continuation of at least moderate growth. A few months later, it became apparent that the experts were wrong, and that the economy had slipped into a recession as 2001 began. Although the recession turned out to be shallow and mild and despite economic growth of 3.3 percent in 2002, the impact on federal tax collections defied history.

- Revenues declined two years in a row, the first such phenomenon in over 40 years.
- Revenues declined in 2002 by seven percent, the largest percentage decline since 1946.

The revenue bubble of the late 1990s was in large part due to the rise in the stock market, which caused capital gains receipts to soar. The revenue bubble also was a function of two other changes.

First, the federal government shifted the burden of federal income tax collections to rely more heavily on higher-income individuals. By 2000, the top one percent paid 37 percent of all individual income taxes and the top five percent paid 56 percent. Second, many employers changed the way they compensated their employees, particularly high-income employees, relying more heavily on bonuses and stock options tied to company profits and stock price. Because the recipients of all this new income paid much higher income tax rates than the average, the surge in income among upper-income taxpayers magnified the surge in tax revenues.

One unprecedented feature of the last two years was how rapidly this highly taxed income disappeared, taking with it tens of billions of dollars in federal revenue. Bonuses and stock options became widespread because of their flexibility. In good times, a company can generally reward top employees without building increases into its fixed cost structure. In fact, most such income automatically stops when business' performance or stock value drops. The rapid plummet in the total amount of highly taxed income helped produce the dramatic reduction in 2001 and 2002 tax receipts, a drop far beyond what historical experience would have predicted.

The recession and the popping of the revenue bubble played the two major roles in the return to deficits, but explicit policy decisions also contributed. For example, the Administration's original budget for 2002 envisioned a modest and steady increase in defense spending. The war on terrorism has required still higher spending on traditional defense, and has given birth to a new priority we call homeland security. All together, unanticipated spending to recover from the September 11th attacks, prosecute the war against international terror, and construct a homeland defense has totaled some \$100 billion through 2003. The recurring costs of the struggle amount to at least \$50 billion each year for the foreseeable future.

Investments and Economic Recovery

President Bush came to office advocating major tax relief for everyone who pays income taxes to strengthen the economy for the long run. As it turned out, the 2001 tax cut was also the right policy response to the immediate circumstances of a recession already underway. By reducing tax rates, increasing the child tax credit, and other changes, the 2001 tax bill provided tax relief just when it was needed most to support the economy and America's families. A common misconception (or distortion) is the suggestion that today's deficit is a consequence of the 2001 tax cut. In fact, if the tax cut of 2001 had never become law, the budgets for 2002 and 2003 would have been in deficit by \$117 billion and \$170 billion respectively. (In reality, the outcome would have been worse because the economy would have been even weaker.)

As the effects of the 2001 recession became clearer, the President called upon the Congress to enact a second measure to stimulate jobs and growth. In March 2002 the President signed into law legislation that included a temporary tax cut on new business investment, as well as an extension of benefits to meet the needs of the unemployed.

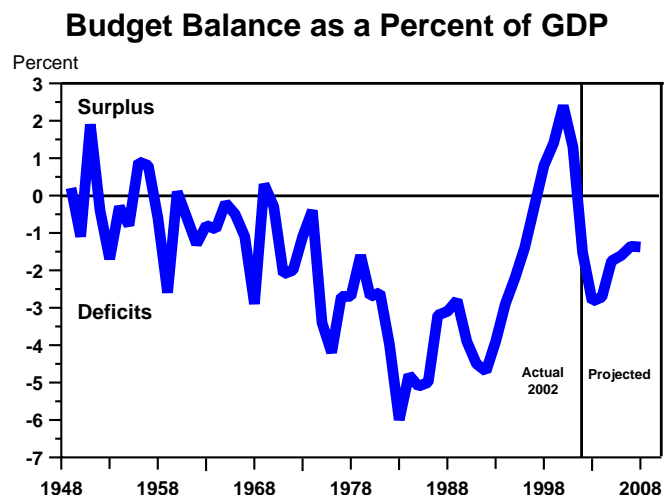
The tax relief laws enacted in 2001 and 2002 were vital to avoiding a longer, deeper recession, and to getting a recovery started. That recovery is over a year old. But its growth, at around three percent, is not sufficient in the President's judgment. Therefore, he has proposed a jobs and growth package to be enacted as soon as possible. This package would accelerate to 2003 critical provisions from the 2001 tax bill that otherwise would not take effect for one to three years. It would provide much greater leeway for small businesses to invest and expand, and strengthen investor confidence by ending the double taxation of shareholder dividends. See the chapter "For Everyone Willing to Work, A Job" for more details.

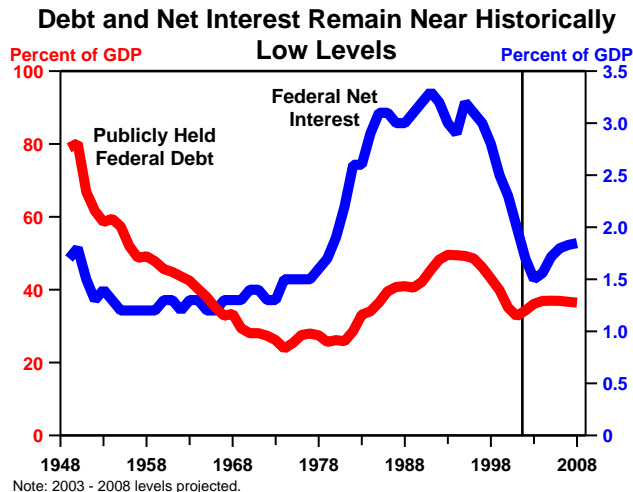
Putting the Deficits in Perspective

Through unavoidable, unfortunate, and unwelcome events, the budget has returned to deficits. But these deficits must be seen in perspective. Economists of virtually all viewpoints agree that modest deficits are tolerable and even appropriate during periods when the economy is underperforming. The question is, are today's deficit levels unacceptable? Should they be reduced even if that means less money invested in national security, homeland security, or the nation's economic growth?

By any measure, the projected deficit for 2004 must be judged as moderate. As a share of the economy (GDP), it would be smaller than in 12 of the last 20 years.

Perhaps the best indicator of the deficit's current impact is the interest costs it imposes on the budget. Due to today's extraordinarily low interest rates, the carrying costs of outstanding debt will actually fall this year from \$171 billion to \$161 billion.





Whereas in 1996 over 15 cents of each dollar of federal spending went to interest expense, this year interest payments will amount to only eight cents of each dollar, the lowest level in 26 years. Even a significant increase in interest rates as the economy strengthens will leave this figure far below its levels of the 1980s and 1990s. Meanwhile, the total national debt on which the nation must pay interest remains at a historically moderate level and far below the average in other major countries.

None of this is to accept budget deficits as a permanent fiscal condition, or to minimize the importance of controlling and eventually eliminating them. It is only to note that the nation

can clearly sustain budget deficits at the projected levels, and that the primary goal of policy should be to control them through spending restraint until a resurgent economy can restore fiscal balance.

A Cautious Forecast

The Administration estimates that if the President's policies are enacted the federal government will run a deficit of some \$307 billion this year. In view of the unprecedented revenue plunge of 2001–2002, the Administration has opted for a cautious revenue projection. After selecting conservative economic assumptions, the Administration further reduced its receipts forecast for 2003 and 2004 below what the economic and tax models indicate. The Administration has reduced its forecast for 2003 income tax receipts by \$25 billion below the models' predictions, and for 2004 the forecast for income tax receipts was reduced by \$15 billion. The net effect is that projected receipts remain flat this year when fiscal history suggests a sharp increase.

Although this forecast should protect against a negative surprise on the receipts side, one cannot know what sudden additional spending the war on terrorism might require. The budget's economic assumptions likewise are conservative, but uncertainties and the risks of further economic slowing cannot be ignored, as the President concluded in advancing his latest growth proposals.

A More Reasonable Timeframe for Forecasting Deficits and Surpluses

In keeping with the intention announced in last year's budget submission, this budget limits its forecast to five years (see page 38 of the 2003 President's Budget and page 8 of the 2003 Mid-Session Review). This change returns to the practice that prevailed for the 25 years prior to 1996. Prior to 1971, budgets looked ahead only *three* years. Since 1996, when the Office of Management and Budget made its first 10-year projection, these forecasts have varied to a stunning degree. The experiment with 10-year estimates led to many lengthy and unproductive debates on information that proved to be erroneous and unreliable.

Even five-year projections are fraught with uncertainty. The average absolute errors in projecting the surplus or deficit since 1982 have been large, and they increase in each year of the five year budget window. There has been a \$90 billion average absolute forecasting error for the first year alone.

A 90-percent confidence range for 2008 would stretch all the way from a \$281 billion surplus to a \$661 billion deficit, a range of nearly \$1 trillion. Based on the trend over the first five years, this confidence range would be expected to widen further beyond 2008.

CBO has made similar calculations and has estimated even larger uncertainty bands. CBO also has noted the problems with making five- and 10-year forecasts by stating, “Looking forward five or 10 years allows the Congress to consider the longer-term budgetary implications of policy changes. But it also increases the likelihood that budgetary decisions will be made on the basis of projections that later turn out to have been far wrong.”

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

Of course, it is appropriate to analyze the long-term impact of policies, particularly pension and other entitlement programs, where costs are driven by predictable populations and benefits that are defined in law. “The Real Fiscal Danger” chapter in this volume and the “Stewardship” chapter in the *Analytical Perspectives* volume extensively analyze and review these issues.

Meeting Priorities While Restraining the Growth in Spending

One conclusion is inescapable; the federal government must restrain the growth in any spending not directly associated with the physical security of the nation. Amid the return of deficits, uncertainty about revenue patterns, economic growth rates, and war costs, a posture of stern caution about spending is the only defensible policy.

There is no single gauge of whether spending is growing too fast or not, but certain guidelines are helpful. One requires that the path of spending should lead to a steady reduction in the deficit once the economy is growing vigorously again. Under the President’s 2004 Budget, this would be the case, as the deficit is projected to reach its peak of \$307 billion in 2004 and decline thereafter.

In directing the preparation of this budget, the President chose a common sense yardstick in establishing the boundary for new spending. At a time of both economic and fiscal difficulty, he believes that the government’s budget ought not grow faster than that of the American family. With estimates of family income growth clustered around four percent, the President’s budget chooses that as its benchmark, and proposes to fund the nation’s ongoing priorities within that reasonable limit.

To start the budget on a firm course back toward balance, the President further proposes to extend the Budget Enforcement Act controls that expired in 2002. He requests that the Congress impose, for 2004 and 2005, statutory caps on discretionary spending limited to the four percent growth in family income, along with a renewal of the “pay-as-you-go” requirement to constrain the growth of the non-essential spending during this period of unique economic and international uncertainty.

As important as controlling yearly deficits is, a vastly greater fiscal threat awaits the nation’s attention. We must not lose sight of the long-term challenge to modernize and reform Medicare and Social Security to ensure these vitally important programs can serve the needs of future generations. See “The Real Fiscal Danger” chapter for more details.

THE REAL FISCAL DANGER

The current system is financially unsustainable. Without reform, the promise of Social Security to future retirees cannot be met without eventual resort to benefit cuts, tax increases, or massive borrowing. The time to act is now.

Interim Report of the President's Commission to Strengthen Social Security
August, 2001

Without meaningful reform, the long-term financial outlook for Medicare is bleak...When viewed from the perspective of the entire budget and the economy, the growth in Medicare spending will become progressively unsustainable over the longer term.

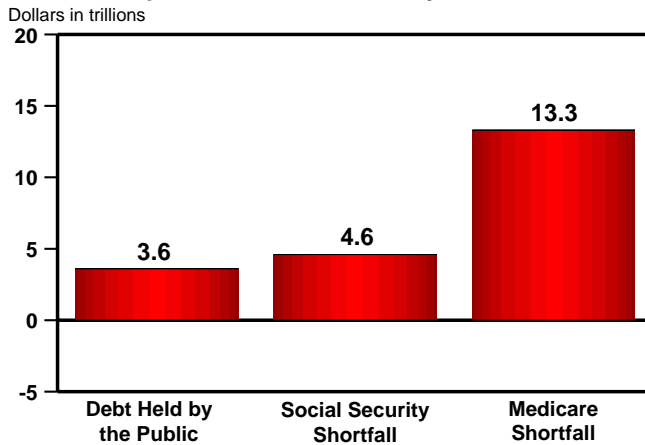
David Walker, Comptroller General of the United States
April 7, 2002

As noted frequently in this document, the federal government appears likely to spend more than it takes in for at least the next few years. Although the resulting deficits are manageable by any reasonable standard, they are cause for legitimate concern and attention. But whatever judgment one reaches about the deficit of this year or even the next several years combined, these deficits are tiny compared to the far larger built-in deficits that will be generated by structural problems in our largest entitlement programs. Social Security and Medicare combine to provide financial support to 39 million seniors—14 percent of our population—and account for one-third of total federal spending. As our population ages and health care costs continue to escalate, the costs of these programs will grow enormously, in fact, so rapidly that they will threaten to overwhelm the rest of the budget.

Americans have often heard that Social Security and Medicare are in deep trouble financially, and the simple reason is that the benefits promised under these programs will soon far outstrip their dedicated revenues. Over the long term, the actuaries of the Social Security Administration project that the cost of all benefits paid to current beneficiaries and promised to future retirees exceed Social Security revenues by almost \$5 trillion. The Medicare shortfall is even worse at more than \$13 trillion.

Citizens and policymakers rightly monitor and debate the size of the national debt, which stands at \$3.5 trillion in public hands, with another \$2.7 trillion credited to various government trust funds. But in 2002 the combined shortfall in Social Security and Medicare of nearly \$18 trillion was about five times as large as today's publicly held national debt. In other words, it would take an additional \$18 trillion in today's dollars to pay for the obligations of these systems as they are now constituted. This is roughly the equivalent of the total income Americans will earn over the next year and a half. Expressed yet another way, the combined shortfall in Social Security and Medicare was eight times the amount of total government spending in 2002.

Social Security and Medicare Unfunded Promises Compared with Debt Held by the Public



The figures on Social Security and Medicare's unfunded promises are subject to some variation depending on the underlying assumptions made. (The analysis is presented in much greater detail in the Stewardship chapter in the *Analytical Perspectives* volume.) However, no conceivable combination of reasonable assumptions can erase the problems in Social Security or Medicare. The Social Security and Medicare shortfalls compel change. They must not be left hanging over the heads of our children and grandchildren. The longer the delay in enacting reforms, the greater the danger, and the more drastic the remedies will have to

be. The Administration is committed to making these two programs financially sustainable so they can continue to serve our seniors now and in the future without jeopardizing the financial security of generations to come.

Entitlements on the Brink

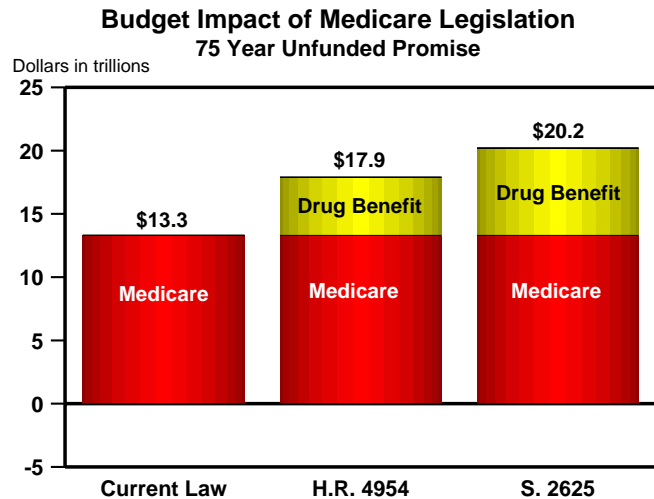
Social Security and Medicare represent an enormous financial burden for America's workers through the payroll tax. The Social Security portion of the tax is 12.4 percent of a worker's wages up to a total tax take of \$10,528 in 2002, while Medicare's tax is 2.9 percent of wages and there is no cap on the tax. For the great majority of households, the amount paid in payroll taxes each year (counting both the employer and employee share) exceeds that paid in federal income taxes. The true burden is even heavier; to pay Medicare's bills a massive subsidy (\$78 billion in 2002) must be funded out of other government taxes.

Despite the enormous revenue flows into Social Security and Medicare, totaling \$729 billion in 2002, these programs are going to spiral out of control. Social Security's dedicated receipts, which include both payroll taxes and income taxes levied on Social Security benefits, did exceed Social Security spending by \$82 billion in 2002. But by 2017 this surplus is projected to become a deficit and Social Security as presently designed would never return to balance.

Medicare is in even worse shape. Its payroll taxes do not even come close to covering its costs, and the gap is projected to get steadily worse absent reform of the system. Medicare's problems are so much worse simply because its promised benefits grow with the increase in health care costs, which are widely projected to grow much faster than inflation. So Medicare and Social Security must each be refashioned to address the fact that there are more and more beneficiaries per worker paying taxes into these systems, but Medicare must also be reformed to account for rapidly rising health care costs.

Given the financial challenges faced by Medicare in the future, the Congress must be extremely careful that legislative changes not add to long-term unfunded promises. As a case in point, the bills that advanced furthest in the last Congress would have increased the Medicare long term unfunded promise by an estimated \$4.6 trillion and \$6.9 trillion, respectively.

These high and perpetual deficits make it obvious that Social Security and Medicare are in deep trouble. But it can still be difficult to grasp the true magnitude of the problems they pose for future workers. These are highly complex programs extending over many generations. For the same reasons, it is inadequate to assess the long-run financial consequences of a proposed change in these programs over a one-, five-, or even a 10-year horizon. What a proposed reform is estimated to cost over its first five or 10 years is less important than whether it reduces or worsens the unfunded (and unfundable) liabilities of the system. Hence the importance of taking a longer time horizon, for example, as is reflected in the 75-year estimates.



What Does \$18 Trillion Mean to You?

While the analysis may be unfamiliar to many Americans, the meaning of the results is straightforward. Total household wealth in the United States was \$40.2 trillion in 2002. The combined Social Security and Medicare shortfall is nearly \$18 trillion. This means that the federal government would have to confiscate almost half of all household wealth to have the resources necessary to close both these programs' future financing gaps.

Of course, it is not necessary to pre-fund promised Social Security and Medicare benefits immediately. In theory, the Congress could enact a 7.1 percent permanent increase in the payroll tax to close the combined shortfalls over time. This would mean a permanent payroll tax increase to a rate of 22.4 percent, amounting to about \$3,000 in additional taxes every year for an average family. A tax increase of this magnitude is unthinkable. It would devastate the economy, job growth, and family finances, but it does serve to indicate the magnitude of the problem we would be leaving to future generations if we fail to act.

Today's seniors and near retirees are counting on Social Security and Medicare to provide retirement income and health insurance. They should never doubt that promises made will be promises kept. But it is also true that these programs cannot continue as they are structured today. We must make a different kind of promise to the retirees of tomorrow. We must not delay in enacting reforms to make these programs financially sustainable. Delay erodes the confidence of today's workers that Social Security and Medicare will be there for them when they retire. And delay increases the financial threat that we leave to our children and grandchildren.

GOVERNING WITH ACCOUNTABILITY

We want to make sure when we spend money, that it meets needs. . . . that's what the American taxpayer expects. They expect results and I expect results.

President George W. Bush
April 9, 2002

Government-wide Initiatives on the President's Management Agenda

- Strategic Management of Human Capital
- Competitive Sourcing
- Improved Financial Performance
- Expanded Electronic Government
- Budget and Performance Integration

With that plain spoken appeal, President Bush conveyed to his appointed leaders that he had chosen them not to mark time but to achieve real change. His call demands measurable results that matter in the lives of the American people.

This mandate gave birth to the President's Management Agenda, launched in August 2001. As the President has said, the five main challenges he selected represent "the most apparent

deficiencies where the opportunity to improve is greatest." The Administration harbors no illusions that leaps forward will come easily. Constant effort must be made to find ways to save and stretch taxpayer dollars, many through small improvements. Breakthrough gains may come only after years of dedicated, even tedious, effort.

Because facing such challenges requires sustained effort, the President's Management Agenda tracks agencies' status against established Standards for Success as well as their progress toward meeting the standards. Status and progress are rated using the familiar symbols of red, yellow, and green. Grades are reported on the Executive Branch Scorecard at the end of this chapter.

Since the scorecard's unveiling in the 2003 Budget a year ago, 26 federal departments and agencies have been working to upgrade their ratings in those areas most in need of improvement. The good news is that signs of progress outnumber distress signals, as 11 departments or agencies show 17 changes for the better, while two agencies slipped in the management of their finances.

Although effort and management attention have been strong at virtually every agency, progress has been uneven.

The Administration will follow closely how and whether agencies put their plans into effect. When shortfalls in results become apparent, we will take corrective action.

Explanation of Status Scores	
Green	Agency meets all of the standards for success.
Yellow	Agency achieves some, but not all, of the criteria.
Red.....	Has any of a number of serious flaws.
Explanation of Progress Scores	
Green	Implementation is proceeding according to plans.
Yellow	Slippage in implementation schedule, quality of deliverables, or other issues requiring adjustments by agency in order to achieve initiative on a timely basis.
Red.....	Initiative in serious jeopardy. Unlikely to realize objectives without significant management intervention.

Some real management advances in the federal government have been racked up over the past year. For example:

- Both the Department of the Treasury and the Social Security Administration (SSA) met—two years early—the goal to produce audited financial statements by November 15th, just 45 days after the end of the year, compared with 151 days under previous administrations.
- The Department of Health and Human Services (HHS) has reduced its personnel offices from 40 to seven, and will eventually move to just one. This and other consolidations will allow HHS to deploy hundreds of employees to the front lines to deliver services directly to the American people.
- The Department of Defense (DoD) reduced headquarters staff by 11 percent, reducing civilian employees by over 3,000 in just the last year.
- Rules for conducting public-private competitions have been slashed by almost 12,000 words, cutting the time for conducting competitions from as much as four years to a maximum of just one year.
- The Department of Veterans Affairs (VA) is opening up the activities of 52,000 employees to competition over the next five years, 25,000 of them in 2003 alone.
- For the first time ever, auditors said the Department of Agriculture's financial statements accurately reflect its financial status.
- Government agencies and employees are paying their credit card bills more quickly. The federal government began 2002 with 10 percent of its individually billed travel accounts delinquent. That amount has been reduced to six percent, bringing total delinquent dollars for individually billed accounts down by over \$310 million.
- The number of government-owned vehicles will decline by more than 10,000, from 586,450 in 2001 to 576,039 in 2004. (See the motor vehicles table later in the chapter.)
- Citizens are now only three clicks from transactions and services on the redesigned website *www.Firstgov.gov*, which Yahoo!© rated one of the "world's 50 most incredibly useful websites."
- The *GovBenefits.gov* website provides, with a minimum of red tape, an online tool for citizens to learn about federal benefit programs for which they may qualify.
- Free Filing, debuting in 2003, will enable 60 percent of taxpaying Americans to prepare and file their taxes online and without cost.

While progress to date is encouraging, agencies, by and large, have been moving to address more easily corrected problems. The challenges will undoubtedly increase in 2003. The coming year will be critical to sustaining the agenda's momentum and achieving the goals envisioned by the President.

The Department of Homeland Security—A Starting Point for Managerial Flexibility

When the President proposed a new Department of Homeland Security (DHS), the debate focused to a large extent on whether the Department would be able to execute its mission under the constraints of a decades-old statutory management framework. The President sought significant flexibility in hiring processes, compensation systems and practices, and performance management to recruit, retain, and develop a motivated, high-performance, and accountable workforce. After a vigorous debate on the subject, the Congress and the Administration adopted these and other managerial flexibilities for the new Department.

The law governing DHS also includes important, but limited, government-wide authority. For example, agencies will have the ability to offer pay incentives to individuals who want to retire or leave government early if theirs are not the agencies' most needed skills. The law also provides that agencies may use an expedited hiring process if a shortage or critical hiring need exists. It's a start well worth continuing.

Yet the success in obtaining managerial flexibility for the new Department stands in contrast to the inaction of the Congress on other common sense management proposals the President submitted more than a year ago. As it has before, the Administration will seek to reflect program costs more accurately by assigning all employee costs, including those relating to the accrued costs of retirement and retiree health care benefits, to the appropriate program. The Administration also seeks greater flexibility in managing and disposing of property held by the government.

If nothing else, the debate surrounding the creation of DHS reinforced the need for broad management reform for the entire executive branch. The Administration will work with the new Congress to reform systems and policies so that the government can better protect Americans, as well as improve services the federal government delivers.

A discussion of overall achievement in the five government-wide areas follows. Individual agencies' success or lack of it in the government-wide initiatives, as well the program specific initiatives are presented in subsequent chapters and in the *Performance and Management Assessments* volume. As implementation continues, the focus will sharpen on actions that demonstrate real change.

Strategic Management of Human Capital

The federal government faces a crisis in personnel management. Federal agencies, for too long, have not managed themselves well enough to know whether they had the right people with the right skills to do their work. Making the federal workforce challenges even greater, 40 percent of all federal workers and 71 percent of senior executives will be eligible to retire by 2005.

The Strategic Management of Human Capital initiative gives agencies the tools they need to get the workers with the right skills to do the federal government's work in the 21st Century. Over the past year, agencies have devoted considerable time to developing human capital plans to make their organizations more citizen-centered, ensure that their staff have the necessary skills to achieve the agency's mission, and hold managers and employees accountable for results.

The Human Capital initiative must now move beyond the planning stage. While thoughtful analysis had to precede significant workforce restructuring, progress assessments in the coming year will be based on concrete action that agencies take, such as reforming their performance appraisal systems, developing succession plans, and streamlining their organizations toward more citizen-centered service.

Several agencies already have taken action like DoD's headquarters reorganization. Other examples include:

- SSA has moved almost 300 employees from staff positions to front-line service delivery to provide better assistance to its customers.
- The Department of Justice will pull its multiple performance appraisal systems together into a single system.
- The Departments of Energy, HHS, and Labor are among agencies that have placed all managers under a performance management system that links their assessments to meeting organizational goals.

But it's not easy. Consider the Office of Personnel Management (OPM) Director Kay James' effort to make senior government executives more accountable. She learned that in 2000, federal agencies gave 85 percent of their senior executives the highest possible performance rating—an assertion that virtually everyone in Washington is way above average. Despite James' urging agencies to begin distinguishing the best performers from others, almost nothing changed. In 2001, more than 83 percent of senior executives received the highest possible rating. Five agencies gave 100 percent of their senior executives the highest rating and six more gave it to 90 percent of their senior ranks. Such figures let the public know that federal managers are not yet serious about holding themselves or their staffs accountable.

The government's human capital problems derive in large part from our antiquated civil service laws, which were designed for a workforce that exists only in the history books. In 1950 when the GS system was implemented, the largest concentration of employees was in clerical positions at the GS-3 through GS-5 pay level. Today, over half of federal staff is at the GS-11 level or above, reflecting changes in business processes and skill requirements in the federal workforce over a period of decades.

The rigidity of the current civil service system makes it difficult to attract and retain more highly skilled employees. Hiring commonly takes six months or more, much of it spent by managers navigating around rules that overwhelm the process. Pay and performance are generally unrelated. Exceptional employees find themselves locked in "time-in-grade" pay prisons, as requirements dictate that performers stay at least one year at, say, a GS-12 level before moving, and then only as high as a GS-13. Even worse, pay over the course of a federal career is heavily determined by the level at which a civil servant begins working.

Meanwhile, mediocre employees benefit, receiving the same pay raises as their harder working colleagues. The federal government's termination rate for poor performance is less than one-tenth of one percent.

For 2004, the Administration proposes to allow managers to increase pay beyond annual raises for high-performing employees and address other critical personnel needs. A new fund of \$500 million will be established at OPM for a stable of pay-for-performance plans. Rewarding top employees and those with unusually important skills is preferable to the traditional method of evenly spreading raises across the federal workforce regardless of performance or contribution.

Competitive Sourcing

The Competitive Sourcing initiative, despite its enormous potential for savings to taxpayers, has registered the least progress so far. All agencies are rated red for status. None has opened up a sufficient number of commercial activities to competition. Because this initiative in many ways represents such a significant departure from the old way of running the government, it faces the greatest obstacles.

For example, the General Services Administration (GSA), an organization whose mission is to help federal agencies by performing what most would view to be commercial services—buying goods and services, acquiring and managing properties, and offering related support services—categorized only 44 percent of its staff as commercial.

On the other hand, DoD has traditionally led the government in putting its commercial activities up for competition. The Department is currently conducting competitions on approximately 30,000 civilian positions, including cafeteria services, facilities maintenance, aircraft maintenance, and supply functions. Further progress rests on a strong commitment to start new competitions.

The Department of Transportation's (DOT's) Federal Aviation Administration (FAA) is moving forward on an ambitious competitive sourcing initiative on its Flight Service Stations, which provide a range of services available from private industry such as weather briefings for pilots. In spite of the challenges that its nationwide, 58-location scope presents, the FAA is moving forward methodically to ensure that high-quality service continues to be provided to the American traveling public and that all potential service providers are dealt with fairly. The Department of Energy also has started public-private competition on information technology and financial systems across the Department.

The competitive sourcing initiative also seeks to provide managers with additional options for providing services more cost-effectively or acquiring skills or service that may not be available in-house.

One of the roadblocks holding back agencies is the long-standing process guiding public-private competitions. As defined in OMB Circular A-76, the process has been unnecessarily bureaucratic and lengthy, sometimes taking up to four years. To help agencies implement the Presidential initiative and building on the recommendations of the Commercial Activities

Panel chaired by the Comptroller General, the Administration is simplifying the A-76 process. The new process will be quicker and easier. The number of pages of instructions has been slashed by almost 12,000 words, or more than 30 percent. The timeframe for conducting competitions should be no more than a year in almost all cases. Agencies will compete on a level playing field with the private sector and no longer have extended timeframes or other advantages over the private sector.

Competitive Sourcing and the 2004 Budget

The promise of competition was on display in the printing of this budget. The Office of Management and Budget (OMB) decided that the traditional practice of using the Government Printing Office (GPO) as the mandatory source for printing the President's Budget was neither fair nor economical and, as advised by the Department of Justice, not required by law. For the first time, OMB requested bids and received several, which would not have happened prior to OMB's new policy. On a comparable basis, the GPO cost estimate for printing this budget was 23 percent less than the previous year, and the lowest cost in at least 20 years—just one example of how competition saves the taxpayer money and, in many cases, produces better business processes along the way.

Improved Financial Performance

The Improved Financial Performance initiative is enhancing the quality and timeliness of financial information so that it can be used to manage federal programs more effectively, while preventing waste, fraud, and abuse. The financial management challenges facing the government are long-standing. Progress in many cases depends on installing new computer systems that in some cases will require several years. Making progress will be hard.

One of the major changes the Administration instituted at the outset of this initiative was to accelerate the due date of agencies' financial statements. If financial information is only available five months after the fiscal year ends, it is of limited use to anyone. So, as a first step, 2002 financial

statements were due February 1, 2003, or nearly a month earlier than the statutory due date of February 28th.

The Administration also has required agencies to produce interim financial statements to establish the practice of preparing financial statements on a regular basis. All agencies provided six-month interim 2002 financial statements by the June 30 deadline. We have required them to combine their financial statements with their performance reports. Information about agency finances and program performance in one document will be available this year.

Soon, bigger tests will come. For 2004, agencies will be required to produce audited financial statements by November 15th. This acceleration means that agencies will no longer be able to use manual processes to prepare statements once a year. They will need to change the way they collect and compile financial information so that it will be more timely, reliable, and useful. The Department of the Treasury and SSA's production of audited financial statements within 45 days of the year's close prove that these goals are within reach.

Challenges, though, have grown more demanding. This initiative was launched in an environment of enhanced scrutiny of financial management practices everywhere. The credibility of some financial auditors was appropriately called into question, causing entities and their auditors to tighten the standards they applied in their audits. It was in this environment that new auditors of the National Aeronautics and Space Administration (NASA) downgraded their opinion of the agency's financial statements. This resulted in the deterioration of NASA's status rating from yellow to red, but indications are that NASA will be able to demonstrate substantial improvement in its 2002 audited financial statements.

Credit Card Abuse in the Federal Government

The federal government sponsors more than 2.5 million credit cards for employees to use in purchasing goods and services or when traveling on official government business. Audits and press reports have highlighted abuses of these cards by federal employees.

- Over \$4 million in inappropriate transactions by employees at one agency appear to have been made with pawn shops, jewelry stores, and antique shops.
- The Director and the head of audits and assessments at Los Alamos National Laboratory resigned amid charges that lab employees made nearly \$5 million in questionable credit card purchases.
- One federal employee used the names of legitimate companies on falsified invoices to conceal \$14,000 in personal purchases.
- At one agency, purchases for over \$439,000 were processed for card accounts that were no longer approved for use.

As an initial step at improving controls over government-issued credit cards:

- DoD has targeted 300,000 infrequently used travel cards for cancellation, more than 10 percent of the total issued by the federal government.
- The Department of Education now prohibits official credit card use at about 300 types of businesses, like casinos, limousine rental companies, and veterinarians, among others that should have been prohibited in the first place.
- The Department of Housing and Urban Development (HUD) has reduced unpaid travel card account balances from \$389,000 to \$15,000.

The Administration will continue to monitor credit card usage by federal employees, requiring quarterly reports by agencies of the number of cards in use, the controls in place to monitor them, and any abuses discovered.

Reducing Erroneous Payments

The Administration has launched a major effort to reduce erroneous payments—in other words, payments the government makes in error. In most instances, they are overpayments. But in all cases, taxpayers are shortchanged.

For the first time ever, agencies were required to report the extent of erroneous payments made in their major benefit programs. Initially, just a few agencies voluntarily reported erroneous payments in their annual financial statements. Now, 15 agencies have estimated their erroneous payment rates. But programs like Medicaid and School Lunch will have to design from scratch a methodology to examine the integrity of program payments.

Fifteen agencies reported making more than an estimated \$30 billion in erroneous payments in 2001. The largest amounts are:

Medicare	\$12.1 billion
Earned Income Tax Credit	\$9.2 billion
Housing Subsidy Programs	\$3.3 billion
Supplemental Security Income.....	\$1.6 billion

During the past year, the Administration expended considerable effort to prevent a further erosion of controls over payments from federal programs. The Department of Agriculture's Food and Nutrition Service, for instance, pursued cash sanctions against states with above-average error rates. During the Congress' recent reauthorization of the Food Stamp Quality Control program, attempts were made to dilute the accountability of states and erode the federal government's ability to maintain fiscal accountability. The Administration opposed and will continue to oppose efforts to weaken financial controls and program integrity.

Congress endorsed the President's effort to reduce erroneous payments when it passed the Erroneous Payments Information Act of 2002. This bill requires an estimate of the extent of erroneous payments from all federal programs. Program-wide erroneous payment estimates can only help stem the loss to the federal government in waste, fraud, and abuse—too much of which is taking place without an accounting.

Strengthening Asset Management

In another area of deficiency, the Administration will monitor agency asset management practices as part of the Improved Financial Performance initiative. The federal government's asset management practices have been shown to be particularly weak.

According to its financial statements, the federal government owns \$307 billion in property, plant, and equipment, \$209 billion in loans receivable, and \$184 billion in inventories and related property. But the assets reported on the balance sheet are only a small portion of the assets actually owned by the federal government. DoD property and the government's immense land holdings do not show up on government financial statements. For instance, the federal government holds title to 28 percent of the United States' entire land mass. It owns sites and structures, monuments, memorials, cemeteries, as well as the items in its museums and libraries, including major works of art and historical documents.

Agency management of vehicle fleets will also be monitored as part of agency asset management practices. The government owns more than half a million cars and trucks and spends over \$2 billion annually to operate them. In April 2002, the Administration asked agencies to take a closer look at their motor vehicle fleets and to report any planned reductions and cheaper leasing arrangements

by the end of the fiscal year. The military agencies and several civilian agencies, notably the Departments of Energy, HHS, the Interior, and GSA projected reductions ranging from five percent to 15 percent. These reductions were offset, however, by equally significant increases in agencies with expanded law enforcement and security-related missions. For example, the new bureaus within the DHS estimated a 21-percent rise in their vehicle fleets, from 28,502 to 34,460 vehicles. Justice projected that its fleet would increase nine percent, from 31,981 vehicles in 2001 to 34,847 in 2004.

The Administration will demand that assets be justified and accounted for and that plans be made for purchases, management, maintenance, and operation.

Vehicle Inventories to Drop from 2001–2004

	2001	2004	Change
Army	73,209	62,531	-15%
Air Force	46,890	40,065	-15%
GSA	1,470	1,286	-13%
HHS	3,388	2,977	-12%
Energy	16,655	15,082	-9%
Defense Contract Management Agency	1,058	984	-7%
Interior	34,397	32,660	-5%
Defense Agencies	4,263	4,029	-5%
Navy	40,005	39,141	-2%
Labor	4,118	4,034	-2%
Agriculture	39,588	39,105	-1%
NASA	2,261	2,235	-1%
Marine Corps	11,141	11,107	—
Environmental Protection Agency	1,105	1,109	—
US Postal Service	210,102	211,650	1%
Commerce	1,916	1,979	3%
Treasury	3,679	3,772	3%
Agencies with under 1,000 vehicles	3,228	3,384	5%
Corps of Engineers	4,508	4,763	6%
Transportation	5,920	6,345	7%
Veterans Affairs	8,403	9,029	7%
Justice	31,981	34,847	9%
State	6,521	7,104	9%
Defense Logistics Agency	2,142	2,361	10%
Homeland Security	28,502	34,460	21%
Total	586,450	576,039	-2%

Expanded Electronic Government

The Internet and the electronic age have made more information accessible at the touch of a button. Government information should be at the forefront of this new revolution. That's where the combination of the Internet and E-Gov come in. Twenty-four high-payoff E-Government initiatives that will maximize government productivity have been launched. Many are already on line and serving citizens. They include:

- *Recreation.gov* allows people to log onto the Internet to find information about publicly owned federal, as well as state and local recreation sites.
- *Business.gov* provides businesses access to information about laws and regulations where they can use a series of interactive tools to help them understand how those laws and regulations apply to their business.

- The *GoLearn.Gov* portal provides online training for tens of thousands of government employees for pennies per course, teaching thousands of government workers for a fraction of traditional costs.
- The E-Grants initiative is creating a single electronic grant application that allows applicants to enter identifying information once—like a single, unique identifier—which would untangle the process for them and the agencies that track them.

Analysis reveals that few federal information technology investments have significantly improved service to the taxpayer. Many major information technology projects do not meet cost, schedule, and performance goals. To address this, the Administration is scrutinizing funding of projects that are “at risk” of failing. Those projects that failed this trio of tests either were not recommended for support for 2004 or will remain on an “at risk” list. Many of those projects either didn’t adequately address security risks or make business sense.

OMB is now requiring agencies to submit business cases for over \$34 billion in proposed spending, up from less than \$20 billion a year ago. For those projects that made an adequate case, the quality of justifications has gone up. (Total Information Technology (IT) spending across the government is now almost \$60 billion.)

Implementation of the Government Information Security Reform Act has provided a baseline for agency IT security performance, an audit trail of what has been secured, and the identification of what still needs to be done. Because too many agencies propose funding for IT projects without adequately addressing important security issues, the budget process is being used to redirect funding to address these critical security issues.

To succeed in making the government a modern, electronic enterprise, we must continue to address these chronic problems. The passage of the E-Government Act of 2002 codifies the Office of Electronic Government, which was set up in 2001 to spearhead the Administration’s efforts in this area. It also creates an E-Gov fund to help leverage agency investments in cross agency initiatives and promotes the Administration’s efforts to ensure computer security. The bill enhances the Administration’s ongoing support for specific initiatives like on-line rulemaking, which allows interested parties to comment on draft regulations over the Internet.

Budget and Performance Integration

The Budget and Performance Integration Initiative follows through on the President’s commitment to build a results-oriented government that funds what works and reforms or ends failing federal programs, redirecting or recapturing their funding. This initiative has shown the most improvement since September 2001. While no green status scores have been achieved yet, gains in a half-dozen departments and agencies can point to concrete results to justify why programs deserve additional resources.

For example, DOT’s Federal Highway Administration has justified additional budget resources by linking highway safety gains to planned use of rumble strips and reflectors to prevent run-off-the-road crashes, which kill thousands of motorists every year.

The Department of Labor shows the full cost of the many training programs it funds; the sources of federal funding; and the extent to which participants get jobs, keep them, and increase their earnings. Presentations like these help policymakers get results for citizens, shifting funds to programs that work best and away from those that do not.

Many other agencies are also working to present their budgets with information telling how well they’re doing. However, program performance information is still often unclear or not measured at all. And when programs are measured, more often than not there is little or no connection between

performance data and budget decisions. The Administration is using the Program Assessment Rating Tool (PART) to correct this shortcoming.

With the PART, this year OMB along with its colleagues in the agencies reviewed about 20 percent of all federal funding, or some 234 programs. The process of completing the evaluations was sometimes contentious. Nonetheless, it generated a great deal of constructive dialogue about program strengths and weaknesses, as well as the importance of demonstrating program results. Only about half of federal programs evaluated were able to demonstrate results; as a consequence, the detailed findings from the assessments, rather than the overall rating, helped inform budget decisions.

Another key aspect of this initiative has been the development of a set of common performance measures for programs that deliver the same service. Dozens of programs offer job training services in one form or another. The question is: Which ones work well? But even more importantly, which ones help people land and keep solid jobs? Common measure data will allow for comparisons that may reveal opportunities for improvement and increased efficiency. While this first year of efforts focused on six areas—housing, job training, wildfire management, flood mitigation, health, and environment—it will be expanded in the coming year.

Discussions of these specific initiatives can be found in the chapters of agencies chosen to lead each effort. Highlights on how agencies fared in the President's Management Agenda can be located near the close of their respective chapters. A compendium of performance information, including data on PART evaluations conducted this year, is contained in the *Performance and Management Assessments* volume.

The Scorecard

The Executive Branch Management Scorecard that follows is the device the Administration uses to track agencies' efforts in implementing the agenda. Throughout the year, agencies are monitored and ratings are given at the end of each quarter on each initiative. Status ratings are evaluated against the standards for success included in the *Performance and Management Assessments* volume. The standards were developed in consultation with federal agencies through the President's Management Council, the group of agency leaders charged by the President to implement the agenda. Progress ratings assess the agencies' work in developing viable, ambitious plans for achieving the standards and their efforts to implement the plans.



















Since July 2002, ratings for each quarter have been posted on the *Results.gov* website. The scorecard published here includes ratings for the quarter that ended December 31, 2002, and shows changes in status since the Administration conducted the first evaluation of September 30, 2001. Since then, a single green light has been added to the one that appeared on the original scorecard. And the second green shows up in the agency that earned the first—the National Science Foundation (NSF). This scorecard includes status scores only for DHS, due to its newness. The second scorecard reports progress on the nine program initiatives.

Executive Branch Management Scorecard

	Current Status as of December 31, 2002					Progress in Implementing the President's Management Agenda				
	Human Capital	Com- petitive Sourcing	Financial Perf.	E-Gov	Budget/ Perf. Inte- gration	Human Capital	Com- petitive Sourcing	Financial Perf.	E-Gov	Budget/ Perf. Inte- gration
AGRICULTURE	●	●	●	●	●	●	●	●	●	●
COMMERCE	●	●	●	●	●↑	●	●	●	●	●
DEFENSE	●↑	●	●	●	●↑	●	●	●	●	●
EDUCATION	●	●	●	●↑	●	●	●	●	●	●
ENERGY	●↑	●	●↑	●↑	●	●	●	●	●	●
EPA	●	●	●↑	●	●	●	●	●	●	●
HHS	●	●	●	●	●	●	●	●	●	●
HOMELAND	●	●	●	●	●	●	●	●	●	●
HUD	●	●	●	●	●	●	●	●	●	●
INTERIOR	●	●	●	●	●	●	●	●	●	●
JUSTICE	●	●	●	●	●	●	●	●	●	●
LABOR	●	●	●↑	●	●↑	●	●	●	●	●
STATE	●	●	●	●	●	●	●	●	●	●
DOT	●	●	●	●	●	●	●	●	●	●
TREASURY	●	●	●	●	●	●	●	●	●	●
VA	●	●	●	●↑	●↑	●	●	●	●	●
AID	●	●	●	●	●	●	●	●	●	●
CORPS	●	●	●	●	●	●	●	●	●	●
GSA	●	●	●	●	●	●	●	●	●	●
NASA	●↑	●	●↓	●	●↑	●	●	●	●	●
NSF	●	●	●	●↑	●	●	●	●	●	●
OMB	●	●	●	●	●	●	●	●	●	●
OPM	●	●	●↑	●	●	●	●	●	●	●
SBA	●	●	●↓	●	●	●	●	●	●	●
SMITHSONIAN	●	●	●	●	●	●	●	●	●	●
SSA	●	●	●	●	●↑	●	●	●	●	●

Arrows indicate change in status since baseline evaluation on September 30, 2001.

Program Initiative Scorecard

Initiative	Status	Progress
Faith-Based and Community Initiative		
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		
Broadened Health Insurance Coverage Through State Initiatives		
A "Right-Sized" Overseas Presence		
Reform of Food Aid Programs		
Coordination of VA and DoD Programs and Systems		

Arrows indicate change in status since baseline evaluation on June 30, 2002.

RATING THE PERFORMANCE OF FEDERAL PROGRAMS

The measure of compassion is more than good intentions, it is good results. Sympathy is not enough.

President George W. Bush
April 2002

Federal programs should receive taxpayer dollars only when they prove they achieve results. The federal government spends over \$2 trillion a year on approximately 1,000 federal programs. In most cases, we do not know what we are getting for our money. This is simply unacceptable.

Good government—a government responsible to the people whose dollars it takes to fund its operations—must have as its core purpose the achievement of results. No program, however worthy its goal and high-minded its name, is entitled to continue perpetually unless it can demonstrate it is actually effective in solving problems.

In a results-oriented government, the burden of proof rests on each federal program and its advocates to prove that the program is getting results. The burden does not rest with the taxpayer or the reformers who believe the money could be better spent elsewhere.

There can be no proven results without accountability. A program whose managers fail year after year to put in place measures to test its performance ultimately fails the test just as surely as the program that is demonstrably falling short of success.

These ideas are simple, but they do not reflect how things have operated in the federal government. Instead, the Washington mentality has generally assumed that program funding should steadily increase with the only question being “by how much?” This type of thinking has wasted untold billions of dollars and prevented the emergence of results-oriented government.

This budget makes an unprecedented effort to assess the effectiveness of specific federal programs. It introduces a new rating tool to hold agencies accountable for accomplishing results. Programs are rated from Effective to Ineffective, and the ratings and specific findings produced will be used to make decisions regarding budgets and policy. The tool assumes that a program that cannot demonstrate positive results is no more entitled to funding, let alone an increase, than a program that is clearly failing.

This Program Assessment Rating Tool (PART) is discussed in greater detail below. It is far from perfect. In fact, after using it for the first time, we have identified a number of shortcomings that will need to be addressed. But it is an important next step in changing the way federal managers think about their responsibilities. It places the burden of proving effectiveness squarely on their shoulders. With further improvement and use, it will provide incentives for federal managers to make their programs more effective. It will provide meaningful evidence to the Congress and other decision-makers to help inform funding decisions, and identify flaws in underlying statutes that undermine effectiveness.

Demanding that programs prove results in order to earn financial support, however obvious and sensible, marks a dramatic departure from past practice. No one has asked about the extent to which Elderly Housing Grants help the one million very low-income elderly households with severe housing needs. Is \$4.8 billion in federal foster care funding preventing the maltreatment and abuse of children by providing stable temporary homes? Have federal efforts to reduce air pollution been successful? These programs seek to accomplish important goals but fail to provide evidence that they are successful in serving the citizens for whom they are intended.

Even programs known to be failing continue to get support. For example, the Safe and Drug Free Schools Program, which a 2001 RAND study determined to be fundamentally flawed, has only grown larger and more expensive. The current system discourages accountability, with no participant incentives to take responsibility, much less risks, to produce improvements in results.

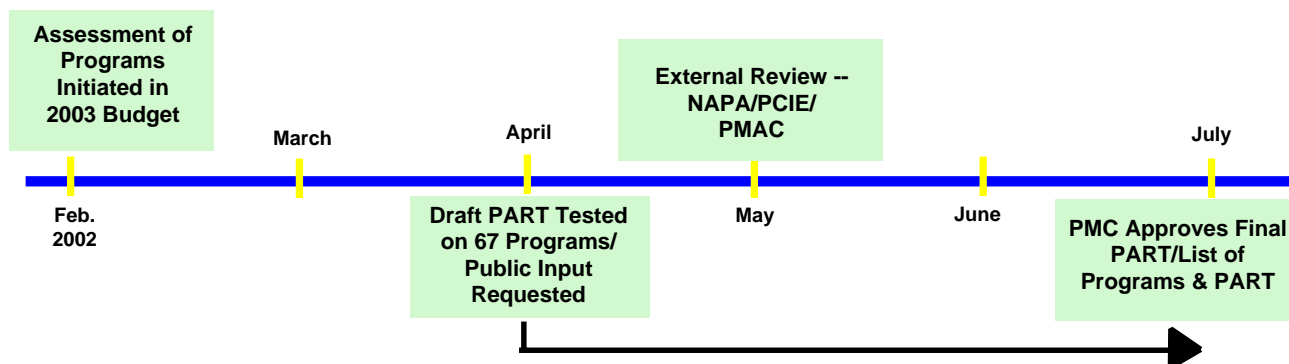
Previous administrations have grappled with this problem.

- President Johnson launched his Planning, Programming, and Budgeting System in 1966 to “substantially improve our ability to decide among competing proposals for funds and to evaluate actual performance.” The system was the first serious effort to link budgets to getting results, and a form of it remains in use at the Pentagon today.
- President Nixon followed with an effort called Management By Objective. This attempted to identify the goals of federal programs so that it was easier to determine what results were expected of each program and where programs were redundant or ineffective. Nixon stated, “By abandoning programs that have failed, we do not close our eyes to problems that exist; we shift resources to more productive use.”
- President Carter attempted to introduce a concept known as zero-based budgeting in 1977, to force each government program to prove its value each year. “[I]t’s not enough to have created a lot of government programs. Now we must make the good programs more effective and improve or weed out those which are wasteful or unnecessary,” he told the Congress and the American people in his 1979 State of the Union Address.
- President Clinton’s Administration also offered a broad agenda to “reinvent” government to make it cost less and do more.

Some of these efforts brought temporary improvement, and some vestiges remain. But the inertia of the status quo eventually limited the impact of each initiative, and we are no closer to measurable accountability than in President Johnson’s day.

Thus far, the most significant advance in bringing accountability to government programs was the Government Performance and Results Act of 1993. This law requires federal agencies to identify both long-term and annual goals, collect performance data, and justify budget requests based on

A Timeline of ...



NAPA = National Academy of Public Administration; PCIE = President's Council on Integrity and Efficiency.

these data. For the first time, each federal program was required to explicitly identify measures and goals for judging its performance and to collect information on an annual basis in order to determine if it was meeting those goals. Senator William Roth, sponsor of the measure, stated at the time that the act would bring about “accountability by federal agencies for the results they achieve when they spend tax dollars.”

Unfortunately, the implementation of this law has fallen far short of its authors’ hopes. Agency plans are plagued by performance measures that are meaningless, vague, too numerous, and often compiled by people who have no direct connection with budget decisions. Today, agencies produce over 13,000 pages of performance plans every year that are largely ignored in the budget process.

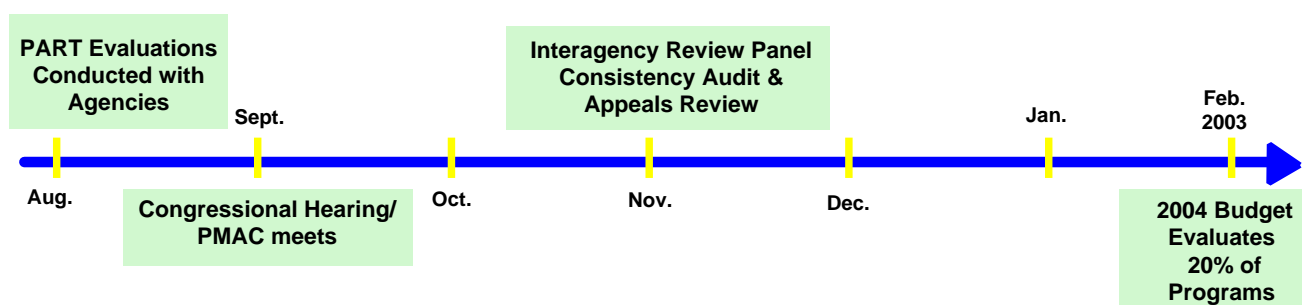
President Bush intends to give true effect to the spirit as well as the letter of this law. In the 2003 Budget, the Administration rated approximately 130 federal programs on their effectiveness. This first-ever attempt to directly rate program effectiveness was only a start and far from perfect. The criteria used to rate programs were not uniform and ratings were based on limited information. Its influence on budget decisions was limited.

This budget presents a new rating tool that, while still a work in progress, builds on last year’s efforts by generating information that is more objective, credible, and useful. Where a program has been rated, the results of the rating have often influenced the budget request. The accompanying timeline provides information on the development of the PART.

The PART is a questionnaire. The development of the PART began almost a year ago. The goal was to devise a tool that was objective and easy to understand. Most important, the findings had to be credible, useful, and ideologically neutral. For instance, the first draft PART questioned whether a particular program served an appropriate federal role. Because many believed that the answer to this question would vary depending on the reviewer’s philosophical outlook, it was removed so that the PART would yield a more objective rating. The accompanying timeline provides information on the development of the PART.

Whether a federal role is appropriate remains a critical consideration when determining a program’s funding level, and thus the issue is still central to budget deliberations. For example, the Manufacturing Extension Partnership program, which supports a nationwide network of centers providing technical assistance, earned a Moderately Effective rating, even though it is not evident that the federal government should be engaged in business consulting. Therefore, the budget continues the 2003 Budget policy of phasing out federal funding of mature centers with the goal of making them self-sufficient.

... the PART's Development



PMAC = Performance Measurement Advisory Council ; PMC= President's Management Council.

How the PART Works

The PART evaluation proceeds through four critical areas of assessment—purpose and design, strategic planning, management, and results and accountability.

The first set of questions gauges whether the programs' design and purpose are clear and defensible. The second section involves strategic planning, and weighs whether the agency sets valid annual and long-term goals for programs. The third section rates agency management of programs, including financial oversight and program improvement efforts. The fourth set of questions focuses on results that programs can report with accuracy and consistency.

The answers to questions in each of the four sections result in a numeric score for each section from 0 to 100 (100 being the best). These scores are then combined to achieve an overall qualitative rating that ranges from Effective, to Moderately Effective, to Adequate, to Ineffective. Programs that do not have acceptable performance measures or have not yet collected performance data generally receive a rating of Results Not Demonstrated.

While single, weighted scores can be calculated, the value of reporting, say, an overall 46 out of 100 can be misleading. Reporting a single numerical rating could suggest false precision, or draw attention away from the very areas most in need of improvement. In fact, the PART is best seen as a complement to traditional management techniques, and can be used to stimulate a constructive dialogue between program managers, budget analysts, and policy officials. The PART serves its purpose if it produces an honest starting point for spending decisions that take results seriously.

An initial draft of the questionnaire was released for public comment in May 2002. It was reviewed by a number of independent groups, including the Performance Measurement Advisory Council, chaired by former Deputy Secretary of Transportation Mortimer Downey, and a group from the President's Council on Integrity and Efficiency. The PART was then the subject of a special workshop sponsored by National Academy of Public Administration and a congressional hearing. The President's Management Council approved a final version of the PART on July 10th and it was released for use on July 16th.

One lesson learned from these reviews, and past efforts, was not to try to do too much at one time. Thus, the Administration plans to review approximately one-fifth of all federal programs every year, so that by the 2008 budget submission every program will have been evaluated using this tool. For this year, OMB completed reviews for 234 diverse programs as a representative sample of government programs, as well as to test the flexibility of the PART. Chosen programs vary by type (such as regulatory, grants, or direct assistance), as well as size. To test how well the PART would confirm expectations, some programs generally

considered effective (such as the National Weather Service) were included, as well as some widely criticized as less effective, (such as compliance with the Earned Income Tax Credit (EITC)). Finally, several items of great interest to the President or the Congress were selected, such as programs scheduled for reauthorization this year.

The PART's approximately 30 questions (the number varies depending on the type of program being evaluated) ask for information which responsible federal managers should be able to provide. For instance:

- Is the program designed to have a significant impact in addressing the intended interest, problem, or need?
- Are federal managers and program partners (grantees, sub-grantees, contractors, etc.) held accountable for cost, schedule, and performance results?
- Has the program taken meaningful steps to address its management deficiencies?
- Does the program have a limited number of specific, ambitious long-term performance goals that focus on outcomes and meaningfully reflect the purpose of the program?

- Does the program (including program partners) achieve its annual performance goals?

The burden is on the program to demonstrate performance. Absent solid evidence to support a positive answer, the answer is deemed not favorable and the program receives a lower rating. The requirement of hard evidence fulfills the principle that federal managers must be held accountable for proving their programs are well designed and well managed.

Programs must also prove they are working. Programs that cannot demonstrate they are achieving results either because they have failed to establish adequate performance measures, or have no supportive performance data show a rating of Results Not Demonstrated. The other ratings are, in descending order: Effective, Moderately Effective, Adequate, and Ineffective. For more information on how the PART is used see the sidebar entitled “How the PART Works” in this chapter. Even greater detail is provided in the *Performance and Management Assessments* volume.

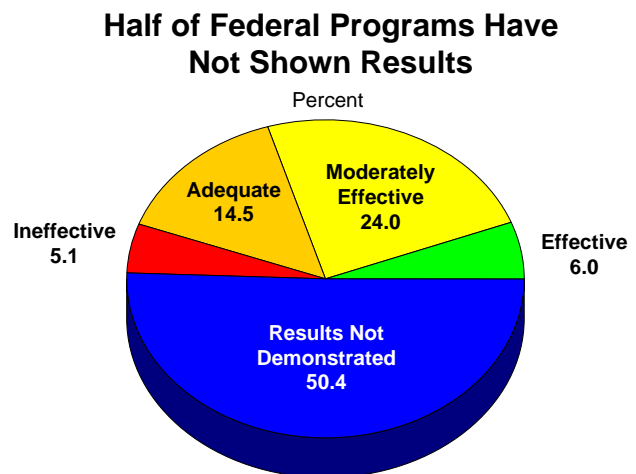
The purpose of the PART is to enrich budget analysis, not replace it. The relationship between an overall PART rating and the budget is not a rigid calculation. Lower ratings do not automatically translate into less funding for a program just as higher ratings do not automatically translate into higher funding for a program.

For example, the PART assessment found that the Department of Defense does not manage its Communications Infrastructure program consistent with industry’s best practices. The budget proposes to develop measures for department-wide evaluation and provides additional funding for this activity because of its importance to national defense. Budgets must still be drawn up to account for changing economic conditions, security needs, and policy priorities.

This first performance assessment process confirmed many longstanding suspicions. While the PART gives new programs a full chance to prove their worth, most rated this year have been in existence for years. Federal programs have inadequate measures to judge their performance. Over half of the programs analyzed received a rating of Results Not Demonstrated because of the lack of performance measures and/or performance data. The vast majority of programs have measures that emphasize inputs (such as the number of brochures printed) rather than outcomes or results. For instance, the Ryan White program previously only measured the number of people it served; in the future it will also measure health outcomes, such as the number of deaths from HIV/AIDS.

Patterns emerge in several broad areas of government activity. Despite enormous federal investments over the years, virtually none of the programs intended to reduce drug abuse are able to demonstrate results. Such a finding could reflect true failure or simply the difficulty of measurement, so further analysis is in order.

Overall, grant programs received lower than average ratings, suggesting a need for greater emphasis on grantee accountability in achieving overall program goals. Many other examples can be found in the PART summaries. The programs found to have inadequate measures will now focus on developing adequate measures and collecting the necessary data before the evaluations are done for next year. Just as importantly, programs that have not yet been evaluated can anticipate such scrutiny and assess the measures they currently have, and improve them where necessary.



The PART instrument, and the entire endeavor of budgeting for results, is obviously a work in progress. We strongly encourage individuals or organizations to examine the worksheets of programs of interest to them and provide comments on how the evaluation of that program could be improved. Is there evidence that was missed or misinterpreted? Do the answers seem consistent with the individual's or organization's experience?

Despite an extensive review process and refinements, the tool itself still has limitations and shortcomings. This is not surprising in its debut year. But these issues will need to be addressed before the process begins for next year. We welcome comments and proposals addressing all these issues. Comments can be emailed to performance@omb.eop.gov or mailed to the Office of Management and Budget/PART Comments, Eisenhower Executive Office Building, Room 350, Washington, D.C. 20503. These issues include:

- *Increasing Consistency.* A sample of PARTs was audited for consistency by an interagency review panel, and some corrective action was taken based on its findings. Nonetheless, similar answers were too often subject to different interpretations. For instance, in the majority of cases, if the current goals for performance were found inadequate, the program was given little or no credit for meeting them. How can consistency of answers be improved?
- *Defining "Adequate" Performance Measures.* Developing good performance measures is very difficult. The criteria for good measures often compete with each other. For instance, it is preferable to have outcome measures, but such measures are often not very practical to collect or use on an annual basis. The fact is there are no "right" measures for some programs. Developing good measures is critical for making sure the program is getting results and making an impact. Given the widespread need, we are already planning to provide federal officials more training on how to select good performance measures. We ask, what else should be done to improve the development of consistently better performance measures?
- *Minimizing Subjectivity.* While intended to be based on evidence, the interpretation of some answers to the questions will always require the judgment of individuals and therefore be somewhat subjective. How can the process be modified to assume greater balance and objectivity?
- *Measuring Progress Towards Results.* Since the PART focuses on results, the rating provides little credit for progress already being made – improvement that may not be reflected in program results for a year or more. For instance, for the National Park Service to improve the condition of its facilities, it must first inventory them and prepare a plan for eliminating the maintenance backlog. Those necessary initial steps do not represent results, as measured with outcomes, and get little credit in the PART. How can the tool or its presentation better capture progress toward results?
- *Institutionalizing Program Ratings.* If they are to drive continual improvement, program ratings must be conducted regularly so that credit is given when earned and deficiencies are identified in a timely manner. Toward that goal, the ratings were built into the budget process. How can this activity be continued without requiring an elaborate infrastructure for it to be sustained?
- *Assessing Overall Context.* As the General Accounting Office pointed out, the PART does not capture whether a program complements other, related programs or whether it may work against the goals of the Administration's other initiatives. How can the PART rating better consider programs in a broader context?
- *Increasing the Use of Rating Information.* The PART may or may not prove to influence budget decisions made by the Congress. But it certainly will give lawmakers more detailed information on which to base their choices. Most people understand that wise spending decisions go beyond the widely discussed increases or cuts in one program or another. For instance, a poorly run

program can benefit from a budgetary boost to address its identified problems. Or a popular program can flourish without an increase, because it is steadily increasing its productivity and, therefore, its service results.

Taken seriously, rigorous performance assessment will boost the quality of federal programs, and taxpayers will see more of the results they were promised. What works is what matters, and achievement should determine which programs survive, and which do not. The public must finally be able to hold managers and policymakers accountable for results, and improve the performance of federal programs in the way that Presidents and Congresses have sought for decades. Whether resources shift over time from deficient to good programs will be the test the PART itself must pass.

DEPARTMENT OF AGRICULTURE

The President's Proposal:

- Continues implementation of farm program safety net, with 10-year cost of \$174 billion, and proposes reforms to efficiently deliver crop insurance;
- Extends and improves important nutrition programs including the School Lunch, Breakfast, and Child and Adult Care Food programs, and renews and fully funds expected participation for the Special Supplemental Nutrition Program for Women, Infants, and Children;
- Ensures more farms and ranches receive conservation assistance by increasing funding and reducing governmental overhead;
- Proposes the highest level ever for forest firefighting and state forest conservation grants; and
- Improves forest health through the President's Healthy Forest Initiative.

The Department's Major Challenges:

- Restructuring to efficiently deliver diverse range of programs, most of which were established 50 to 70 years ago, to meet the needs of contemporary American consumers and producers;
- Implementing the largest conservation program in history, utilizing the private sector, and not growing the base of federal employees;
- Addressing the impacts of globalization on agricultural trade; and
- Protecting the nation's forests from fire, while controlling wildland firefighting costs.

Department of Agriculture

Ann M. Veneman, Secretary

www.usda.gov 202-720-3631

Number of Employees: 114,040

2003 Spending: \$72.8 billion

Major Assets: Field Offices: 18 program agencies organized under seven mission areas, with a total of 7,400 field, state, or regional offices outside of the Washington, D.C. headquarters.

The United States Department of Agriculture (USDA) helps meet the needs of farmers and ranchers throughout America, and provides vital nutrition assistance to those in need. The Department promotes agricultural trade and production; works to assure food safety; protects natural resources; fosters strong rural communities; and fights hunger in America and abroad.

Overview

Farming has changed dramatically since the early 20th Century, when the government's involvement in agriculture began. Today, there are fewer farms (less than two million compared to almost six million a century ago). Today's farms are larger and increasingly utilize sophisticated production and information technologies. Consumer demands are more complex, as are marketing and distribution systems. Environmental standards, energy issues, and international trading rules influence production more than ever. The farm bill President Bush signed on May 13, 2002 recognizes these trends and directs over 75 percent of all USDA funding to these areas. The farm bill expanded the safety net for farmers and ranchers; inaugurated a new era in conservation programs on the farm; and renewed the Food Stamp program through 2007.

Performance Evaluation of Select Programs

Program	Rating	Explanation	Recommendation
Food Safety and Inspection Service (FSIS)	Adequate	This program has a clear and significant role in protecting the nation's food supply. Though FSIS has been effective in reducing incidences of foodborne illness, the program is not optimally designed to address food safety.	FSIS will evaluate its risk-based food safety program to analyze the benefits and impacts of expanding the program to all plants.
National Forest Improvement and Maintenance	Results Not Demonstrated	The program has improved the collection of performance data. However, a significant maintenance backlog exists and the agency needs to improve priority setting for these projects.	No funding is provided for deferred maintenance until clear priorities are established. The Forest Service will increase incentives to decommission underutilized infrastructure and develop improved performance measures.
Rural Electric Utility Loans and Guarantees	Results Not Demonstrated	Though this program has a clear purpose and is effectively managed, there is a disconnect between USDA's strategic goals and the program's performance goals and measures.	New measures and goals will be specified and outcome-oriented. For instance, the program will target loans to areas with high poverty rates. The budget also requests an increase in funding for hardship loans that can only be used in areas that are severely depressed.

Food Production

America's agricultural sector is the most productive in the world. The size of the sector relative to the rest of the economy has been shrinking over the last century, yet commodity production levels have increased. The percent of individuals in farming has similarly declined (from 39 percent of the population in 1900, to less than two percent today), while the average farm size has grown significantly. While farming accounts for less than one percent of U.S. gross domestic product (GDP) annually, the associated business of agriculture—from producer to processor to retailer to the food service sector—generates 16 percent of U.S. GDP, and employs 17 percent of the American workforce. 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. In fact, the farming sector depends on exports of U.S. commodities for between 20 percent and 30 percent of total farm income annually. Agricultural exports totaled \$53.3 billion in 2002, up from \$52.7 billion in 2001, and accounted for about eight percent of all U.S. exports.

In late summer 2002, the Administration began implementation of the 2002 farm bill. Also during this time, a major drought in large portions of the United States took a significant toll on production. Most farmers in the region were able to get assistance through USDA's crop insurance and other farm bill programs. In addition, the Administration provided over \$1.5 billion in disaster assistance primarily to affected dairy farmers and cattlemen, whose losses were not covered by these programs.

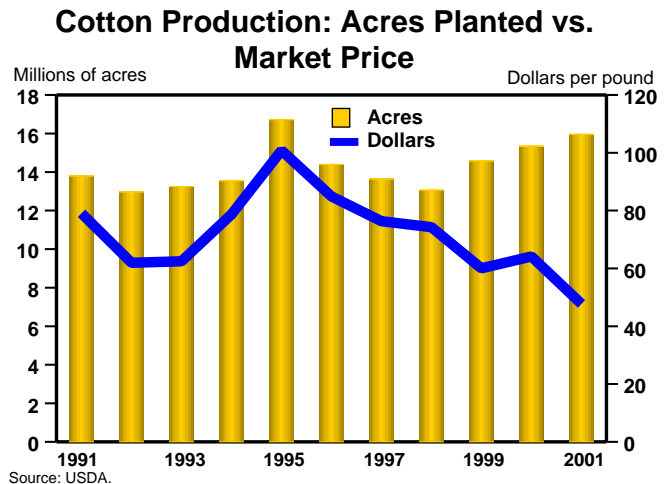
Natural disasters regularly threaten and affect agricultural production. USDA's crop insurance program is the primary risk management tool for farmers. Program evaluations, including the Program Assessment Rating Tool (PART) analysis, indicate that crop insurance does a good job of insulating the agricultural community from the vagaries of nature. Claims for losses incurred in the 2002 crop year are expected to be approximately \$4 billion. Although private insurance companies provide coverage, over half the cost of farmers' insurance premiums is subsidized to encourage farmer participation. Currently, 80 percent of eligible acres are insured by the program, which compares favorably with private sector benchmarks. The government's cost to deliver crop insurance is constrained in the budget by proposing to limit the reimbursement rate for administrative costs that private insurance companies receive—to better reflect the appropriate cost of administering the program and to give insurance companies an economic incentive to control administrative costs. This proposal is expected to save the U.S. taxpayer \$68 million in 2004.

Natural disaster assistance, of course, makes up only a fraction of the many programs the federal government runs to benefit the American farmer. The bulk of USDA spending on production agriculture goes to farmers in the form of government payments—with multiple options to stabilize prices and income, depending upon the commodity. This support provides the assurance of a stable domestic food supply and associated production sector.

Large Farmers Find Government Support at USDA

USDA's Economic Research Service has found that government payments are not necessarily reaching the producers that most need them. Just over 40 percent of all farms receive government payments, yet half of all government payments go to farms with sales of \$250,000 or more; these farms produce 67.5 percent of total agricultural production. The 76 percent of all farms that make less than \$50,000 in sales, and produce 8.5 percent of total agricultural production, receive 16 percent of total government payments.

Commodity payments are important to agricultural producers, but sometimes they can distort the market. For example, large producers, who are in a better position to manage risk, are also eligible for government payments. There are supposed to be limits on the amount of USDA funding each farmer can receive (called payment limitations). However, the farm bill allows large producers to exceed these limits by using commodity certificates. The majority of farmers who take advantage of these certificates produce cotton. In recent years, even though the national and world price of cotton has fallen, the acreage planted to cotton has increased (see accompanying chart). The Administration will consider the input of the Commission on Application of Payment Limitations (established in the 2002 farm bill) to address commodity certificates and other USDA payment limitation issues.



Another example of a farm bill program causing market distortions is in the dairy sector. USDA's dairy price support program has resulted in huge quantities of government-owned stocks of nonfat dry milk. Even though dairy prices have been stagnant to declining in the past few years, production levels have not adjusted, as the government is obliged to purchase dairy products. The annual costs to run the dairy support program were well below \$1 billion throughout most of the 1990s. The current estimated spending on these programs, including income support payments, is expected to exceed \$2.8 billion in 2003 and \$1.4 billion in 2004. USDA recently lowered the price the government will pay to purchase nonfat dry milk, in an effort to stem the growing inventory. This change will be closely monitored and future action taken if government stocks continue to grow.



USDA purchases nearly half of all domestic nonfat dry milk production and currently stores 1.2 billion pounds of nonfat dry milk in caves and warehouses in Kansas City. If each bag in storage were laid out end to end, a line of nonfat dry milk would stretch for 12,000 miles, or twice the distance from California to Vermont and back again.

An added challenge for USDA is found in transitioning its field infrastructure—35,000 field level staff in over 5,600 county offices nationwide—to meet the needs of the modern American farmer. Efforts to modernize and streamline county offices have met with some success in the areas of technology and co-location. (Co-located office sites are called USDA Service Centers.) Restructuring information technology support and addressing administrative redundancies would further increase efficiencies, simplify customer transactions, and improve program delivery. Evidence shows that this progress is stymied by the current agency organization structure, which has not changed significantly since the 1930s.

USDA scientists, as well as USDA's research, education grants, extension, and statistical programs all contribute to American farm productivity. Recent breakthroughs by USDA scientists include these developments: sunflower oil with half the level of saturated fat; rapid diagnostic tests for swine fever and avian influenza; and a vaccine to more quickly protect animals in the event of an outbreak of

foot-and-mouth disease. The budget has increases for in-house research in the areas of counter-terrorism and biosecurity, emerging and exotic diseases, genomics, and information technology cyber security. USDA's expertise in these areas is critical to negotiating technical standards with our trading partners. The Administration is committed to removing trade barriers around the world and to entering trade agreements that will benefit the U.S. agricultural sector. Evidence suggests that USDA's trade assistance programs are important to maintain and expand U.S. exports, and USDA food aid programs are counted on for humanitarian assistance.

Nutrition Programs

Almost half of USDA's budget supports nutrition programs for individuals and families in need. These programs include the National School Lunch program, the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), and the Food Stamp program.



USDA school lunches are part of the school day for 58 percent of all students enrolled in public schools.

The National School Lunch program provides funds to states for meals served to children in schools. Children from households with incomes below 130 percent of poverty are entitled to free meals. However, studies conducted by USDA and data from national surveys suggest that a significant number of children approved for free lunches are from ineligible households. Because the information collected for school lunch eligibility is also used to allocate a wide array of federal, state, and local education dollars, errors in certifying children for school lunches can lead to a diversion of funds away from the lowest-income schools. The Performance Assessment Rating Tool (PART) for the lunch program noted the high rate of improper payments and the lack of annual performance goals to measure the long-term goal of serving meals that meet the dietary guidelines. More information on the PART assessment is available in the *Performance and Management Assessments* volume.

USDA proposes to improve the accuracy of eligibility decisions through actions under current law and as part of the reauthorization of the Child Nutrition Act. The new system will improve access for low-income children already participating in means-tested programs by mandating the use of program records from Food Stamps or Temporary Assistance for Needy Families to directly certify children's eligibility for lunch. For other households, states will use a combination of third-party wage data, expanded requirements for up-front documentation, or other means to verify information reported by households.

The proposal will not reduce funding for the lunch program. Any savings that result from improving payment accuracy will be reinvested in the program in support of the Administration's principles for strengthening the program's operation. These are to:

- ensure that all eligible children have access to meals;
- provide financial incentives to schools that serve meals that meet the dietary guidelines;
- create an equitable mechanism for allocating federal and state education dollars targeted at low-income children;
- ensure that meal reimbursement rates provide adequate support for program meals;
- streamline program administration and minimize administrative burden; and

- provide adequate resources for program oversight and evaluate the impact of program changes on children and participating schools.

The WIC program serves the nutritional needs of low-income pregnant and post-partum women, infants, and children. Although WIC is often highlighted as one of the most effective federal programs, and numerous studies on aspects of WIC seem to support this conclusion, a comprehensive evaluation of the program's effectiveness is long overdue.

WIC is scheduled for renewal in 2004. The President's Budget and reauthorization proposal will provide \$4.8 billion for WIC services. This request provides funds to serve an estimated 7.8 million people monthly—all those estimated to be eligible and seeking services. In 2003 the Administration proposed a contingency fund, which if enacted will ensure that the program can expand to serve an increasing number of eligible persons, should that be necessary. 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, a significant public health concern; and
- an independent, comprehensive evaluation of the effectiveness of the WIC program.

Can WIC Help Reduce Childhood Obesity?

WIC was created to combat hunger and poor nutrition among young children and their mothers. Now, ironically, the opposite is a greater health problem for WIC's clients. In 1998, 17 percent of all children participating in WIC—and more than 40 percent of women participants—were overweight. Nationwide, the prevalence of childhood obesity has doubled in the last 30 years, an epidemic that poses a serious threat to the health of Americans. The WIC program is in a unique position to address this issue among its participants. In an average month, WIC serves about half of all infants and approximately one-quarter of all children aged one to four in the United States.

A recent three year effort identified potential steps the WIC program could take to prevent childhood obesity, starting from pregnancy. The budget funds a number of WIC demonstration projects that will evaluate whether WIC can combat obesity by testing approaches such as: targeted staff training; food packages; nutrition education; and the promotion of physical activity.

Food stamps alleviate hunger and malnutrition among low-income individuals. In 2004, the Food Stamp program will provide approximately \$21.6 billion in benefits to 21.6 million people. The federal government will provide an additional \$3.9 billion for state administrative costs, job training programs for food stamp recipients, and the Puerto Rico Nutrition Assistance block grant.

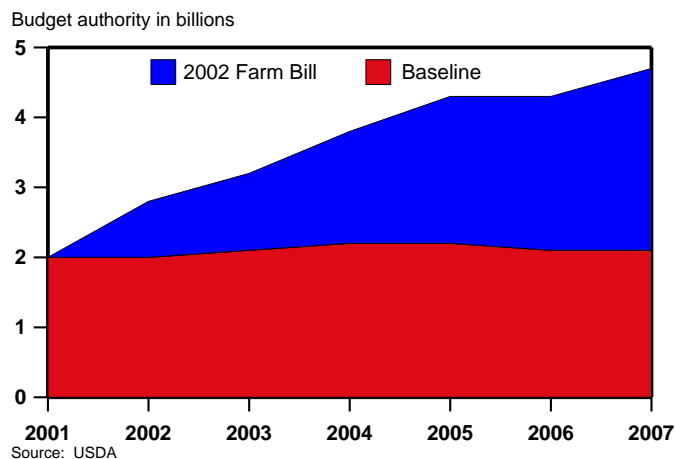
The 2002 farm bill made important improvements to the Food Stamp program, particularly for legal immigrants, individuals with disabilities, and working families. The bill enacted President Bush's proposal to restore food stamp eligibility to legal immigrants who have lived in the country for five years, and restored eligibility with no wait to legal immigrant children and adults with disabilities. The farm bill improved benefits for large households

and made it easier for individuals with disabilities to qualify. The farm bill also provided significant opportunities for states to simplify program rules and strengthen the Food Stamp program as a work support for low-income families. The Administration is committed to improving integrity in the Food Stamp program with a goal of reducing the national average error rate from 8.7 percent for 2001, to 7.8 percent for 2004. This improvement is projected to save as much as \$90 million in 2004.

Conservation of Our Natural Resources

Farmers and ranchers own and manage half of our nation's land. They are stewards of much of our soil, air, water, and wildlife. In order to effectively conserve these natural resources and protect the environment, USDA provides both funding and technical expertise. This assistance has improved resource conditions, for example, by reducing soil erosion from croplands around the country. Between 1982 and 1997, conservation assistance helped to reduce soil erosion caused by wind and water by 38 percent, or 1.2 billion tons.

USDA Conservation Funding



Farming is about to become even “cleaner.” The 2002 farm bill is the most conservation-oriented in history. USDA now has unprecedented resources to address many of the nation's environmental challenges on agricultural lands. As the accompanying chart shows, by 2007 the farm bill authorized a 120-percent increase in funding for USDA's conservation programs—a total of about \$4.7 billion.

The increased conservation funding offers substantial opportunity, but also presents USDA with significant challenges when delivering assistance through new and larger programs. Federal conservation must be administered as cost-effectively as possible.

Every dollar saved is a dollar that can be used at another farm to help conserve and protect natural resources, fish and wildlife. This budget proposes to improve the quality, effectiveness, and efficiency of the federal government's investments in conservation. To achieve this end, the 2004 Budget puts forth the following principles:

- *Constrain administrative costs and create opportunities for non-federal organizations to help plan and install conservation measures.* The budget ensures that the maximum amount of program funds go into conservation projects on the ground, rather than into overhead costs. The federal government will look to non-federal partners (such as private sector companies, non-profit organizations, and state and local agencies) to supply the technical assistance needed to install conservation measures. The 2004 Budget will aggressively partner with these non-federal technical service providers to help USDA efficiently deliver high-quality conservation.
- *Prioritize conservation needs, focus resources at the greatest problems, monitor and evaluate the results.* While funding for conservation has increased significantly, the federal government must still prioritize and target assistance to the greatest natural resource needs. USDA has designed its conservation programs to focus on priority needs, such as reducing water pollutants in watersheds labeled impaired by the Environmental Protection Agency, preserving high-value wetlands, and enhancing wildlife habitat for at-risk species. In addition, the budget provides new resources to the Natural Resources Conservation Service (NRCS) to improve coordination with other federal agencies and begin monitoring and evaluating the performance of USDA's conservation programs. A PART analysis of two of NRCS' programs, the Farmland Protection Program and Wildlife Habitat Incentives Program, revealed that the agency needs to develop additional outcome-based performance measures for these programs.

Safeguarding the Nation's Food Supply and Animal and Plant Health

USDA inspectors work in processing plants and in fields and laboratories across the country. Their mission: to guard the health of America's crops and animal herds, and enforce the rules of safe production and marketing. USDA's inspection programs are challenged to keep pace with scientific and technological developments and growth in the volume of trade and production.

Meat, poultry, and egg products are inspected by USDA before entering the retail food chain. USDA's Food Safety and Inspection Service (FSIS) is moving from a sensory-based system toward a science-based system designed to detect microbial contaminants and eliminate the defects of traditional inspection. USDA has had difficulty improving the inspection system to make it more risk-based because of underlying inspection laws, originally enacted in the early 1900s. Although the PART analysis for the agency confirmed that the current inspection system has been effective in reducing incidences of foodborne illness, it also indicated that the current system is not optimally designed to address microbiological food safety concerns. USDA has piloted a new inspection system that should help FSIS meet its goals and improve efficiency. The budget proposes to continue improving food safety through evaluating the pilot for the costs and benefits associated with expanding it. In addition, funding is provided to support increased microbiological testing to ensure effective controls or elimination of pathogens in products.



The Asian long-horned beetle is a serious invasive species threat. It has the potential to destroy millions of America's hardwood trees, including maples, ashes, willows, and elm trees.

USDA monitors for pests and diseases, and works with stakeholders to control or eradicate an outbreak. These are important partnerships with state and local governments and producers and private industry, which share a role and responsibility to ensure the safety of these resources. USDA is in the process of clarifying these roles and responsibilities to improve such partnerships. Also, the USDA programs that inspect people and cargo coming from overseas are transferred to the Department of Homeland Security, as part of the overall program to ensure the security of our borders.

Our National Forests

USDA manages the 189 million acres of our national forest system, and three million acres of national grasslands. Many cherish these acres for their recreational, habitat, and resource values. Protecting these resources against the ravages of fire is one of USDA's greatest contemporary challenges in managing the forest system. The fire season for 2002 was the second largest in 50 years, burning more than seven million acres, and tragically 21 firefighters were killed. Excessive fuel buildup coupled with severe drought in the West created tinderbox conditions that left many areas vulnerable to fires that were faster, of greater intensity, and more damaging to the environment.

Wildfires historically have played a vital ecological role, promoting natural plant succession and increasing forest resistance to fires, disease, and drought. However, this situation has evolved for the worse as a result of a century-long practice of suppressing wildland fires. Today, 38 percent (73 million acres) of national forest system lands are rated at a moderate or high risk of catastrophic fire. All the while, more people move into traditional wildlands areas.

The Healthy Forests Initiative

The Hayman fire, which burned more than 137,000 acres in Colorado in 2002, illustrates the importance of the President's Healthy Forests Initiative. Prior to the Hayman fire, the Forest Service thinned more than 8,000 acres in the Pike National Forest. On these acres, trees survived the Hayman fire unharmed, which helped halt the fire's sweep toward homes. The less intense fire also reduced the need for aircraft, firefighters, and other expensive wildfire suppression tools. In untreated areas, the Hayman fire burned at higher temperatures and reached the tops of trees, resulting in greater losses and accelerated soil erosion. A similar forest health project based on two years of planning and analysis would have treated 4,000 acres within the burned area. Unfortunately, red tape and endless litigation delayed it. The goal of the Healthy Forests Initiative is to promote timely decisions, greater efficiency, and better results. By moving towards common-sense, active forest management, the initiative aims to treat more acres with high fuel loads and reduce the risk of catastrophic wildfire losses.

program and found weaknesses with how funds are targeted. To address these concerns, the budget proposes that the Forest Service and DOI: review the cost-effectiveness of large fire aviation resources; form a review team to evaluate and develop cost containment strategies; improve the timeliness of tracking fire suppression spending; assess state cost-share agreements to ensure that the federal government is not paying a disproportionately high share of suppression costs; and increase state and local incentives to reduce their risks of catastrophic fire.

Within the Forest Service's overall budget of over \$4 billion, \$230 million is for the Hazardous Fuels Treatments program to reduce the amount of brush and small trees that exacerbate the risk of catastrophic fire. This is a 90-percent funding increase over the last three years. Within this amount, over 70 percent of funds will go to the "wildland-urban interface," or forested areas next to communities that face a high risk from fires. The budget also provides a realistic estimation of the cost of fighting fires in a typical year. Accordingly, wildfire suppression is funded at a 10-year average of \$605 million. The budget also emphasizes improvements to fire management planning and program performance. In

addition to comparing costs per acre, common performance measures have been established at USDA and DOI. These measures evaluate the degree to which funds are targeted at priority areas, such as the protection of communities, and compare performance across agencies. This year the Administration will create baselines and targets to measure agency progress, and increase accountability for containing the costs of controlling wildfires.

Fire suppression costs have risen over the past few years. In 2002, USDA's Forest Service spent nearly \$1.3 billion, an increase of 68 percent over the average fire suppression costs of the past five years. These costs were spent on suppressing wildfires on over 2.4 million acres of forest, or an average of \$529 per acre. In comparison, the Department of the Interior (DOI), spent on average \$177 per acre suppressing fires on 2.2 million acres, part of which were grasslands that can burn less intensely. During the past two fire seasons anecdotal news reports have pointed to incidences of excessive expenditures, including too much firefighter downtime. The Forest Service has also encountered problems keeping timely reports of firefighting costs as they accumulate. A PART evaluation looked at the firefighting



An airtanker drops fire retardant on a wildland fire. On average, it costs the Forest Service \$4,000 per drop of fire retardant, or slurry, to slow the advance of fire.











Rural Economies

The nation's population has gradually shifted toward urban and suburban centers, with about 20 percent now living in rural surroundings compared with 36 percent just 50 years ago. This population shift provides another challenge for USDA—how best to utilize rural development resources to meet the diversity of needs of those who remain in rural America. USDA's rural development programs provide loans and grants to rural communities to address infrastructure, housing, and economic development needs. On average, USDA provides over \$10 billion in such assistance annually.

USDA provides loans and loan guarantees for utilities. Based on the PART analysis, the 2004 Budget proposes to increase funding for those electric and telecommunications loans which are targeted to severely depressed areas. In addition, USDA will target electric loan funds to areas of high poverty and will require utilities receiving assistance to recertify that they are serving rural, not urban or suburban, areas. These changes will increase the availability of utility service in needy areas, improving the quality of life while maintaining and attracting businesses.

A PART analysis confirmed that water and wastewater grant and loan programs have effectively increased the number of small rural communities with safe drinking water and modern sewer systems. However, it also identified the need for better long-term and annual measures to evaluate management and funding decisions.

Update on the President's Management Agenda

	Human Capital	Competitive Sourcing	Financial Performance	E-Government	Budget and Performance Integration
Status					
Progress					
<p>USDA has demonstrated significant management progress over the last two quarters, but still lags behind other Cabinet Departments on the management agenda. By addressing skill gaps in its top 21 mission-critical positions, USDA moved ahead in the human capital initiative. USDA will implement a department-wide human capital plan that addresses strategic management and the actions needed to respond to their human capital challenges. USDA converted a number of positions to the private sector, and allowed the private sector to bid for certain jobs. However, USDA has yet to demonstrate progress in allowing the private sector to deliver a significant share of conservation technical assistance. USDA has updated its strategic plan showing significant progress in budget and performance integration. To improve further, USDA needs to link the Department's overarching purposes with program performance data and funding decisions. USDA's attention to financial management has resulted in a clean consolidated audit report for the first time; however, compliance with government-wide spending restrictions remains a challenge.</p>					

Department of Agriculture

(In millions of dollars)

	2002 Actual	Estimate	
		2003	2004
Spending			
Discretionary Budget Authority:			
Commodities and International	2,623	3,105	3,120
Rural Development	2,535	2,538	2,265
Forest Service	4,393	3,948	4,060
Conservation	1,054	1,195	1,241
Food and Nutrition Service	4,917	5,033	5,110
Research	2,284	2,202	2,226
Marketing and Regulatory Programs	1,661	1,581	1,616
Central Administration	557	645	664
Subtotal, excluding user fees and mandatory changes	20,024	20,247	20,302
New user fees	—	-34	-159
Mandatory savings proposals	—	-668	-640
Total, Discretionary budget authority	20,024	19,545	19,503
Mandatory Outlays:			
Food and Nutrition Service	32,314	36,490	37,065
Commodity Credit Corporation	15,413	15,444	14,961
Farm Loan Programs	436	-656	-767
Crop Insurance	2,946	3,241	2,771
Forest Service	1,043	694	685
Animal Plant and Health Inspection Service	42	170	124
International Programs	-422	-525	-501
Rural Development	-2,893	-2,742	-2,489
Natural Resources Conservation Service	227	678	1,244
All other programs	137	-531	832
Total, Mandatory outlays	49,243	52,263	53,925
Credit activity			
Direct Loan Disbursements:			
Farm Loans	1,029	1,023	952
Commodity Credit Corporation	10,131	8,652	8,934
Rural Utilities Service	2,531	3,170	2,902
Water and Wastewater	643	864	889
Rural Housing	1,175	1,203	1,408
Rural Community and Economic Development	253	351	325
Rural Business and Industry	44	4	2
P.L. 480	130	130	132
Total, Direct loan disbursements	15,936	15,397	15,544
Guaranteed Loans:			
Farm Loans	2,553	3,000	2,666
Commodity Credit Corporation	3,926	4,225	4,155
Rural Utilities Service	55	235	580
Water and Wastewater	9	11	37
Rural Housing	2,444	2,016	2,516
Rural Community and Economic Development	59	211	262
Rural Business and Industry	839	817	1,206
Total, Guaranteed loans	9,885	10,515	11,422

DEPARTMENT OF COMMERCE

The President's Proposal:

- Provides tools for growth of the economy through expanded trade and improved statistics and data collection;
- Improves weather and climate forecasting to benefit public safety, the economy, and quality of life;
- Supports technological innovation by modernizing patent and trademark operations and standards research; and
- Refurbishes Department of Commerce facilities to enhance employee productivity.

The Department's Major Challenges:

- Providing state-of-the-art statistical and scientific information; and
- Accelerating the process for issuing patents.

Department of Commerce

Donald L. Evans, Secretary

www.doc.gov 202-482-2112

Number of Employees: 39,000

2003 Spending: \$5.8 billion

Major Assets: 10 bureaus with offices across the United States and 86 countries, as well as laboratories, vessels, aircraft, and satellites used for environmental observations and scientific research.

The Commerce Department undertakes a wide range of activities that contribute to the continued growth of the nation's economy. Commerce gathers and develops economic and demographic data for business and government decision-making; helps American firms and consumers benefit from open and fair international trade; issues patents and trademarks that support innovation; helps set industrial standards and performs cutting-edge scientific research; forecasts the weather to improve public safety; and

promotes sustainable stewardship of the oceans, including ocean fisheries.

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

- furnish the information and economic framework to enable the U.S. economy to grow, both nationally and globally;
- provide infrastructure for innovation to enhance American competitiveness; and
- observe and manage oceanic and atmospheric resources to help ensure sustainable economic opportunities.

Improving Economic Information and Performance

The President's Budget proposes to strengthen core statistical programs in order to address one of the major challenges facing the Commerce Department. The budget also proposes to realign efforts in international trade and economic development.

This budget proposes \$662 million for the Bureau of the Census for a variety of activities, including the collection of timely economic and demographic data and improvements to the design of the 2010 Census. The Bureau's economic and demographic programs will improve measurement of the services sector and complete dissemination of the 2002 Economic Censuses and Census of Governments. For the 2010 Census design improvements, the Bureau will: 1) conduct extensive testing and development activities; 2) continue ongoing improvements in the accuracy of map feature locations; and 3) implement the American Community Survey to collect "long-form" data on an ongoing basis, rather than waiting for once-a-decade censuses. The budget also proposes \$147 million to be funded through the General Services Administration for the second of two new buildings for the Census Bureau in Suitland, Maryland. Funds for construction of the first new building were proposed in 2003. Census' facilities are among the worst in the federal government and have decayed beyond the point where renovation would be cost-effective.

The Bureau of Economic Analysis (BEA) supplies economic statistics, including the gross domestic product (GDP), which are crucial ingredients for business and government decision-making. Building on BEA's effective rating in the Program Assessment Rating Tool analysis, an additional \$12 million in 2004 will let BEA continue improving the timeliness and quality of its economic data. Activities at both Census and BEA will lead to better data on services, international trade, and other important growth sectors of the economy.

The International Trade Administration (ITA) assists the growth of export businesses, enforces U.S. trade laws and agreements, and improves access to overseas markets by identifying and pressing for the removal of trade barriers. This budget supports ITA's ongoing work and development of technology-based initiatives that would enhance trade opportunities for U.S. firms. These initiatives capitalize on already-established interagency partnerships in implementing the President's National Export Strategy. One such initiative is the International Trade Process Streamlining Initiative, a Presidential E-Government effort that focuses on providing U.S. companies better access to trade-related market research and export services information. Other ongoing initiatives support trade negotiation activities and improve ITA's information technology security.

The Bureau of Industry and Security (BIS), formerly the Bureau of Export Administration, regulates the export of sensitive goods and technologies while supporting the growth of legitimate U.S. exports. The 2004 funding level of \$78 million ensures that BIS can increase its export control activities, including adding enforcement agents and creating a new office to monitor and assess technologies requiring export controls. The 2004 increases will also allow BIS to strengthen its participation in counterterrorism efforts and enhance efforts to reform U.S. export controls.

The Economic Development Administration's (EDA) mission is to promote a favorable business environment in economically depressed communities, principally through infrastructure investments. Yet, as its guidelines have evolved over time, two-thirds of the nation's counties now qualify for EDA support. With an increased funding level of \$364 million, EDA will seek to direct more funding to the nation's most distressed communities and to achieve the greatest possible economic benefit, while the regional development agencies, such as the Appalachian Regional Commission, will target their resources on planning and coordinating investments in their regions. The regional development agencies are discussed in the "Other Agencies" chapter of this volume.

The Emergency Steel Loan Guarantee Act of 1999 provided funding for federal guarantees of up to 95 percent on loans by private lenders to financially troubled steel firms. Despite the difficult market conditions, there has been little demand for the program. Moreover, one of the two guarantees issued, a \$110 million loan to Geneva Steel, is already in default, leaving taxpayers to pick up the loss. The 2003 Budget proposed rescinding \$96 million from this program. The 2004 Budget proposes rescinding the remaining \$26 million.

In response to the International Trade Commission's finding of serious injury to America's steel industry from abroad, the President applied temporary tariff safeguards averaging 30 percent on major steel products as relief for domestic producers. The President has also successfully championed Trade Promotion Authority, a vital tool for opening foreign markets to American products and services and spurring economic growth. Previous trade agreements have raised the standard of living for the typical American family of four by as much as \$2,000 annually.



Geneva Steel received a federally guaranteed loan on January 3, 2001. Within months, the company experienced difficulties meeting the terms of the loan and it formally defaulted on the loan on January 25, 2002.

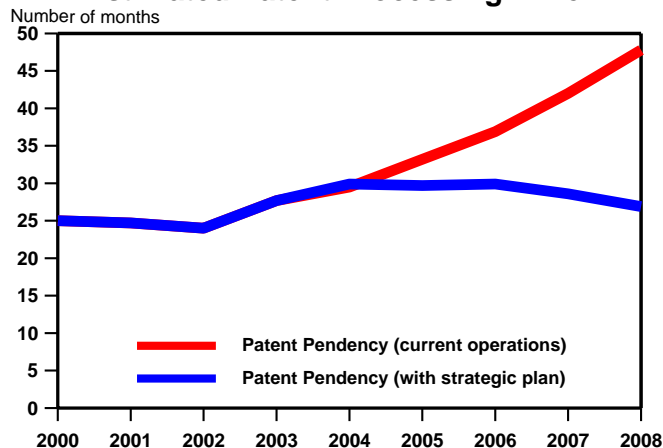
Building Infrastructure for Technological Innovation

The 2004 Budget strengthens key Commerce programs so that U.S. businesses can maintain their technological edge in world markets.

The U.S. Patent and Trademark Office (PTO) issues patents and registers trademarks. It also works to promote the protection of U.S. intellectual property rights around the world through international treaties. In 1999, PTO was designated a "performance-based-organization," giving the agency management flexibilities while tying senior managers' tenure and pay to achieving performance targets.

As the U.S. economy depends increasingly on protection of intellectual property, PTO must efficiently and accurately process patent and trademark applications. Based on an assessment of PTO's operations, the trademark side of PTO generally performs well. PTO has reduced the average time

Estimated Patent Processing Time



Source: Department of Commerce.

If changes are not made to patent operations, the time required for a complete review of patent applications (or patent pendency) is expected to rise to over 45 months in 2008. To fix these problems, PTO developed a five-year strategic plan to change fundamentally the way the agency operates. By processing patent applications electronically and redesigning the patent search and examination system, among other changes, patent pendency is estimated to be 27 months in 2008.

it takes to register a trademark, improved quality, and moved from a paper-based to an electronic processing system. As a result of increasing efficiency and declining applications, PTO's trademark operations implemented personnel reductions late in 2002. However, the patent side struggles to meet performance goals. While patent processing times currently average over two years, including time spent awaiting replies from applicants, patent examiners spend only about 18 hours, on average, on a patent application. PTO faces a backlog of 420,000 patent applications, and, as the accompanying chart shows, patent pendency is likely to rise to over 45 months in 2008 if changes are not made.

The proposed spending level of \$1.4 billion, a \$70 million increase over the President's 2003 Budget, will allow PTO to begin implementation of its strategic plan, which will help address the challenge of accelerating the process for issuing patents. In addition this proposal narrows, by almost half, the amount that PTO's fees are above spending—from \$193 million in the 2003 Budget to \$100 million in the 2004 Budget.

PTO expects to meet the following performance targets with its 2004 funding and initial implementation of strategic plan initiatives:

- Reduce its error rate from 5.4 percent in 2001 to 3.7 percent in 2004 for patents and from 3.1 percent in 2001 to 3.0 percent in 2004 for trademarks.
- Enable electronic processing for patents by October 1, 2004. Receive 80 percent of trademark applications electronically and implement a fully electronic file management system by 2004.
- Achieve complete review of patent applications in an average of 26.9 months by 2008, and complete review of trademark applications in an average of 12.0 months by 2006.

The budget provides increased funding for National Institute of Standards and Technology (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 \$7 million to equip and operate the Advanced Measurement Laboratory, a new facility designed to meet state-of-the-art research requirements, and \$21 million for renovations of NIST's Boulder, Colorado facilities. The budget also provides an additional \$11 million for safety, maintenance, and major repairs at the Boulder and Gaithersburg, Maryland sites.

The 2004 Budget provides an increase of \$12 million for 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 capability to detect nuclear and radiological weapons and help prevent smuggling of them across our borders, and update building and fire standards along with operational guidance for building owners and emergency responders.

Developing Standards for Biometric Identification

Following the events of September 11, 2001 Congress passed the USA Patriot Act and called upon NIST to develop and certify a standard using biometric identifiers, such as fingerprints, facial patterns, and eye patterns, which can be used to verify the identity of individuals applying for a United States visa or seeking to enter the United States. The budget includes \$3.5 million for NIST to meet this important homeland security mission.

Consistent with the Administration's emphasis on shifting resources to reflect changing needs, the 2004 Budget proposes to terminate the Advanced Technology Program (ATP). Funding is provided for administrative costs and close-out. The Administration believes that other federally funded research and development programs are more effective and of higher priority. Further, large shares of ATP

funding have gone to major corporations which do not need subsidies. Finally, ATP-funded projects often have been similar to those being carried out by firms not receiving such subsidies.

The 2004 Budget also maintains the 2003 policy of limiting federal funding for the Manufacturing Extension Partnership (MEP). MEP was designed to provide information and consulting services to help businesses adopt advanced manufacturing technologies and business practices. The law that created MEP required federal monies for each center to be phased-out after six years, with the goal and incentive of self-sufficiency for each center. Later, the law was changed to permit indefinite funding. The 2004 Budget, like that proposed in 2003, would restore the program's original six-year limit and thus avoid federally-subsidized competition to small, private consulting businesses.

The budget continues to strengthen the spectrum management capabilities of the National Telecommunications and Information Administration by providing an additional \$2 million for these activities. 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 of this volume.

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 2004 funding be made available for this purpose.

Observing and Managing the Nation's Oceanic and Atmospheric Environment



Thanks to advance warning, no lives were lost when a tornado destroyed the Van Wert movie theatre.

Behind the Movie Theater Hero

Last November, over 70 tornadoes ripped through the Midwest and South, including an extremely powerful twister in Van Wert, Ohio. A 26-minute warning from the National Weather Service (NWS) appropriately made a hero of local movie theater manager Scott Shaffer. Shaffer heeded local warning sirens and moved moviegoers to safer areas of the building. The tornado subsequently destroyed the theater, throwing cars into the front row of seats.

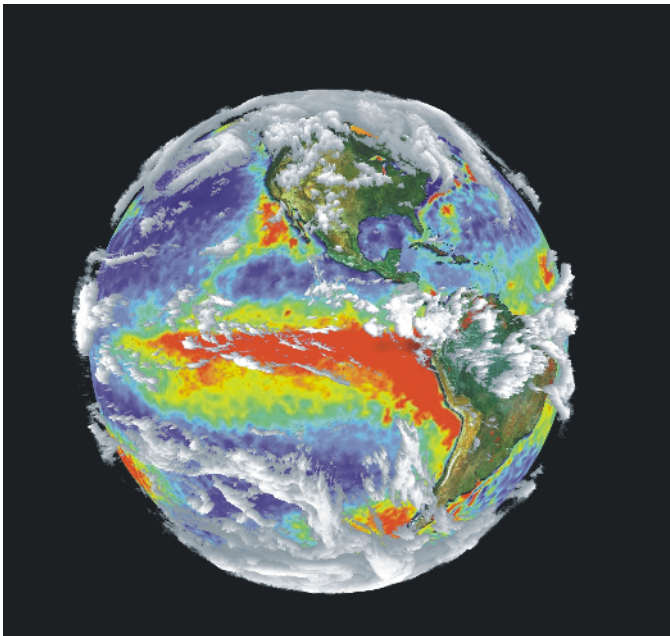
Thanks to NWS, proper local emergency response execution, and Scott Shaffer's quick wits, no one at the theater was injured. The budget includes funding to increase lead time further—from the current average of 11 minutes to 15 minutes—and to improve the accuracy of warnings from 69 percent to 75 percent by 2007.

Accurately predicting storm and other weather events and tracking changes in the climate over time are important to public safety and economic growth. Compared with the 2003 President's Budget, this budget provides an additional \$133 million for the National Oceanic and Atmospheric Administration (NOAA) to improve severe-storm forecasts, the satellite infrastructure needed for weather and climate prediction and research, and fisheries and ocean programs. The budget also includes \$57 million within the Department of Commerce for the Sea Grant program, which was previously proposed for transfer to the National Science Foundation. NOAA has reformed the

program to move increasingly toward merit-based funding of research. In addition, funding is provided to address maintenance and safety issues associated with NOAA facilities, vessels, and aircraft.

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. As a result of modernization investments, tornado warning lead times have almost doubled—from six minutes in 1993 to 11 minutes today. 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 data essential for weather and climate prediction and environmental monitoring.

Building on the Administration's 2003 proposal for a Climate Change Research Initiative (CCRI), NOAA will receive \$17 million to advance climate-modeling capabilities and to develop a climate observing system. CCRI focuses on reducing significant uncertainties in climate science, improving global climate observing systems, and developing resources to support policymaking and resource management. In February 2002, the President announced the formation of the Climate Change Science Program (CCSP) to coordinate and to direct ongoing work in the U.S. Global Change Research Program and the CCRI. The CCSP includes participation from 13 federal agencies with a combined budget of approximately \$1.75 billion. The United States spends as much on climate change research as all other nations combined.



The Climate Change Research Initiative will help improve climate modeling capabilities to better understand phenomena such as El Niño. The composite image shows warmer than usual sea-surface temperatures (red and yellow sections) off the western coast of South America during an El Niño year.

This budget continues steps to improve the effectiveness of NOAA's National Marine Fisheries Service. Currently, about 20 percent of major fisheries stocks are over fished, and stock levels are unknown for another 42 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 2004 Budget sustains the focus on core activities, such as fisheries science and stock assessments, which will improve fisheries management and economic sustainability of fisheries. In addition, the budget again proposes reauthorization of the Magnuson-Stevens Fisheries Conservation and Management Act, including the authority to establish individual fishing quota sys-

tems. 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 in 2004 and by nine by 2007. A greater effect will be felt in the number of sustainable fisheries, as stock levels improve and unknown

stocks are evaluated. Known sustainable stocks should increase by four percent (five additional fishery stocks) in 2004.

Restoration of endangered salmon stocks is important for environmental quality, commercial and recreational fishermen, Native American communities, and the economic vitality of the Pacific Northwest. Yet the performance evaluation of the \$90 million Pacific Coastal Salmon Recovery Fund revealed that some funding goes to projects that do not directly benefit endangered salmon stocks. Therefore, the budget proposes improved targeting of habitat restoration projects in four coastal states—California, Oregon, Washington, and Alaska—that will benefit threatened and endangered salmon.











Performance Evaluation of Select Programs

Ten Commerce programs were reviewed for performance effectiveness. The Administration proposes a variety of measures to address performance issues identified in the review, such as increasing funding where needed for core activities, reducing funds for low-priority programs, and instituting management reforms. The evaluations of, and recommendations for, some of the programs are highlighted in the accompanying table. For further details on the performance assessments of the programs listed here, and on other Commerce programs, refer to the Department of Commerce chapter in the *Performance and Management Assessments* volume.

Program	Rating	Explanation	Recommendation
National Weather Service/ National Oceanic and Atmospheric Administration	Effective	The National Weather Service is well managed and results oriented. Past investments in modernizing systems have yielded significant performance improvements.	The budget proposes increases to support continued improvement in key performance areas such as tornado-warning lead times and hurricane-tracking accuracy.
Bureau of Economic Analysis (BEA)	Effective	BEA consistently meets its goals for timeliness and reliability of GDP data and has developed new performance goals to improve the accuracy of GDP and related economic statistics.	The budget provides an increase to improve the quality and timeliness of BEA's economic statistics.
Pacific Coastal Salmon Recovery Fund/National Oceanic and Atmospheric Administration	Results Not Demonstrated	Some funds are allocated to purposes other than the recovery of endangered or threatened salmon stocks. Program-wide performance measures have not yet been developed; the program is not yet able to measure directly the effect of 600 funded projects on salmon stocks.	The budget provides the same level of funding requested in the 2003 Budget for this program. The Administration proposes that funds be allocated based on salmon recovery goals and that performance measures be developed.

Program	Rating	Explanation	Recommendation
U.S. Patent and Trademark Office (PTO)—Trademarks	Moderately Effective	PTO's trademarks line of business has met its goal of an 18-month average for complete review of trademark applications and reduced its error rate to 3.1 percent. Strong program management is apparent through the use of activity-based costing, competitive sourcing, and managerial accountability.	The budget provides funding to improve trademark processing time and quality, and to complete E-Government initiatives.
U.S. Patent and Trademark Office—Patents	Adequate	PTO's patent line of business continues to struggle to improve the efficiency of its operations. The times for initial review and for completed review of a patent application continue to be high and progress on electronic processing has been slow.	The budget proposes reforms to improve the efficiency of the patent examining system as well as to restructure PTO's patent fee collections to reflect better the agency's costs.

Update on the President's Management Agenda

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

Arrow indicates change in status since baseline evaluation on September 30, 2001.

The Department of Commerce is making good progress on the President's Management Agenda items. Department-wide human capital evaluations identified areas with existing and emerging needs for specialized skills and potential opportunities for delayering administrative functions. This workforce review should yield concrete results in 2003. Over 85 percent of Commerce offices are using an integrated financial management system and full implementation is expected in late 2003. This work and Commerce's efforts to strengthen information technology security will resolve the Department's material weaknesses. Commerce has completed competitive sourcing reviews on one percent of its positions and has committed to review 20 percent by the end of 2003. This year, Commerce will transmit to the Congress an integrated performance-based budget request and has put in place management links among its budget, information technology and capital acquisition control process, procurement, and human capital efforts.

Department of Commerce

(In millions of dollars)

	2002 Actual	Estimate	
		2003	2004
Spending			
Discretionary Budget Authority:			
Departmental Management:			
Salaries and Expenses	43	48	57
Emergency Guaranteed Loan Program accounts	—	–97	–26
Office of the Inspector General.....	21	23	23
Subtotal, Departmental Management	64	–26	54
Economic Development Administration.....	366	348	364
Bureau of the Census.....	479	705	662
Economic and Statistics Administration	62	73	85
International Trade Administration.....	355	364	382
Bureau of Industry and Security.....	65	73	78
Minority Business Development Agency	28	29	29
National Oceanic and Atmospheric Administration (NOAA):			
Operations, Research and Facilities	2,336	2,289	2,467
Procurement, Acquisition and Construction	844	811	842
Other accounts	90	36	16
Subtotal, NOAA	3,270	3,136	3,325
Patent and Trademark Office (PTO):			
Program Level.....	1,130	1,334	1,404
Offsetting Collections.....	–1,152	–1,527	–1,504
Subtotal, PTO.....	¹ –22	–193	–100
Office of Technology Policy	8	8	8
National Institute of Standards and Technology (NIST):			
Scientific and Technical Research and Services	330	389	388
Industrial Technology Services	291	120	40
Construction of Research Facilities	64	54	70
Subtotal, NIST	685	563	498
National Telecommunications and Information Administration (NTIA):			
Salaries and Expenses	14	17	19
Grant programs.....	68	44	3
Subtotal, NTIA	82	61	22
Negative Subsidy Receipts	—	–3	–1
Total, Discretionary budget authority	5,442	5,138	5,406
 Total, Mandatory outlays.....	 81	 242	 122
Credit activity			
Direct Loan Disbursements:			
Fisheries finance direct loan financing account	13	117	87
Total, Direct loan disbursements.....	13	117	87
 Guaranteed Loans:			
Emergency oil and gas guaranteed loan financing account.....	2	—	—
Emergency steel guaranteed loan financing account.....	42	—	—
Total, Guaranteed loans.....	44	—	—

¹ PTO's actual fee collections were \$194 million below the estimate developed for the 2002 Budget, which correspondingly increased actual net budget authority.

DEPARTMENT OF DEFENSE

The President's Proposal:

- Continues to wage an aggressive and global war on terrorism while supporting transformation of our nation's military capabilities;
- Provides unparalleled training and equipment for the troops;
- Funds the intelligence programs necessary to protect the country and support military needs;
- Enhances the quality of life for military personnel and their families;
- Incorporates innovative management practices that increase efficiencies; and
- Advances transformation for a more agile military force.

The Department's Major Challenges:

- Responding to the war on terrorism's demands, carrying on daily training operations in the United States and around the globe, and transforming to meet the needs of the 21st Century.

Department of Defense

Donald H. Rumsfeld, Secretary

www.defenselink.mil 703-697-5737

Number of Employees: 2.3 million Military (Active, Reserve, and Guard) and 636,000 Civilian

2003 Spending: \$358.2 billion

Major Assets: Four Armed Services (Army, Navy, Marine Corps, and Air Force); 16 Defense Agencies; 10 Unified Combatant Commands; and over 30 million acres of bases and/or facilities worldwide.

The Department of Defense (DoD) is responsible for defending the United States of America while helping to promote American interests globally.

The President has made a clear commitment to continue to provide this nation with the best trained, the best equipped, and the most effective military force in the world. However, it takes more than increased funding to accomplish this goal. It takes a dedicated and professional workforce. Three million people work for DoD, both in and out of uniform, in all 50 states, the territories, and

Washington D.C., as well as on every continent. Not unlike a large corporation, the Department has management, investment, and operational challenges, and not unlike a large corporation, change comes slowly. Change is taking place now. DoD is instituting management reforms, reevaluating older "legacy" programs, implementing transformation, and achieving savings. It is no longer possible to tread upon yesterday's path in preparation for tomorrow's battles.

New Enemies—New Threats

Defending our nation against its enemies is the first and fundamental commitment of the federal government. Today, that task has changed dramatically. Enemies in the past needed great armies and great industrial capabilities to endanger America. Now, shadowy networks of individuals can bring great chaos and suffering to our shores for less than it costs to purchase a single tank.

The National Security Strategy of the United States of America
September 2002

New Challenges in the National Security Environment**Responding to the New Threat**

Since the end of the Cold War, the world has dramatically changed. The threats our military is asked to confront are vastly different from the past. DoD and the intelligence community must not only prepare for the perils of today, but also develop capabilities that will ensure a robust capacity to deter and defeat future threats. Indeed, the dangers that confront us today were, in many cases, secondary yesterday, such as:

- global terrorism and rogue nations that harbor and support terrorists;
- proliferation of weapons of mass destruction, and the risk that they will wind up in the hands of terrorists; and
- instability in regions where states have failed their citizens, creating conditions that terrorists and other criminal elements exploit.

To address these threats, a priority of this Administration is to transform America's armed forces leading to dramatic changes in the way we fight.

Transforming Our Armed Forces

DoD seeks to transform the armed forces, taking advantage of new technologies and operational concepts to strengthen America's military capabilities. The deployment of robotic, unmanned combat air vehicles (UCAVs) could, one day, replace certain strike aircraft and provide a means to easily overwhelm less sophisticated, opposing air forces. Similarly, the employment of advanced laser communications satellites, coupled with new information warfare techniques, could render most existing command and control systems obsolete and vulnerable. Transforming DoD should produce new forces capable of projecting power rapidly, precisely, and on a global basis. These forces will be well-tailored to meet the needs of the 21st Century security environment.

The 2004 Budget provides substantial funding increases over previous years to support transformation and to ensure that the U.S. military maintains its technological superiority and flexibility to meet the challenges of an uncertain world. The budget includes a number of initiatives that are designed to adapt U.S. forces to a shifting and difficult international security environment.



Soldiers deploy from a CH-47 Chinook Helicopter during Operation Mine Sweep in Afghanistan.

The Secretary of Defense's six transformational goals are to:

- protect the U.S. homeland and critical bases of operations;
- project and sustain power in distant theaters;
- deny our enemies sanctuary;
- leverage information technology;
- improve and protect information operations; and
- enhance space operations.

Canceling the Crusader

On May 29, 2002 the President canceled the Army's Crusader Artillery program. In development since 1994, the Crusader weighed 60 tons and would be too heavy for the Army to transport in a timely manner. Moreover, the Crusader was designed to fight a heavy land battle, more likely during the Cold War than the 21st Century. Rather than continuing a system with questionable future relevance, the President reallocated the Crusader's funds to more advanced technologies including precision guided, artillery weapons. The President's Crusader decision, endorsed by the Congress, represents a real step towards transformation.

Part of the challenge in transforming the military is making difficult tradeoffs between programs. Most new programs are costly and will be available to military forces, in some instances, decades in the future. Before DoD decides to buy a new system, it must ensure that the system both has a mission linked to the overall national security strategy and is affordable. The 2004 Budget reflects many areas where the Administration reduced or modified programs because prior plans were not consistent with the new strategy, or because growing

costs became untenable. For example,

- The Department cut planned purchases of Comanche helicopters in half, from approximately 1,200 to 650, and refocused the Comanche's mission to reconnaissance/light attack for front line units only, an area where the Army faces significant deficiencies in the future. Curtailing the number of Comanches saves \$1.2 billion over the next six years and \$17.1 billion compared to the Army's original plan. The Department will continue to review and assess the progress, performance, and need for this program.
- The Air Force continues to procure F-22 fighter/attack aircraft but, rather than buying a specific number of aircraft regardless of cost, it will only acquire as many aircraft as a fixed budget permits consistent with operational needs. In this way, the Air Force will obtain the superior capabilities of the F-22, but within affordable budget levels.
- The Army had planned to field six Stryker brigades, mobile units which can be used in conflict situations such as Kosovo and Afghanistan. Instead, the Army will build four Stryker brigades and will reassess its plan to field the final two units as it prepares future budgets. A future decision to field the last two brigades will depend upon the development of a plan that assures the Stryker demonstrates stronger combat capability across a broader spectrum of operations and can be deployed independent of higher level command formations and support.

Many capabilities funded in the 2004 Budget reflect "real-world experience" from the war in Afghanistan to worldwide counter-terrorism operations. Although advanced weapons systems are an element of transformation, new operational concepts and over-arching command, control, communications, and computers together with better intelligence can also leverage dramatic improvements in combat power, even with existing equipment fielded by today's forces. The linkage of Hellfire missiles with Air Force Predator unmanned aerial vehicles and an advanced, remote targeting network is just one example. Another example: for the first time in a war, U.S. forces will

have the ability to move battlefield information to the warfighter rapidly by connecting information from reconnaissance aircraft, jamming aircraft, satellites, and Predators. Finally, as recently as December 1, 2002, U.S. Special Forces in Afghanistan's Herat province were using advanced target designators and communication links to call in B-52 aircraft for precision bomb strikes against hostile forces.

In addition to obtaining highly capable aircraft, ships, and land forces, this budget continues or expands investment in the following programs:

- Unmanned aerial vehicles that will provide longer endurance and continuous surveillance (Global Hawk) and new armed strike capabilities (Predator Bs). The Department also is investing in UCAVs, with early prototypes already flying and advanced demonstrations planned by late 2005.
- A new generation of ships, including a more capable aircraft carrier (CVN-21) and destroyer (DD-X). Both programs will couple significant reductions in the number of sailors required to operate the vessels with new combat capability. In addition, progress continues in modifying four Trident class ballistic missile submarines to carry cruise missiles and Special Forces teams.
- Development of the Army's Future Combat System—a series of vehicles and weapons that will combine agile ground forces, airmobile assets, intelligence/surveillance, and digital battlefield communications to transform land combat operations.
- An expansion of the U.S. Special Operations Command's (SOCOM) capabilities to enhance its role as a national asset in the war on terror. Building on its prominent role in Afghanistan, the budget recommends a 20-percent increase in funding for SOCOM to improve its ability to contribute to the war on terrorism, while continuing to respond effectively to other world crises. The President's 2004 Budget is an essential first step in building a more robust SOCOM capable of responding effectively to the evolving threats associated with terrorism.
- Space-based radar and other advanced space surveillance and reconnaissance capabilities that will begin furnishing global, continuous coverage of high-priority targets and regions.



A Global Hawk unmanned aircraft on a test flight over Edwards Air Force Base, California.

Deploying Missile Defenses

On December 13, 2002 the President directed the deployment of defenses against long-range ballistic missile threats. To achieve this goal, the 2004 Budget provides more than \$9 billion. To support these initial deployments, the Administration reorganized the Missile Defense Agency to improve program management and system engineering. Under the new organization, missile defenses will be developed in modest steps, with firm cost and technical controls, in contrast to the previous program approach that had a significant risk of failure. These management changes were scored favorably by the Program Assessment Rating Tool (PART) review described later in this chapter.

The missile defense effort includes a large-scale research and development program, the creation of an expanded Pacific missile defense test range, and development of a series of incremental “blocks” of new capabilities. The Block 04 Program consists of both ground and sea-based systems, leading to a limited, contingency defense against intercontinental ballistic missiles in late 2004 with improved operational defenses in 2005 and beyond. In addition, Block 04 will include improved defenses against shorter-range theater missiles. Subsequent blocks will add improved capabilities and build our confidence in protecting both the United States and our deployed forces. Over time, new technologies, such as boost-phase interceptors and the Airborne Laser, will be added to provide more timely and effective missile defenses.

Protecting the Homeland

The impact from the September 11, 2001 attacks in New York, Virginia, and Pennsylvania will not be forgotten. Many new steps have been taken since that day to protect Americans from terrorist attacks at home. DoD has created a new combatant command (NORTHCOM) whose is to defend the American homeland. When ordered by the President or Secretary of Defense, NORTHCOM is prepared to support civil authorities in the event of a domestic terrorist attack that overwhelms nearby resources. NORTHCOM will team up with interagency groups on the federal, state, and local level. NORTHCOM also will work to prevent terrorist attacks with programs such as protective Combat Air Patrols and early warning air defenses.



Two F-16s fly over Detroit.

Besides NORTHCOM, there are numerous other Department efforts that support the United States' homeland security efforts. For instance, DoD has a large number of research and development programs which build defenses against biological, chemical, and other weapons of mass destruction.

The National Guard also undertakes extensive homeland security activities and has emergency response teams to support civil authorities. These teams supply trained and ready personnel to support state and local authorities in times of need.

Investing Wisely in Energy Conservation

DoD's Energy Conservation Investment Program (ECIP) provides investment resources to the Military Services and Defense Agencies which yield an average of four dollars in energy savings for every program dollar. The Navy has an ECIP project in San Diego, California for various facility energy improvements including the replacement of electric and steam systems with heat pumps. Estimated energy savings for this project are \$6.7 million on a \$1.1 million ECIP investment, or a savings to investment ratio of 6:1. The Air Force is using wind generators to save on fuel on Ascension Island in the Atlantic Ocean between Africa and South America. More than 1.4 million gallons of fuel were saved through 2001. Savings are projected to be more than \$11 million on a \$4.5 million investment, or a savings to investment ratio of 2.5 and a payback period of seven years.

Performance Evaluation of Select Programs

DoD is focusing on improving its management, consistent with Administration efforts to increase the efficiency and accountability of government programs. The two key initiatives are an evaluation of select programs using the government-wide PART and the implementation of the President's Management Agenda.

Using the PART, 12 DoD programs that receive just over 20 percent of DoD's resources were reviewed. Highlighted in the accompanying table are six programs and their ratings. A full list of the programs assessed and their ratings is available in the *Performance and Management Assessments* volume.

Program	Rating	Explanation	Recommendation
Energy Conservation Improvement Program	Effective	DoD represents three-fourths of federal energy use. ECIP projects improve energy and water efficiency in existing facilities and produce average savings of about four dollars for every dollar invested. The ECIP purpose is clear with realistic, attainable goals. It is a well-managed program.	The Administration proposes doubling funding for this program from \$35 million enacted in 2003 to \$70 million in 2004. Up to \$420 million in savings could accrue to DoD from the additional energy projects. The Administration will ensure that the program produces high returns on this investment and develops new performance metrics.
Recruiting	Moderately Effective	DoD's recruiting program has been successful, especially over the last few years, at accessing the number and quality of recruits needed. It also has a significant number of flexible tools available to adapt to differing circumstances. It does not have a management information system to allow for more efficient utilization of resources.	DoD should create a management information infrastructure to provide DoD with better information about the effectiveness of different program parts.
Airlift Program	Moderately Effective	The analysis showed that the program purpose and goals were clear. However, DoD should aggressively examine possible trade-offs within the program that could lower the cost of meeting the airlift requirement without sacrificing military readiness or combat capabilities.	DoD should develop methods of assessing the capabilities of the airlift program as a whole, rather than continue traditional assessments of individual acquisition programs. As a first step, DoD should develop annual performance goals and measures for the overall airlift program to reflect the needs of the 2001 defense strategy and the global war on terrorism.

Program	Rating	Explanation	Recommendation
Missile Defense	Moderately Effective	The Missile Defense Agency (MDA) made significant strides in strategic planning and improved management. However, it has defined cost, schedule, and performance goals only for its near-term 2004 program. Longer-term goals are still in development. Technical progress, test accomplishments, and overall program results for 2002 were much improved, with four out of five successful intercept tests for the ground and sea-based missile defense systems. However, these technical successes could not be fully assessed against the new program goals which were finalized in December 2002.	The MDA should complete development of long-term goals. In addition, MDA, the Joint Staff, and military services should develop military operational goals for each block of missile defense capabilities. These goals should be linked to the existing MDA research and development goals.
Facilities Sustainment, Restoration, Modernization	Adequate	DoD has made significant progress in developing plans and goals for the improvement of existing facilities. It has been less effective in ensuring that funds intended for maintenance, repair, and improvement of facilities are not moved to pay for other programs. Over time this movement of funds has led to sub-standard buildings.	DoD's current measure of the quality of its facilities suffers from subjective assessments of quality. It should pursue a readiness reporting system that yields more consistent, objective information. This will support better decisions on where money should be spent to provide quality facilities.
Chemical Demilitarization	Ineffective	The purpose of the program is very clear, owing to the unique treaty requirement to dispose of chemical weapons. The program has faced a number of challenges including schedule delays and cost overruns at several sites thus challenging the U.S.'s ability to meet treaty deadlines. The program has begun destruction activities at only two of nine sites.	While DoD developed specific milestones for each site, its management should focus on maintaining the schedule and efficiency goals. DoD should approve a destruction process and proceed with planning efforts for the Blue Grass, KY site and work with the community at all sites to ensure that safety concerns are met.

Assuring the Readiness of the Armed Forces

Recruitment

For the second year in a row, all of the services made their recruitment goals, both in the number and quality of recruits. Overall, the services required 210,000 young Americans to enlist to meet their recruiting goals; they achieved the recruitment of 212,000. In fact, the Army reached its 2002 goal in mid-August, with more than a month to spare. This allowed the Army, and the other services, which had similar successes, to improve their position for future recruiting. The 2004 program continues robust funding for recruiters, recruiter support, and promotional activities to ensure continued success in this vital function.

Findings from the PART, however, reveal that DoD does not have a useable overall information architecture in place to help managers implement the program effectively. The cost per recruit continues to rise; it is expected to cost the Department more than \$14,000 per recruit during 2004. Thus, the budget recommends identifying performance goals to enhance not only the effectiveness of the program, but also its efficiency.

Training

The increasingly dynamic global security environment indicates that tomorrow's operational environment will require more cooperation among the armed services, be linked by technology, and often be multinational. The transformation effort will produce an interoperable force that is more agile in addressing future threats in such environments. Training must incorporate the full range of new technologies to ensure our armed forces are agile and ready.

To achieve this goal, the budget supports certain critical training programs. The 2004 Budget strongly supports the services' individual training programs to ensure unit cohesion and readiness. In addition, the services are implementing a new training initiative known as transformational training. This training brings together units from the Army, Navy, Air Force, and Marine Corps to train as one unit, and it is intended to address lessons learned in recent conflicts, to "train as we fight," and to ensure the services can operate closely in combat situations.

Equally important though, DoD is increasingly building on the service specific capabilities by integrating missions and developing training to prepare for joint operations. The recently reconfigured Joint Forces Command, in Norfolk, Virginia, is coming into its own with a Joint Warfighting Center, specifically tasked with helping the services practice joint engagements demonstrated so effectively in Afghanistan.

Also under the aegis of Joint Forces Command, DoD is creating a new Joint Training program and the Joint National Training Center, which includes live-fire ranges and specific exercise areas for inter-service operations. The Center will blend live and simulator training with advanced command and control technologies to enable much closer communication and coordination across services. Increased use of this approach will strengthen our ability to train members of the armed forces under the same conditions in which they will fight. The President's 2004 Budget helps expand the scope of joint training with an investment of \$162 million.



U.S. Navy SEALs participate in a Joint Task Force Exercise.

In Afghanistan, Army, Navy and Air Force Special Forces personnel on the ground provided precise and timely targeting information to Air Force, Navy, and Marine Corps planes overhead. This substantially improved the pilots' accuracy and ability to identify and hit mobile targets before those targets could move out of range. This cooperation translated into more effective missions, particularly in helping friendly Afghan forces pin down and destroy Taliban forces, while providing better protection to U.S. and foreign forces as well as civilians.

The war on terrorism is also being waged with our guard and reserve units. These service members provide critical skills and are being extensively used to provide protection to our bases and infrastructure, both at home and overseas. All of the services, recognizing that the reserve components can be called upon for only a limited time, have begun to transform their active-duty forces so that they have more of the high-demand units on full time duty. For example, the Air Force plans to increase the number of active duty people assigned to the specialties which are currently understaffed by reducing people in areas that are comparatively overstaffed. This will allow the guard and reserve members to return to the civilian world as soon as possible. This will also reduce the cost of deployments, as more personnel would already be trained to deploy more quickly as needs arose.

Focusing on the Military Mission

The Department continues to pursue ways to return military members to the war-fighting ranks by increasing the "tooth-to-tail" ratio through conversion of support staff to combat troops. As part of the President's Management Agenda's competitive sourcing initiative, the Department is committed to competing one-half, or 226,000, of the positions in DoD's Federal Activities Inventory of 452,000 civilian positions in such commercially available activities as manufacturing eyeglasses for U.S. troops. The Department is attempting to open up for competition many of the commercial services it now performs itself, such as health care activities to free up thousands of military positions for war-fighting.

DoD continues to identify core and non-core functions to realign the civilian and military workforce to accomplish the Department's missions. These efforts eliminate inefficiencies and optimize the use of our well-trained armed forces to fight and win the nation's wars.

One way of achieving this goal is to transfer some non-core functions to agencies better equipped to perform them. DoD will propose legislation this year to transfer the function of personnel background investigations of its employees to the Office of Personnel Management (OPM). This proposal would transfer 1,855 DoD civil servants currently employed by DoD to OPM. Another proposed transfer would move the National Security Education program to the Department of Education. This program provides grants to graduate and undergraduate students in certain language and area studies programs. In return for the scholarships, recipients agree to serve for a few years in a national security field in either government or academia. This program is better suited for administration by the Department of Education, which has similar programs.

Maintenance

Spare parts and repair of equipment in depots are critical to helping keep U.S. forces capable and ready to accomplish their missions. Since 1998, the Air Force has spent about \$16 billion on spare parts and maintenance. This sustained investment has increased the Air Force's mission-capable rate (the percentage of aircraft ready to meet mission goals) from about 76 percent in 1998 to about 78 percent in 2002. This has resulted in 60 more aircraft being available to perform their mission. The 2004 President's Budget will help the Air Force continue to build on gains already made.

Similarly, the 2004 Budget supports the recent gains made in maintaining the readiness of Navy ships. Along with robust funding levels, the Administration is committed to fixing problems as they arise. Over the last few years, the Navy adopted a continuous maintenance philosophy for its surface

ships. This approach involves more frequent, but less extensive, repairs preventing added overall downtime due to major repairs, and yielding surface ships which are better maintained and ready to perform their missions.

Intelligence and Space

Without accurate and timely intelligence, even the most capable fighting force in the world is severely impaired. Over the last two years, the Administration has invested in technology, personnel and programs to give our military and national security officials the “eyes and ears” to make sound defense decisions. The 2004 Budget for intelligence and space programs will:

- Sustains operations against terrorism around the world;
- Improve collection, processing, analysis, and dissemination capabilities to meet increased demands;
- Sustain the DoD/intelligence community space organizational structure instituted in 2002. Under this new structure, the range and capability of space assets will increase to support intelligence, imaging, mapping, reconnaissance, and communications objectives by:
 - continuing to upgrade almost all of the nation’s national security satellites; and
 - continuing to develop advanced space programs such as high-data rate laser satellite communications; next-generation of missile warning and weather satellites; jam-resistant satellite and receiver equipment; space control efforts to protect U.S. space assets; and new programs, such as space-based radar, that provide persistent coverage of regions of interest;
- Modernize the military services’ intelligence, surveillance, reconnaissance, and electronic warfare systems. Many of these systems will have new, expanded and/or enhanced technical capabilities, and will interface with networked information systems to improve decision-making and help provide our armed forces “information superiority”; and
- Expand the National Imagery and Mapping Agency’s use of commercial space-based imagery. This effort will improve geospatial readiness and responsiveness, and contribute to improved military planning, damage assessment, public diplomacy and humanitarian assistance. It will also help meet the demand for unclassified imagery that can be easily shared with multiple organizations or coalition partners. For example, in October 2002 the United States used commercially obtained satellite photos to demonstrate Iraq’s continued efforts to hide evidence of its weapons of mass destruction. By using commercial imagery, DoD could disseminate this evidence widely without security concerns.

Enhancing the Quality of Life of Military Personnel and Their Families

Military Compensation

The President has sustained large increases in military pay, and ensured that military compensation remains competitive. In 2002, President Bush proposed, and the Congress approved, the largest military pay raise in 20 years. This raise included an across-the-board increase of 4.6 percent, plus additional targeted raises for certain experienced personnel. Total pay raises averaged 6.9 percent. For 2003, the President proposed and the Congress approved a military pay raise of 4.7 percent—including an across-the-board pay raise of 4.1 percent and further targeted raises averaging 0.6 percent. The President’s 2003 Budget also proposed, and the Congress approved, up to \$1,500 monthly, on top of base salary, to personnel accepting certain hard-to-fill assignments.

For 2004, the budget proposes a range of pay increases from 2.0 to 6.3 percent, targeted by rank and years of service. These differential pay increases enhance the Department's ability to retain its most experienced soldiers, sailors, airmen, and marines. With the increase, base military salaries will average more than \$37,000 for enlisted personnel and more than \$75,000 for officers, exceeding the average salaries of their civilian counterparts with similar education levels.

The President's Budget also contains funding for a full range of quality of life programs. The budget funds free health care for military members, retirees, and dependents, as discussed later in this chapter. Members also receive retirement benefits, can contribute to the Federal Thrift Savings Plan, and can participate in a full range of morale, welfare, and recreational activities.

In addition to their base salary, benefits include:

- monthly special or incentive pays ranging from a few hundred to a few thousand dollars;
- enlistment and reenlistment bonuses that are often in the tens of thousands of dollars;
- generous retirement benefits paid for by the government;
- commissaries and exchanges which provide below-market cost groceries and other products;
- free utilities in base housing;
- subsidized child care in accredited centers; and
- access to fitness facilities.

Housing

The Administration is committed to improving the quality of housing for military families. DoD seeks to eliminate 163,000 inadequate housing units (out of a total of 273,000) by 2007. About two-thirds of military families live in private sector housing in the community with the rest residing in government housing.

The most effective way to eliminate inadequate housing, and to quickly improve the quality of housing over the long-term is to privatize government-owned family housing. Allowing the private sector do what the government has done inefficiently will improve military housing over the long term. One aspect of the President's housing initiative permits DoD to enter into business agreements which use private sector expertise and leverage government resources. This approach is improving the quality of family housing faster than the





A sailor is greeted upon his return from a tour aboard USS Ticonderoga.



Troops play basketball in Qatar. High quality temporary housing typical of many overseas posts is in the background.

traditional approach of constructing government-owned houses. The privatization program has quadrupled the rate of modernization over the last two years.

President’s Management Agenda—Program Initiative

Initiative	Status	Progress
Privatization of Military Housing		
DoD plans to achieve its goal of eliminating its inventory of inadequate houses by 2007. DoD has already upgraded 10 percent of its housing inventory and plans to modernize 76,000 houses over 2003 and 2004 through partnerships with the private sector.		

From Military Housing to Homes and a Real Neighborhood

At a recent conference, Sergeant First Class V. W. Holcomb and his wife, Simone, talked about their privatized housing at Fort Carson, Colorado. “Just like everyone else that has been in or knows someone who has been in the military, when you think of living in military housing you think of an old rundown brick WWII bunker. I know that’s what I always lived in. Now people are shocked when we show them pictures of our home. For the first time we are able to feel like we live in our own home. We have the opportunity to live in a real neighborhood. We are able to have a real yard. There is an easily visible and accessible playground adjacent to our residence which allows our younger children to play safely and close to home. There is a sense of home in the new houses that military housing has never provided before. Every day we watch new housing going up on Fort Carson. If we continue to get opportunities like these, then more soldiers and their families will be honored by being able to live on their military installations and will have even more incentives to stay in the military.”

The Army, at Fort Carson, partnered with the private sector to build 2,663 family houses. This project will renovate 1,823 existing units and construct 840 new units by the end of 2004. To date, over 500 new homes have been constructed. Every month, 20 new units are constructed and 40 existing units are renovated.

To date, DoD has privatized 26,166 family houses at 17 installations across the United States—about 10 percent of its current inventory. Just in the past year, DoD entered into public-private partnerships to refurbish over 10,000 more houses. In 2003 and 2004, DoD plans to further accelerate public-private ventures by privatizing approximately 76,000 units.

A second key part of the President’s housing initiative is to reduce out-of-pocket expenses of military families living in off-base housing. Service members who live off-base receive a Basic Allowance for Housing to cover most of the average housing costs. The proportion of housing costs that members absorb is 7.5 percent in 2003, and this is scheduled to decrease to 3.5 percent in 2004 and zero in 2005.

Defense Health

DoD provides health care to just under nine million military active duty members, retirees, and their families through military hospitals and private sector health contracts. The Defense Health program trains military medical

personnel to support our troops in times of war and operates military hospitals so that medical personnel can obtain valuable experience.

The program has achieved impressive results over the past year. DoD, for example, improved the design of its private sector health insurance contracts. Past contracts encouraged the use of the private sector even when federal hospitals were underutilized, thereby duplicating many costs such as nursing and physician staffing. New contracts will continue to provide top-notch care to patients, but will search for intelligent ways to control costs such as increased use of federal hospitals before

sending patients to private sector hospitals. The Department is also working closely to share and coordinate health care services with the Department of Veterans Affairs (VA). More information on these endeavors can be found in the VA chapter.

The budget includes a proposal to allow Defense health to continue to use “non-availability statements” which require certain patients to use military hospitals if space is available before seeing private sector providers. This process allows military medical personnel to receive the valuable experience and training needed to support our troops in times of war.

The federal government has developed a set of common measures for five functions in different departments. These common measures allow comparisons on the effectiveness and efficiency of similar programs. The 2004 Budget takes the first step toward comparing the performance of federal health care systems by displaying newly developed access, quality, and efficiency common measures for VA, DoD’s health systems, the Department of Health and Human Services’ Community Health Centers, and the Indian Health Service. When looking at common measures, it is important to understand key differences in programs. The adjoining overview defines the size of the program and what portion of care is provided at military health hospitals (in-house) versus private sector hospital contracts. The cost and efficiency measures below have not been adjusted for differences between DoD and other agencies—including risk/health status, socioeconomic status, age, gender, and benefit package differences. For example, DoD’s benefits package includes comprehensive health care which is not always comparable to other programs. In addition, the cost of ensuring that military medical personnel are ready and trained for combat is not included in the other federal programs.

Overview of the Defense Health Care System











	2004 estimate
Number of individual patients	6,980,000
Annual appropriations request (in millions of dollars)	\$26,700
Number of Medical workers	13,537
Average age of individual patients	39.0
Male and female individual patients (percent)	53% (Male) 47% (Female)
Cost directed to in-house services, excluding contract services (percent)	58%

Health Care Common Measures

Measure/Description	Goal	2001 Actual	2002 Estimate
Cost —Average cost per unique patient (total federal and other obligations)	Under Development	\$3,324	\$3,607
Efficiency —Annual number of outpatient visits per medical worker	Under Development	4,533	4,500
Quality —The percentage of diabetic patients taking the HbA1c blood test in the past year	Under Development	72%	72%

Note: Research funding is excluded. Medical workers include the equivalent number of full time physicians, dentists, nurse practitioner, physician assistant, and nurse mid-wife providers, but exclude appointments by off-site contractors, medical residents/interns, and trainees. However, patient visit numbers include visits to medical residents, contracted employees, and trainees. Cost information includes all direct costs of military health care in the DoD budget and in the trust funds.

Update on the President's Management Agenda

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

Arrows indicate change in status since baseline evaluation on September 30, 2001.

While prosecuting the war on terrorism has been DoD's principal task since September 2001, the Department has made major efforts to address the President's Management Agenda. In Human Capital, DoD made significant accomplishments in headquarters reductions (11 percent), planned reorganizations, reductions in supervisors and managers, and outsourcing efforts. In competitive sourcing, DoD continues to compete commercial functions it now performs with the private sector. The financial management architecture contract award allows for the completion of the DoD Enterprise Architecture plan by Spring 2003. DoD made progress implementing information technology (IT) security measures and made business cases justifying 180 IT projects. DoD's Budget and Performance Integration progress moved to green as it has developed performance metrics for use in the 2004 Budget.

Department of Defense (In millions of dollars)

	2002 Actual	Estimate	
		2003	2004
Spending			
Discretionary Budget Authority:			
Military Personnel	86,929	93,436	98,577
Operations and Maintenance	132,702	129,373	133,235
Procurement	62,739	71,403	74,396
Research, Development, Test, and Evaluation	48,713	56,798	61,827
Military Construction	6,631	6,288	5,018
Family Housing	4,048	4,204	4,016
Revolving and Management Funds and Other	2,645	3,132	2,829
Total, Discretionary budget authority¹	344,407	364,634	379,898

¹ Includes \$16.6 billion in 2002 supplemental funding.

DEPARTMENT OF EDUCATION

The President's Proposal:

- Increases Title I Grants to local educational agencies to help schools in high-poverty communities implement the No Child Left Behind Act;
- Increases Special Education Grants to states to help meet the needs of students with disabilities and lay the groundwork for upcoming legislative reform;
- Reforms vocational education to hold high schools and community colleges accountable for positive student outcomes and provide states the flexibility to use these funds to support ongoing efforts under the No Child Left Behind Act; and
- Increases Pell Grant funding for postsecondary students to maintain the maximum award at \$4,000 and address the program's current financial shortfall.

The Department's Major Challenges:

- Implementing the No Child Left Behind accountability reforms successfully; and
- Expanding accountability reforms to other programs throughout the Department.

Department of Education

Rod Paige, Secretary

www.ed.gov 800-USA-LEARN

Number of Employees: 4,620

2003 Spending: \$59.5 billion

Major Assets: 10 regional and 11 field offices.

The Department of Education's primary mission is to ensure equal access to education and promote educational excellence for all students throughout the nation. To achieve this mission, the Department: 1) provides formula and competitive grants to states and local educational agencies to support improvement of elementary and secondary education; 2) implements student financial assistance and higher

education programs designed to ensure that postsecondary education is affordable and attainable; 3) conducts research and disseminates information on the best educational practices; and 4) produces statistics on the condition of education in the United States.

In 2004, the Department must ensure that states, school districts, and local schools implement the reforms of the No Child Left Behind Act (NCLB). Specifically, schools will be held accountable for improving student achievement; parents and students will be provided more information and educational choices if their schools are not measuring up; states, local educational agencies, and schools will be provided the flexibility to use federal funds in a manner that best reflects state and local needs and priorities; and federal funds will be used to implement programs that reflect scientifically based research.

The Department must also broaden the reach of the President's education reform and accountability agenda beyond K-12 to include students served under federal special education and vocational and adult education programs. With the NCLB reforms as a model, the Department will work to establish new program goals as well as measurement and accountability standards.

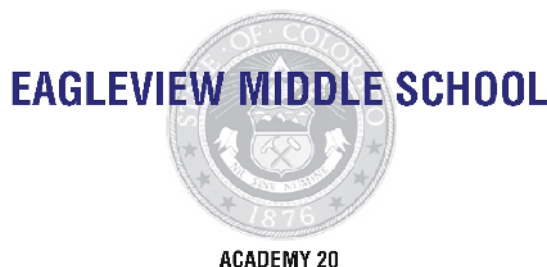
Elementary and Secondary Education

Federal support of public education is changing in profound ways. The President's sweeping reforms passed in the No Child Left Behind Act of 2001 make fundamental improvements in elementary and secondary education by supporting accountability for results, expanded parental choice, increased local flexibility, and a focus on what works. Our children deserve no less. Far too many of them are being left behind now; national reading tests show that two-thirds of fourth graders in high-poverty schools cannot read at a basic level.

States will now hold all public schools accountable for improving student achievement through: tough state academic standards; annual progress goals ensuring that all students reach proficiency in reading and math by the 2013–14 school year; and annual testing for all students in grades three through eight. Poorly performing districts and schools will receive assistance, then face increasingly tough consequences aimed at getting them on course. Children will not be trapped in failing schools; students will be permitted to transfer to better public schools or, over time, obtain outside help from a public or private tutor of their choice. States and districts will have the flexibility to shift some federal funds from one program to another in order to best meet local needs.

The 2002–2003 school year is the first for NCLB implementation. States are designing their accountability systems, which will face a rigorous peer review process that ensures that every state, district and school raises achievement for every child. One of the keys to the President's reforms is annual testing in grades 3–8; 17 states already incorporate such testing into their accountability framework. By 2005–2006, all states must have these tests in place.

The funds from the 2004 Budget will support the third year of NCLB reforms. Many schools that thus far have gotten by without raising achievement for each student may soon be considered low-performing under the new system, and their students will then have the option to transfer to a better public school. Annual state and local report cards will show whether schools are helping all



School Accountability Report 2001-2002 School Year

School Performance Summary	
Overall Academic Performance	High
Academic Improvement: Rating calculated pursuant to section 22-7-604 (6)	Stable

How Eagleview Middle School Compares To Nearby Middle Schools

School	Academic Performance
Holmes Middle School(1)	High
Mann Middle School(1)	Average
Mountain Ridge Middle School	High
Russell Middle School(1)	Average
East Middle School(1)	Low
Manitou Springs Middle School(2)	High
North Middle School(1)	Average
West Intergenerational Center(1)	Average
Challenger Middle School	High
Sabin Middle School(1)	High

1 Located in Colorado Springs #1 School District.
2 Located in Manitou Springs #14 School District.

Under NCLB, every parent will have access to a report card (similar to the example above) so that parents will be able to make informed choices about their child's education.

types of students, including low-income, minority, limited English proficient and those with disabilities. These public report cards will give parents the information they need to monitor schools, and will give schools and districts strong incentives to use NCLB funds to teach effectively.

Title I Grants to Local Education Agencies

Title I is the foundation of the NCLB reforms. The 2004 Budget requests \$12.4 billion for Title I, a \$1 billion, or nine percent, increase over the 2003 request. The request would result in an increase of 56 percent since 2000. Of this total, the amount states may reserve to assist schools in need of improvement will double to nearly \$500 million. In addition, the budget includes \$390 million for Grants for State Assessments to help put in place testing in grades three through eight. These increases will help states meet the challenges of the groundbreaking NCLB reforms.

Reading First and Early Reading First

Reading First is the President's signature effort to use high-quality, research-based reading instruction so that every child can read at grade level or above by the end of third grade. The Reading First program, initiated through the NCLB Act, provides funds to states to support only scientifically proven reading practices. The 2004 Budget proposes \$1.05 billion for this program, \$50 million over the 2003 request. The budget also includes \$100 million for Early Reading First, a \$25 million increase, to develop model early childhood literacy and pre-reading programs for schools serving high-poverty communities.



President Bush visits with students at B.W. Tinker Elementary School in Waterbury, Connecticut.

Choice

No Child Left Behind provides unprecedented choice for parents of children trapped in low-performing schools. To support and enhance its reforms, the budget provides \$220 million for Charter School Grants, \$100 million for Credit Enhancement for Charter School Facilities, \$110 million for Magnet Schools, and \$75 million for the new Choice Incentive Fund. The new fund will help increase the capacity of state and local districts to provide parents, particularly low-income parents, more options for maintaining a quality education for their children who are trapped in low-performing schools.

Mentoring

To help bridge the transition between childhood and adulthood while using citizen service to further engage Americans in public education, the President proposes a new \$100 million Mentoring initiative. This initiative would support the development, expansion, and strengthening of exemplary school-based mentoring programs that meet the needs of at-risk middle school students.

Reductions

Consistent with the President's insistence on performance, the budget reverses the growth of several programs that, while well intentioned, have failed to produce results, including Safe and Drug Free Schools State Grants, Even Start, and 21st Century Community Learning Centers. A portion of the funds for these programs are being redirected to other programs, such as Title I and Reading

First, that hold more promise for improving educational outcomes. (For further discussion of Safe and Drug Free Schools and Even Start, see the Performance Evaluation of Select Programs section of this chapter and the Department's chapter in the *Performance and Management Assessments* volume.)

Special Education

About 6.5 million children received special education services in 2002, up from 4.7 million in 1992, making it one of the fastest growing areas of education. The budget requests a \$1 billion increase for special education to help states and localities meet their responsibilities. More importantly, this year the Administration will work with the Congress to renew the Individuals with Disabilities Education Act (IDEA), consistent with the framework of the No Child Left Behind law.

Since 1975, the federal government has played an important role in ensuring that children with disabilities receive the best possible public education. In each of his first two years, the President requested \$1 billion increases for IDEA Grants to States, the largest boosts ever requested by a President. This year, the budget requests another \$1 billion increase to help states and localities educate children with disabilities, for a total of \$9.5 billion. The budget also provides \$447 million for states to serve infants and toddlers with disabilities, a \$10 million increase. Research shows that early intervention may help reduce or eliminate the need for special education when children enter school.

However, money alone is not enough. While the President is committed to the principles of the IDEA law, it is in need of significant reform. Last year, President Bush created a Commission on Excellence in Special Education to provide a blueprint for a new IDEA. This year presents a unique opportunity to work with the Congress to renew the decades-old IDEA law based on up-to-date research and the educational reform principles in No Child Left Behind. The new IDEA proposal will include the following:

According to Parents, IDEA Needs Reform

A majority of parents with children in special education (52 percent) agree that "better programs and policies, not more money, is the best way to improve special education."

Public Agenda
2002

- strengthened accountability for states to improve results for children with disabilities, using IDEA funds for performance awards and technical assistance;
- promotion of pre-referral interventions and identification methods that will help ensure that children who need special education are identified early and are not misidentified as having disabilities because they never received appropriate instruction (in areas such as reading) in the early years; and
- reduction of paperwork and administrative tasks so that school personnel can focus on the needs of children, rather than bureaucracy.

Education for the Workforce

Last year, the President launched a multi-year effort to reform federal job training programs with proposals to consolidate or eliminate various ineffective, duplicative, and overlapping programs. This year, the laws authorizing many federal job training programs are set to expire. The 2004 Budget, therefore, sets out to build on previous reforms to consolidate and eliminate ineffective programs and incorporate the No Child Left Behind framework. This will ensure that federal fund recipients are accountable for results and given greater flexibility to achieve them.

At the Department of Education, these efforts translate into proposals for sweeping vocational and adult education reforms, and a close examination of vocational rehabilitation programs, which are due for renewal in 2005. In anticipation of these reforms, the Department worked with the Department of Labor and five other federal agencies to develop several “common” performance measures that clarify the core goals of federal job training programs and allow cross-program comparisons. These measures will allow the Administration and the Congress to assess the effectiveness of reform efforts, informing future federal budget decisions such as where to target dollars. (See the Department of Labor chapter for further discussion of the common measures initiative and job training reform.)

Vocational Education

The Department provides grants to states to support programs intended to develop the academic, vocational, and technical skills of high school and community college students. However, decades of increasing federal investment, and various attempts at program reform, have produced little or no evidence that the Department’s vocational education programs lead to improved outcomes. Since the most recent reform effort in 1998, the federal government has spent close to \$6 billion on these programs, despite a continuing absence of significant outcomes or improvements. The President’s insistence on accountability and performance calls for an end to this type of investment that does not produce results.

Summary of PART Evaluation for Vocational Education State Grants Program

Overall Rating: Ineffective

Key Findings:

- National evaluations and annual performance data show the program having little or no benefit to high school students in terms of academic performance, job skills, and postsecondary degrees.
- There is no accountability for how community college funds are used and no meaningful connection to student outcomes.
- States need the flexibility to combine various federal funding streams so that resources can be targeted to areas where students can best be served.

Recommendation: Adopt program reforms consistent with NCLB accountability framework and provide states the flexibility to combine high school funding streams.

The Administration used the new Program Assessment Rating Tool (PART) to identify strengths and weaknesses of the Vocational Education program to inform recommendations on legislative reforms and resource levels. As highlighted in the accompanying summary, the PART analysis for the Vocational Education State Grants program demonstrates the need for a significantly different approach. Several independent evaluations have documented its ineffectiveness in increasing students’ academic and job-related skills or helping students get into, and complete, college. (For further discussion of PART results for Department of Education programs, see the Performance Evaluation of Select Programs section of this chapter and the Department’s chapter in the *Performance and Management Assessments* volume.)

The President's education and job training reform agenda proposes to reform vocational education using the No Child Left Behind framework for accountability and flexibility. Funds provided under this program will be contingent on a rigorous assessment that improved student outcomes are being achieved. Where possible, programs should be consolidated to simplify federal requirements and streamline delivery of services.

States and school districts receiving federal funds will have the flexibility to design high quality programs that enhance student achievement, but they must also have in place accountability systems to monitor and report on student performance. Moreover, states will have the option to redirect funds from this program into their Title I programs. This approach gives states the flexibility to combine two separate federal funding streams serving high schools in a single program, simplifying program requirements and streamlining the delivery of educational services. States will also be provided funds to create, at their discretion, programs to develop high-quality end-of-course high school exams.

For postsecondary schools, states will distribute funds competitively to community and technical colleges that partner with local high schools and members of the business community. These grants will support efforts to improve students' transitions from high school to college and college to the workforce. Whether a school receives funding under this program will be based on success in achieving measurable student outcomes, such as degree attainment, job placement, retention, and earnings.

Education for Adults

The Department awards grants to states to help adults become literate, obtain a high school diploma or its equivalent, and learn skills necessary for work or self sufficiency. While this program has demonstrated positive results for some adult students in terms of reading gains and job placements, most students being served by these programs are not seeing measurable benefits. Therefore, the budget proposes significant reforms to the Adult Education programs designed to improve their performance and increase accountability for results. Federal resources will be targeted to educational approaches that have proven effective in increasing reading and math skills. New accountability provisions will ensure that grantee funds are contingent on achieving real and measurable outcomes, such as the number of participants who obtain high school degrees or find a job. (For further discussion see the *Performance and Management Assessments* volume.)

Vocational Rehabilitation

The budget provides nearly \$3 billion for vocational rehabilitation programs that support the President's New Freedom Initiative goals and guide individuals with disabilities to employment and independent living. The funding for Vocational Rehabilitation State Grants (VR) will increase to ensure states can maintain service levels, helping over 243,000 individuals with disabilities obtain and retain jobs with higher incomes. The PART analysis and independent research have shown that VR programs provide positive employment results for people with disabilities who continue to experience workplace obstacles. However, there is still room for improvement. The Administration is exploring ways to increase employment opportunities and program accountability through management reforms and legislative changes for the coming update of the main VR law.

Postsecondary Education

The budget increases student aid funding for the neediest students, expands loan forgiveness for math, science, and special education teachers in high poverty schools, and increases grants for Historically Black Colleges and Universities and Hispanic Serving Institutions, which provide postsecondary educational opportunities for some of the nation's most disadvantaged students.

Our public institutions of higher education have to improve their completion and retention rates of students once they enroll so students can learn the skills they need to get the jobs they want.

Secretary Paige
September 2002

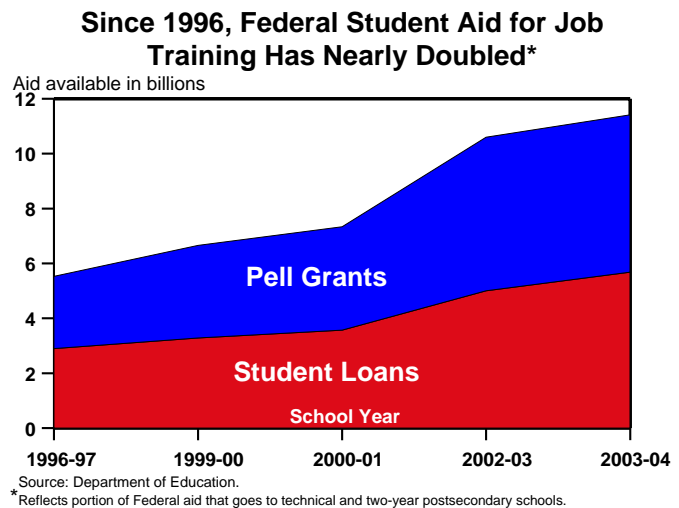
This past year, four higher education programs were assessed using the PART. This analysis has provided a strong foundation for the Administration's upcoming proposals to strengthen accountability in the Higher Education Act. The PART analysis also identified program weaknesses that the Education Department has begun to address through administrative improvements. For example, the Department has begun to improve its process for identifying those students who were provided student aid in excess of the amount for which they were eligible.

Pell Grants

Pell Grants are the single largest source of grant aid for postsecondary education. This year, about five million students will receive a grant of up to \$4,000 for tuition and other expenses. Pell Grants are need-based, and are available to both traditional and nontraditional college students pursuing an undergraduate degree, as well as adults returning to school to improve their employment opportunities. As the PART analysis demonstrated, Pell Grants are well targeted to the neediest families, and help increase college enrollment rates among economically disadvantaged students.

In recent years, the number of Pell Grant recipients has grown much faster than historical trends would predict (as has college enrollment overall). Specifically, from 2000 to 2002, the number of Pell recipients increased by nearly 25 percent, compared with a five percent growth rate from 1997 to 1999. Much of this unanticipated increase was due to more independent students receiving Pell Grants (generally, independent students are older students who do not depend on their parent or guardian to pay for college). Many of these students attend community colleges and career training institutions and predominantly use Pell Grants and other student aid to help pay for training or retraining in new careers (see accompanying chart). So, while Pell Grants remain the single largest source of grant aid for traditional college students, they are also the single largest source of federal support for persons in need of training or retraining for new careers.

As a result of this unexpected growth, as well as a \$700 increase in the maximum grant from 2000 to 2002, Pell Grant appropriations for the past few years have been insufficient to fully cover annual program costs. This budget proposes \$12.7 billion for Pell Grants, to retire the shortfall related to the 2002–2003 award year and maintain a \$4,000 maximum award for the growing number of persons eligible for Pell Grants.



As part of the Administration's effort to keep the Pell Grant program on a solid financial foundation, the budget also proposes to allow the IRS to match income data on student aid applications with the applicant's tax data to ensure that students do not receive awards in excess of the amount for which they are eligible. This is one component of the Administration's initiative to reduce erroneous payments government-wide. This proposal is projected to save \$638 million in Pell Grant costs over 2003–2004, significantly reducing existing funding shortfalls.

Student Loans

In 2004, the Department of Education's student loan programs will provide nearly \$48 billion in new loans to help students and their families pay for college. As with Pell Grants, the number of student loan recipients has increased significantly in recent years and includes a growing number of older, independent students who use student loans to pay for training and retraining for new careers. This year, the Department of Education will continue to improve its management of the student loan programs, and reduce fraud and abuse through the IRS income verification proposal discussed above.

Teacher Loan Forgiveness

Under current law, qualified teachers who work for five years in schools that serve high-poverty students may have up to \$5,000 of their federal student loans forgiven. The budget proposes to expand this program to allow highly qualified math, science, and special education teachers who meet the requirements of this program to have up to \$17,500 of their student loans forgiven.

Historically Black Colleges and Universities (HBCUs) and Hispanic-Serving Institutions (HSIs)

Federal resources help these institutions, which provide opportunity for some of the most disadvantaged students in the nation, improve their educational programs. The budget proposes \$224 million for HBCUs, \$53 million for Historically Black Graduate Institutions, and \$94 million for Hispanic Serving Institutions, a five-percent increase for these important institutions.

Performance Evaluation of Select Programs

In return for this [commitment of federal resources], my Administration and the American people expect results. We expect every child to learn basic skills. We expect failing schools to be turned around. We expect teachers and principals to do their jobs well, to have a firm grasp on their subject matter, and to welcome measurement and accountability.











President Bush
January 2002

This year's budget continues the Administration's focus on performance. In place of the old practice of funding for funding's sake, this budget targets funding to programs that generate positive results for students and meet strong accountability standards. The PART was applied to 18 Department of Education programs covering more than \$27 billion (55 percent) of the Department's 2003 discretionary budget. PART findings were used to

redirect funds from ineffective programs to more effective ones and to identify reforms to address program weaknesses. The accompanying table provides a brief description of the PART evaluation for four programs. For further details see the *Performance and Management Assessments* volume.





Program	Rating	Explanation	Recommendation
Even Start	Ineffective	Even Start is a family literacy program. Two national evaluations have shown that neither the children nor parents who received services made educational gains compared to those who did not receive Even Start services.	Because of the ineffectiveness of this program, the budget provides enough funds only for the continuation of current awards.
Vocational Education State Grants	Ineffective	Both national evaluations and state-level performance reports demonstrate a lack of positive results for students. Local districts and high schools need the flexibility to combine various federal funding streams so that resources can be targeted to areas where students can best be served.	Adopt program reforms consistent with NCLB accountability framework and provide states the flexibility to combine this high school funding with Title I funds.
Safe and Drug Free Schools	Ineffective	The program distributes funds too thinly across eligible grantees, thereby preventing the use of high quality, proven reforms necessary to affect youth crime and drug-abuse. Moreover, the program does not currently have an adequate performance measurement system.	Redirect funds to more effective programs until the program can establish: 1) a strategy for greater targeting of funds; 2) viable program goals and indicators; and 3) a system for collecting and reporting information.
Pell Grants	Moderately Effective	Pell Grants achieve their purpose of providing need-based aid for undergraduate students, targeted to the neediest students. However, the Department could improve program management and should develop annual goals directly tied to degree completion, persistence, and other appropriate measures of performance.	Amend the Internal Revenue Code to allow the IRS to match student aid data and tax data to prevent awarding the wrong grant amount. Consider legislating degree completion and persistence as performance measures.

Update on the President's Management Agenda

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

Arrow indicates change in status since baseline evaluation on September 30, 2001.

At the start of this Administration, the Department of Education was plagued by problems affecting its ability to carry out its mission. Specifically, the Department had no strategy for optimizing human resources, maintained non-compliant and unreliable financial systems, and had a piecemeal approach to making information technology investments. While much work remains, the Department has begun to address these problems. Under its One-ED human capital strategy, the Department has identified inefficiencies in several important business processes, including its hiring process, and has begun efforts to make them more efficient. The Department has deployed a new financial management system that is generating more accurate and timely financial reports. It has also improved investment decisions in information technology. Most significant, the Department leads all other agencies in converting inefficient paper processes to electronic ones for 86 percent of its citizen-to-government transactions, including applying for student aid. With these improvements, the Department has earned a status upgrade for E-Government from red to yellow.

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

Arrow indicates change in status since baseline evaluation on June 30, 2002.

Elimination of Fraud and Error in Student Aid Programs and Deficiencies in Financial Management. The Department has improved its student aid programs by better managing risk and improving the integrity of its financial data. Most notably, the Department has taken substantive steps to address system weaknesses in its school monitoring and student eligibility process, such as: 1) improving how data is used to identify risky schools; 2) matching direct loan origination data with the student eligibility system; and 3) finalizing and submitting a legislative proposal to the Congress that would allow the Department to match student aid and IRS data. These steps, along with an upgraded financial management system and increasingly reliable and timely financial data, have helped the Department reduce fraud and error in its student aid programs.

Faith-Based and Community Initiative. The Department is one of seven federal agencies focusing intensely on removing barriers to the participation of faith-based and community organizations (FBCOs) in providing social services. Education has been upgraded to yellow status because it reduced regulatory barriers to participation, streamlined applications, and provided technical assistance and outreach to FBCOs. The Department must now ensure that FBCOs compete on a level playing field in state and locally administered programs.

Department of Education

(In millions of dollars)

	2002 Actual	Estimate	
		2003	2004
Spending			
Discretionary Budget Authority:			
Elementary and Secondary Education			
Title I Grants to LEAs ¹	9,920	11,350	12,350
Reading First and Early Reading First.....	975	1,075	1,150
State Assessments	387	387	390
Charter Schools Programs	200	300	320
Choice Incentive Fund	—	50	75
Even Start.....	250	200	175
Impact Aid.....	1,144	1,141	1,016
Teacher Quality State Grants.....	2,850	2,850	2,850
Safe and Drug Free Schools State Grants	472	472	422
21st Century Community Learning Centers	1,000	1,000	600
English Language Acquisition.....	665	665	665
IDEA Part B State Grants	7,529	8,529	9,529
Education for the Workforce			
Vocational Rehabilitation State Grants (mandatory, non-add)	2,481	2,616	2,669
Vocational Education	1,315	1,300	1,000
Adult Education.....	591	591	591
Higher Education			
Pell Grants	11,314	10,863	12,715
Historically Black Colleges and Graduate Institutions	255	264	277
Hispanic-serving Institutions	86	89	94
TRIO/GEAR UP	1,087	1,087	1,087
Research and Statistics.....	207	270	280
All other programs	9,258	7,827	7,551
Total, Discretionary budget authority ²	49,505	50,310	53,137
Mandatory Outlays:			
Federal Direct Student Loans.....	97	4,844	— 135
Federal Family Education Loans	2,297	2,103	4,984
Teacher Loan Forgiveness (legislative proposal)	—	—	178
All other programs	2,585	2,392	2,668
Total, Mandatory outlays	4,979	9,339	7,695
Credit activity			
Direct Loan Disbursements:			
Federal Direct Student Loans (FDSL)	10,235	12,435	13,393
FDSL Consolidations.....	9,228	7,436	6,106
Subtotal, FDSL disbursements	19,463	19,871	19,499
Other Direct Loans	41	21	41
Total, Direct loans	19,504	19,892	19,540
Guaranteed Loans:			
Federal Family Education Loans (FFEL)	24,167	30,570	33,245
FFEL Consolidation	20,106	17,013	13,003
Total, Guaranteed loans	44,273	47,583	46,248

¹ Excludes \$430 million increase in advance appropriations in 2002.

² Includes \$1.0 billion in 2002 supplemental funding.

DEPARTMENT OF ENERGY

The President's Proposal:

- Launches a bold, new hydrogen fuel research and development program and aggressively pursues additional zero-emissions technologies such as fuel cells, fusion power, and carbon sequestration;
- Clears the path to operating a safe nuclear waste repository by 2010;
- Accelerates the cleanup of nuclear waste sites to better protect workers, the public, and the environment; and
- Strengthens the nation's security by reducing the global threat from weapons of mass destruction and by maintaining the nation's nuclear stockpile.

The Department's Major Challenges:

- Reducing and mitigating a projected increase in America's dependence on foreign energy supplies through 2025; and
- Certifying the safety and reliability of the nation's nuclear stockpile without nuclear testing.

Department of Energy

Spencer Abraham, Secretary

www.energy.gov 202-586-8100

Number of Employees: 16,000 federal and 100,000 contractors

2003 Spending: \$19.8 billion

Major Assets: 26 laboratories, four Power Marketing Administrations, 24 other facilities, and 15,323 vehicles.

The Department of Energy (DOE) has four main missions: 1) ensuring a dependable energy supply for the American economy; 2) ensuring a secure, reliable nuclear deterrent for the nation's defense; 3) improving environmental quality related to energy production; and 4) advancing science and technology in energy-related areas. The Department supplements private-sector research efforts to enhance domestic energy production, develop new and cleaner sources of

energy, and improve energy conservation and efficiency. The National Nuclear Security Administration (NNSA) maintains the safety, security, and reliability of the nation's nuclear weapons stockpile, manages nuclear non-proliferation efforts to reduce the threats from weapons of mass destruction, and provides the U.S. Navy with safe, effective nuclear propulsion plants. The Department's environmental quality efforts include cleaning up contamination resulting from over 50 years of nuclear weapons production, and supporting research to reduce contaminants that come from energy and to develop new, non-polluting and sustainable energy sources. DOE advances science by

sponsoring a broad range of basic and applied research, including the operation of scientific research facilities that serve the nation's research community.

Performance Evaluation of Select Programs

The President's 2004 Budget continues to address the nation's energy challenges by allocating resources for DOE programs and activities that demonstrate they are contributing to our energy goals, and by reducing or transferring funding from programs that do not. For the first time, many funding decisions were enhanced by using both the Program Assessment Rating Tool (PART) and the Research and Development (R&D) Investment Criteria as part of the President's Management Agenda. (See the *Performance and Management Assessments* volume for a full discussion of application of the PART and R&D Investment Criteria at DOE and other agencies.) DOE is at the forefront of the Administration's effort to apply these tools. This year, DOE evaluated 31 programs through the PART and, where applicable, the R&D Investment Criteria, comprising nearly 60 percent of the Department's total funding.

The 2004 Budget reflects the application of these tools through funding recommendations based on national priorities and program performance. Selected programs evaluated this year include those summarized in the following table.

Program	Rating	Explanation	Recommendation
Gas Exploration and Production	Ineffective	Many program activities are not unique to the federal government.	Refocus on long-term, high-risk research where the justification for a federal role is strongest and program benefits most broadly applicable.
Basic Energy Sciences	Results Not Demonstrated	Focused and well-managed, the program is developing adequate performance measures.	Maximize use of existing research facilities, support nanoscience initiative, and improve performance measures.
International Nuclear Materials Protection and Cooperation	Effective	Demonstrated results securing fissile material in the former Soviet Union.	Continue to monitor performance against long-term goals; enhance systems for tracking spending.
Wind Energy	Moderately Effective	Contributed to lowering wind energy costs in high-wind speed areas, but difficulty developing adequate annual performance measures.	Emphasize technologies for low-wind speed areas, and develop and apply a consistent methodology for estimating program benefits.

The Department has already taken several steps toward improving the performance and management of its programs:

- The Environmental Management (EM) and Energy Efficiency and Renewable Energy programs conducted top-to-bottom reviews and as a result have streamlined management and started to improve the way decisions are made.
- NNSA established a planning, programming, budgeting and evaluation process to support development of its Future-Years Nuclear Security Program. In addition, NNSA has re-engineered

its management processes and federal workforce to integrate program elements, streamline operations and oversight, and simplify requirements.

- The Department established new qualifications for contract and project managers to strengthen its scrutiny of contractor work and improve performance.

Expanding Energy

Investing in Hydrogen Energy

Americans import over 50 percent of their oil and are expected to import nearly 70 percent by 2025. If the nation is to liberate itself from dependence on imported oil, it must achieve scientific breakthroughs on alternative fuels and technologies. The most promising long-term revolution in energy use is the expansion of hydrogen energy. Transportation accounts for 70 percent of total U.S. oil consumption. Widespread use of hydrogen fuel cell vehicles would reduce U.S. oil imports and increase energy independence. U.S. fuel cell leadership in transportation also could reap enormous economic benefits, as the U.S. auto industry alone accounts for five percent of the U.S. gross domestic product and supports 6.6 million jobs. Also, hydrogen fuel cells, which produce only water as a byproduct rather than the pollutants in gasoline vehicle emissions, can help clean the air we breathe.



The future may be now for hydrogen fuels.

Hydrogen-powered fuel-cell vehicles have the potential to provide energy diversity, fuel economy, and environmental benefits. Since hydrogen can be manufactured from a number of domestic fossil (natural gas and coal), nuclear, and renewable resources, it offers the potential for eventual “freedom” from the nation’s near-exclusive reliance on petroleum for transportation.

The budget includes a major new partnership between the federal government and energy companies to help accelerate widespread use of fuel-cell vehicles by focusing on hydrogen fuel production, storage and infrastructure. This project’s long-range, high payoff research and development efforts could dramatically improve the performance and

cost-effectiveness of hydrogen technologies without displacing private investments.

The new initiative, FreedomFuel, builds upon a program announced in 2002, FreedomCAR (Cooperative Automotive Research), which is aimed at developing viable hydrogen fuel-cell technology for cars by 2015. This budget proposes to spend over \$1.5 billion on FreedomFuel and FreedomCAR over the next five years, including more than doubling DOE’s spending on hydrogen research and development in 2004 alone. This funding will accelerate achieving the national energy security and environmental benefits from widespread use of hydrogen vehicles.

FreedomFuel and FreedomCAR research activities will address the difficult technical and cost challenges faced in commercialization of fuel-cell vehicles. For example, hydrogen fuel cells are currently at least 10 times more costly than today’s internal combustion engines, and hydrogen fuel is five times more costly to produce than gasoline. We need to develop innovative ways to nearly double the amount of hydrogen that can currently be stored on board a vehicle in order to provide a driving range comparable to today’s vehicles without sacrificing cargo space. The Administration intends

to challenge the international community to join efforts to accelerate the world-wide availability and affordability of hydrogen fuel.

Advancing Fusion Energy

The President directed DOE to enter negotiations with international parties—the European Union, Japan, Canada, and Russia—aimed at building the International Thermonuclear Experimental Reactor (ITER). ITER is the essential next milestone on the path towards developing fusion

A Step Towards Fusion Energy

For nearly half a century, the United States has funded an effort to harness thermonuclear fusion. Progress has been slow because of the significant difficulties in controlling “fusion-plasmas” that burn at temperatures of hundreds of millions of degrees. The ITER will provide scientists with access to a “burning plasma” – a plasma in which deuterium and tritium atoms fuse to give off large amounts of energy.

as a commercially viable energy source. Fusion is the process that powers the sun and despite many major technical challenges, it has the potential to be an abundant, safe, and clean energy source. Recent leaps in the scientific understanding of fusion have led many scientific experts, including the U.S. National Academy of Sciences, to recommend construction of the ITER project in order to know whether fusion can produce energy. The President’s decision to enter negotiations to build ITER will position the United States as a vital partner in this international experiment.

The DOE budget includes \$12 million to support the President’s commitment.

Other Presidential Energy Initiatives

The budget continues to fulfill the President’s commitment to increase funding for the Weatherization Assistance Program over the next 10 years in order to cut energy costs of 1.2 million low-income families while conserving energy. The Program Assessment Rating Tool (PART) assessment of this program showed it to be moderately effective. The program’s energy-efficiency measures help save each participating low-income family an estimated \$218 annually on utility bills, at an average one-time cost 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. This program places priority on serving low-income households that include elderly persons, children, or people with disabilities. The budget proposes to weatherize 126,000 homes in 2004; 3,000 more than 2003, and a 20-percent increase over 2002.

The budget also continues to meet the President’s goal to provide \$2 billion for clean coal research over 10 years, by including \$321 million for research on clean coal technologies. This amount is more than two and a half times that annually requested for this activity in the budgets submitted to the Congress from 1995 through 2000. The PART and R&D Investment Criteria evaluations revealed that the program is focused too heavily on building demonstration power plants. Therefore, the budget proposes to reduce funding for the demonstration component of the program and focus on research and development of new technologies. The budget also proposes to combine all clean coal research under a single program to better manage this research and provide a more transparent budget structure. Also, this proposal will put to work nearly \$500 million for clean coal research that is unexpended.

The budget assumes enactment of the President’s energy tax incentives proposed in the 2003 Budget that will encourage greater energy efficiency and development of renewable resources. These incentives total more than \$8 billion over 10 years and include tax credits for purchases of hybrid and fuel cell vehicles, solar power in residences, and a modification of the tax treatment of nuclear power plant decommissioning costs.

Radioactive Waste Disposal

DOE is charged with disposing of spent nuclear fuel from civilian nuclear power plants and high-level waste from the nation's defense activities. Commercial electric power generation, nuclear weapons production, the operation of naval reactors, and federal research and development activities over the past half century have produced spent nuclear fuel and high-level radioactive waste that have accumulated across the country at commercial reactor sites and storage facilities. For the past 20 years, DOE has investigated Yucca Mountain, Nevada, to determine whether it would be suitable for a geologic repository to dispose of those wastes. In February 2002, the President recommended Yucca Mountain to the Congress as qualified for a construction permit application to the Nuclear Regulatory Commission (NRC) as a nuclear waste repository. And in July 2002, the Congress approved that recommendation.



Home At Last: Yucca Mountain, NV, site of the federal nuclear waste repository.

Filling the Yucca Mountain Repository

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. Twenty years ago, the federal government accepted responsibility for the safe geologic disposal of nuclear waste in a remote underground repository. Last year, the President recommended and the Congress approved Yucca Mountain, Nevada as qualified for an application for a construction authorization to NRC as a nuclear waste repository. To protect the public and the environment for the long-term, it is essential that DOE be provided the resources to develop the license application, and when it is approved, support for construction and operation of this repository.

The budget includes \$591 million for the Department's radioactive waste program. This funding will enable DOE to complete work needed for a license application to the NRC in 2004 and develop transportation capabilities needed to initiate repository operations by 2010. As part of the Administration's proposal to extend the discretionary spending caps, the budget proposes a unique Yucca Mountain annual discretionary spending cap adjustment. This adjustment will help ensure that adequate funds are provided every year to complete construction of the repository on schedule.

R&D Investment Criteria at Work

As part of the drive to improve performance of the government, for the past two years DOE has evaluated its applied R&D programs using the R&D Investment Criteria. The R&D Investment Criteria were designed to guide agencies in the selection of projects for federal research dollars. The criteria require R&D managers to demonstrate that their programs are conducting research that is relevant, of high quality, and producing results.

For the 2004 Budget, DOE evaluated a total of 80 individual applied research projects and programs using the R&D Investment Criteria. The resulting information helped support a more thorough evaluation of the portfolio of each DOE research program and guided the budget's allocation of funds among programs. In some cases, the evaluation resulted in shifting funding

from R&D activities supporting technologies that are near commercialization, such as the clean coal demonstrations noted above, to long-term, high-risk/high-payoff R&D, such as research on revolutionary new ways to store large amounts of hydrogen in a small space, which will help advance the introduction of hydrogen fuel cell vehicles.

Application of the criteria also led to recommendations to redirect funding from some activities, either because the case for federal participation was weak or other higher-priority research activities could use these funds more effectively. For example, the budget proposes to:

- increase funding on research activities for a new type of coal power plant that uses coal gasification to increase efficiency and reduce emissions (\$51 million, an increase of \$10 million over 2003), and dedicates \$62 million (an increase of \$18 million over 2003) specifically to the capture and disposal of carbon dioxide emissions. These are activities that have the potential to produce public benefits, such as reduced emissions, where industry has little incentive to invest to achieve these results;
- reduce funding for the Advanced Petroleum-Based Fuel program, which largely supplants investments that private industry would make to achieve the clean air requirements of EPA's regulation on vehicle emissions that take effect between 2004 and 2007; and
- increase funding for the Advanced Fuel Cycle and Generation IV Nuclear Energy Systems initiatives to develop next-generation nuclear reactor and fuel cycle technologies, and continue the government-industry cost-shared Nuclear Power 2010 program. Support for these programs is based on PART assessments that demonstrated strong planning and management structures.

Power Marketing Administrations

The Southeastern, Southwestern, Western, and Bonneville Power Marketing Administrations (PMAs) sell electricity generated at 133 multipurpose federal dams and related facilities located across the country. They also manage more than 33,000 miles of federally owned transmission lines. The budget provides \$185 million for Southeastern, Southwestern, and Western. Bonneville uses internally-generated funds only.

The PART analyses conducted this year showed that the PMAs fulfill many of their legislated responsibilities and meet their dual goals of providing safe and reliable service to customers. Although largely prescribed by law, their marketing functions are not optimally designed and are administratively burdensome. In 2004, the Administration will work toward upgrading their operations.

PMAs receive their power from hydroelectric dams operated by the Corps of Engineers (Corps) and the Department of the Interior's Bureau of Reclamation. In 2004, Southeastern, Southwestern, and Western will propose legislation to directly finance the Corps' power-related operating and maintenance expenses, as Bonneville already does. In past years, the Corps has obtained appropriations to pay these expenses and the PMAs repaid the costs to the U.S. Treasury. Direct funding will enable the Corps to perform needed maintenance and small rehabilitation projects in a more timely way.

The Bonneville Power Administration (BPA) finances its \$4.1 billion annual cost of operations and investments from its annual power revenues and through borrowing from the U.S. Treasury. The budget proposes to increase the current borrowing authority ceiling of \$3.75 billion by \$700 million to enable BPA to finance improvements in its transmission system, conservation, and hydropower activities. BPA will continue to encourage non-federal or joint financing of all its investments in transmission system upgrades and other investments, and will report its evaluation of these alternate financing opportunities to DOE before using its borrowing authority.

The President's National Energy Policy also directs federal agencies to remove constraints on the interstate transmission grid to help ensure that the nation's electricity can flow more freely. In 2002, the Administration and two private companies agreed to secure private-sector financing for

construction of Path 15 transmission facilities that will relieve the transmission bottleneck in northern California. This project is scheduled to be operational in 2004.

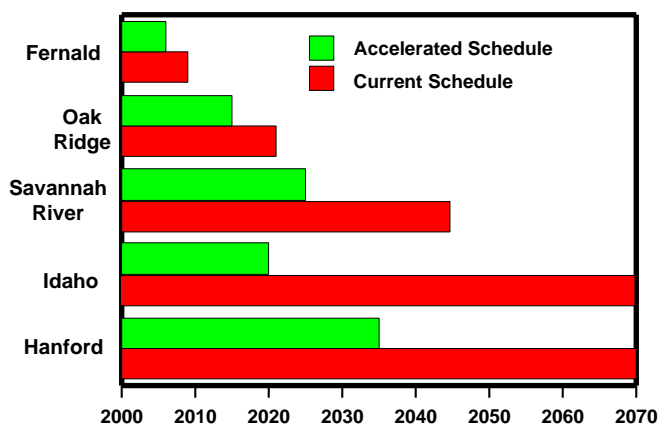
Environmental Management

Decades of nuclear weapons production and energy research left vast amounts of radioactive contamination and hazardous waste at 114 sites in 31 states and one U.S. territory. DOE has completed cleanup at 75 of the sites, but the largest and most challenging site cleanups lie ahead. In 2002, DOE's top-to-bottom review of the Environment Management (EM) program found that the program was focused on managing risk rather than reducing it. It was failing to achieve its risk-reduction mission, unable to effectively control cost and schedule overruns, and experiencing significant problems in project management and contract administration. The EM PART evaluations confirm the findings of the top-to-bottom review that precious time and billions of taxpayer dollars have been lost.

Accelerating Site Cleanup

As of September 2, 2001, DOE estimated it would not complete cleanup of all of its sites until 2070, which was an unacceptable timetable for addressing the risks posed by these sites. Under the Administration's revised cleanup plans, DOE expects to accelerate completion by 30 years, a generation ahead of the previous schedule. It also expects to save about \$37 billion doing so, reducing total remaining cleanup costs from \$184 billion to \$147 billion. DOE's goal is to achieve even greater time and cost savings—to accelerate cleanup by 35 years and save \$50 billion—through additional innovations in cleanup approaches and business processes.

Accelerated Cleanup Schedule



Source: Office of Environmental Management, DOE.

additional analysis and securing necessary approvals from state and federal regulators on the plans, the Department has made progress toward reforming the EM program.

To improve program performance, the 2003 Budget proposed to set aside \$1.1 billion as an incentive for DOE, the states, and federal regulators to revise cleanup plans to accelerate reduction of risk to the public and the environment. Over the past year, the EM program developed revised cleanup strategies for 18 of the 39 sites remaining to be completed. These performance management plans (PMPs) 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. Although significant issues still need to be resolved, including conducting



Accelerated Depreciation: Demolition of a metals fabrication plant at Fernald was completed in 2002.

underwater facility represent 37 percent of the radioactivity at the site. The plan has been to solidify this waste in glass beginning in 2018, with final disposition completed by 2042. Under the PMP, DOE would move the capsules to dry storage by 2008, with ultimate disposition by 2021, 21 years ahead of schedule.

Two examples of changes in the PMPs are:

- *Idaho National Engineering and Environmental Laboratory.* Liquid radioactive waste at the Idaho Laboratory has been converted to dry granular material. The plan has been to solidify this material in glass for final disposal by 2070 at a cost of \$7 billion. Under the PMP, this material would be dispositioned without costly additional treatment or increased threat to public health and safety. This would accelerate disposition of this material by 35 years and save about \$6 billion.
- *Hanford, Washington.* The cesium and strontium capsules currently stored in an

Innovative Cleanup

The EM program can be improved by technological breakthroughs and innovations in contracting. The program seeks to address both these requirements simultaneously with alternative procurement approaches that move DOE further toward paying for proven performance.

DOE aggressively seeks private sector assistance to substantially accelerate the pace of innovation. Consistent with laws and policies that ensure sound contracting and fiscal responsibility, DOE plans to offer a share of clearly measurable savings with contractors as an inducement for contractors to take financial risks necessary to reduce the cost and timeframe of nuclear waste cleanup.

The budget includes \$7.2 billion for the EM program, an increase of \$244 million over the 2003 Budget and the highest amount ever requested for this program. However, more money and revised plans alone are not enough. The Department recognizes the need to revise its management policies and procedures to achieve the program's cost, schedule, and risk-reduction goals. To this end, DOE has several initiatives underway, including holding contractors responsible for achieving the expected cleanup results and continuing to pursue innovative approaches to cleaning up these sites.

Advancing Science

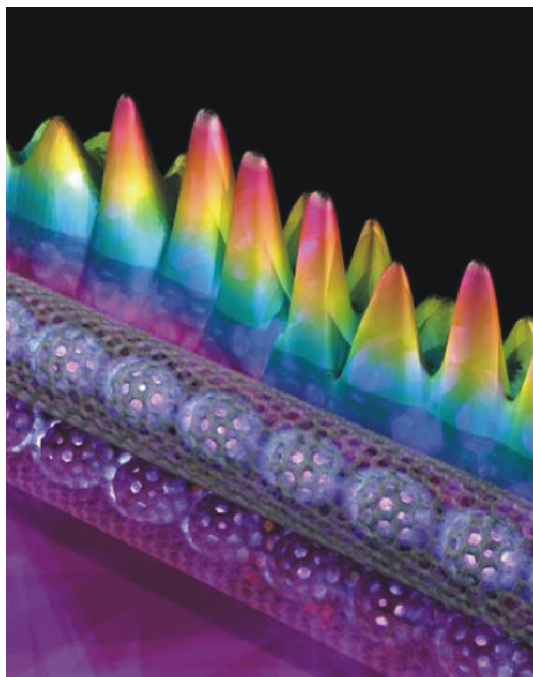
The Department's Office of Science supports a broad array of basic and applied research and operates a variety of unique scientific facilities to support the Department's energy and national security missions. It also supports research in areas such as climate change, genomics, and life sciences. The Office provides more

Nanoscience—by a Nose

The growing nanoscience revolution promises new materials that could affect every aspect of society. For example, carbon nanotubes that are 1,000 times thinner than a human hair may allow engineers to provide storage for tiny fuel cells that would power consumer electronics devices or develop "artificial noses" for sniffing out individual molecules of dangerous chemicals.

than 40 percent of total federal funding for basic research in the physical sciences, and serves as the principal federal funding agency for research in high-energy physics, nuclear physics, and fusion energy sciences. The success of the office's research program has been exceptional. In the past decade alone, nine Nobel Prizes in physics and chemistry have been awarded to scientists for work supported by the Office of Science.

The assessment of the Office of Science programs conducted using the PART analysis and the R&D Investment Criteria revealed that these programs are generally well-managed and focused on appropriate research, but that additional work is needed to better define program performance measures—a problem faced by many basic research programs.



Atomic-scale nanotubes, such as the carbon "peapod" structure shown magnified in this illustration, could lead to computers as small as a pencil eraser.

An important part of the Office of Science's activities is its operation and management of 10 national laboratories and 27 scientific research facilities across the country, including x-ray and optical light sources, supercomputers, fusion devices, and particle accelerators. This suite of research facilities plays a vital national role, as it annually draws over 17,000 users from universities, industry, and government. Facility access is awarded via a merit-based, peer review process.

The 2004 Budget proposes \$3.3 billion for DOE Science programs, a \$55 million increase over 2003. It allocates funds to best performers that provide the broadest benefits to society. The budget does not fund earmarks. The DOE Science budget reflects an increase in proposed research funding across the federal government, especially in the physical sciences, including a 10-percent increase in research, equipment, and facilities at the National Science Foundation (NSF).

The Science budget at DOE gives priority to operating existing user facilities at over 90 percent of maximum capacity. Operating these facilities near capacity will maximize the scientific return by ensuring that they are

available to the scientists who depend upon them to carry out their research.

The budget also includes a broad emphasis on enhancing support for research in the physical sciences across many federal research agencies to ensure that there is an appropriate balance among federal research and development activities. The Office of Science budget enhances nanoscience, computational science, and research at the interface of physics and astronomy. The emphasis on physical sciences within DOE's mission areas will be coordinated with related research supported or conducted by other agencies, such as NSF and the National Aeronautics and Space Administration (NASA).

The budget nearly doubles DOE's investment in new centers for nanoscale science research, complementing the unique capabilities of existing and soon-to-be completed DOE user facilities, as well as the nanoscience efforts of other agencies. The budget also increases support for research on the next generation of high-end computer architectures necessary for cutting-edge simulations in areas such as climate change, fusion plasma physics, and material science.

National Defense

DOE's NNSA mission is to strengthen the security of the United States by applying nuclear energy to military purposes, and by reducing the global threat from weapons of mass destruction. To accomplish the mission, NNSA manages national security-related programs to:

- maintain and enhance the safety, security, reliability and effectiveness of the nation's nuclear weapons stockpile;
- detect, prevent, and reverse the proliferation of weapons of mass destruction and promote nuclear safety world-wide; and
- provide the U.S. Navy with safe, militarily effective nuclear propulsion plants for ships.

Nuclear Stockpile Stewardship

Since 1993, DOE has maintained confidence in the safety, security, reliability, and effectiveness of the U.S. nuclear weapons stockpile in the absence of nuclear testing with its science-based, stockpile stewardship program. DOE employees oversee contractors that operate programs stretching across a vast complex that includes three national laboratories (Los Alamos, Sandia, and Lawrence Livermore); the Nevada Test Site; and extensive production facilities.

The stewardship program ensures the operational readiness of the nuclear weapons stockpile by relying on improved technology and techniques to detect and predict problems in the aging nuclear stockpile. Using the knowledge from this program, NNSA maintains and refurbishes existing warheads and maintains a manufacturing base that could produce a new weapon if required.

In January 2002, the Administration released the second Nuclear Posture Review (NPR), which laid out the direction for America's nuclear forces over the next decade. The NPR noted that since the end of the Cold War, the nation's nuclear infrastructure had atrophied. Furthermore, an evolving security environment required a flexible and responsive weapons complex infrastructure. To address these concerns, the 2004 Budget reflects a significant increase over the 2003 Budget in the stockpile stewardship program. This increase, along with a multiyear plan supported by sustained, stable funding, will enable NNSA to fulfill the nation's needs for a safe, secure, reliable, and effective nuclear stockpile. The 2004 Budget proposes \$6.4 billion for activities related to maintaining the nuclear weapons stockpile, \$533 million above the 2003 Budget. Efforts underway include:

- Near-term work such as the refurbishing of three 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.
- Long-term work such as:
 - The Inertial Confinement Fusion Ignition and High Yield program, which includes construction and operation of the National Ignition Facility at Lawrence Livermore National Laboratory in California. This project will provide a 192-beam laser to simulate the conditions of



Components of a Peacekeeper missile are subjected to a wall of fire. Such testing helps determine how aging weapons will perform in the future.

high temperature and pressure that result from a nuclear explosion, so scientists can better understand the expected performance of nuclear warheads.

- Advanced Simulation and Computing efforts involving the largest and fastest computers to perform calculations and nuclear explosion simulations that previously were impossible to perform. These simulations are an integral part of certifying the reliability of the stockpile.
- The plutonium “pit” (bomb core) manufacturing and certification program that will provide the United States with the capability to develop new plutonium pits to replace existing ones whose life expectancy is unknown.

NNSA’s weapons-related programs also encompass:

- infrastructure programs that underpin the stockpile work. Since the Cold War, many facilities have reached the end of their useful lives and NNSA is embarking on an effort to improve conditions throughout the complex to ensure the sustainability of the complex into the future;
- security programs intended to protect the nuclear weapons complex and nuclear weapons and their components within that complex and while in transit; and
- the Nuclear Weapons Incident Response Program that provides first-responder teams in the event of a nuclear emergency.

The United States last produced a new weapon in 1990 and last conducted a nuclear test in 1992. Now, DOE must develop new tools to manage the stockpile without the design and underground testing that supported it since the dawn of the nuclear age. This work will remain critical even as the Department of Defense (DoD) draws down the number of operationally deployed warheads to between 1,700 and 2,200 over the next 10 years.

Managing the Stockpile Stewardship program continues to be an enormous challenge. In response to questions raised by the DOE Inspector General and others concerning poor accountability of government property, abuse of government-issued credit cards, and theft of property at the Los Alamos National Laboratory, the Secretary of Energy insisted that the University of California, the contractor at Los Alamos, take immediate action to remedy the laboratory’s management failures. The University reacted by accepting the resignations of the Laboratory Director and Deputy Director and took other steps to address management problems. The Secretary of Energy also asked the Inspector General to undertake a broader investigation of these allegations and other related matters as appropriate. Furthermore, the Secretary directed the Deputy Secretary and the Under Secretary for Nuclear Security to complete by April 30, 2003 a full evaluation of the University of California’s capacity to operate the laboratory. Among other matters, the evaluation will examine whether the University should continue to hold the Laboratory contract, which it has held for 60 years without competition. The contract was most recently renewed non-competitively on January 18, 2001, two years ahead of schedule. The Secretary has also directed the formation of a Blue Ribbon Commission to develop criteria to be used generally in evaluating when laboratory contracts should be open to competition.

Preventing the Spread of Weapons of Mass Destruction

Preventing the spread of weapons of mass destruction (WMD) continues to be an urgent and top priority. This imperative was made clear after the September 11th, terrorist attacks and the subsequent discovery of signs that terrorists were seeking to obtain WMD.

The gravest danger our Nation faces lies at the crossroads of radicalism and technology. Our enemies have openly declared that they are seeking weapons of mass destruction, and evidence indicates that they are doing so with determination. The United States will not allow these efforts to succeed.

National Security Strategy of the United States of America
September 17, 2002.

In June 2002, with the leadership of the United States, G-8 nations agreed to a new comprehensive nonproliferation effort known as the Global Partnership. To advance this goal, G-8 leaders committed to raise up to \$20 billion over 10 years to fund nonproliferation programs in the former Soviet Union. The United States intends to provide half that total through programs at DOE, DoD, and the Department of State. The Global Partnership program's 2004 budget of nearly \$1 billion is allocated as follows:

- \$459 million in DOE programs to reduce and prevent the proliferation of nuclear weapons, nuclear and radioactive material, and nuclear expertise;
- \$451 million in DoD Cooperative Threat Reduction programs that provide assistance to reduce and prevent the proliferation of weapons of mass destruction, delivery vehicles, material and expertise; and
- \$81 million in Department of State programs to prevent the proliferation of weapons of mass destruction and expertise.











In addition to the Global Partnership programs the NNSA manages nearly \$900 million in other nonproliferation programs for 2004. Highlights include \$609 million to dispose of surplus plutonium in the United States, and \$204 million to conduct research and development of technologies that support nonproliferation efforts.

Naval Reactors

The President's Budget will enable NNSA's Naval Reactors program to continue its success in developing and operating safe, reliable, and effective nuclear-powered 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 new nuclear propulsion plants to meet evolving national defense requirements. By the end of 2004, the goal is to complete 100 percent of the design of the next generation submarine reactor and 65 percent of the design of the next generation aircraft carrier reactor. Furthermore, the Naval Reactors program will begin work on its Transformational Technology Core, a reactor core that will deliver a significant energy increase to future submarines. Finally, the program will continue operating 101 naval reactor plants, and will add to its record of 124 million miles safely steamed without a reactor accident or a significant release of radioactivity into the environment.



Update on the President's Management Agenda

DOE's status has improved from red to yellow over the past year in Human Capital, Financial Performance, and E-Government. The Department has been at the forefront of the Administration's efforts to improve agencies' analysis and management of research and development investments.

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

Arrows indicate change in status since baseline evaluation on September 30, 2001.

DOE is carrying out its workforce restructuring plan to ensure that its staff have the right skills, eliminate management layers, and streamline operations. The Department received an unqualified opinion on its 2001 financial statement and DOE's review of its financial management controls concluded DOE controls have no major weaknesses. DOE has also made significant progress improving its planning and management of capital investments in information technology, including developing better financial information to support investment decisions. It has started private-public competitions on more than 1,100 federal and 1,000 contractor positions toward achieving the President's competitive sourcing goal.

Initiative	Status	Progress
Better R&D Investment Criteria		

The goal of this initiative is to develop objective criteria to select, fund, and manage R&D programs across the government. The initiative's red status reflects the limited progress most agencies have made. DOE, which was part of a pilot effort last year, is the exception. It improved the quality of information it uses to evaluate its investments in applied research and development. It is working to improve its use of this tool to manage programs and develop better ways to estimate the benefits of its research. This was the first year other R&D agencies and DOE's Office of Science applied the criteria to their programs. NASA is recasting its strategic plans and budget to tie directly to the R&D criteria. NSF is changing its budget structure and guidelines used to evaluate its research to reflect the criteria's intent. See the R&D chapter of the *Analytical Perspectives* volume for additional information on this initiative.

Department of Energy
(In millions of dollars)

	2002 Actual	Estimate	
		2003	2004
Spending			
Discretionary Budget Authority:			
National Defense			
National Nuclear Security Administration	7,619	7,934	8,759
Other Defense Activities	551	445	523
Energy Resources.....	2,697	2,645	2,734
Science and Technology	3,263	3,256	3,311
Environmental Management	6,694	6,994	7,239
Nuclear Waste Disposal	375	591	591
Corporate Management and all other programs	119	199	219
Total, Discretionary budget authority ¹	21,318	22,064	23,376
Mandatory Outlays:			
Existing law	-899	-1,344	-1,329
Legislative proposal	—	149	145
Total, Mandatory outlays	-899	-1,195	-1,184

¹ Includes \$0.4 billion in 2002 supplemental funding.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

The President's Proposal:

- Strengthens and improves Medicare, offering more options, including enhanced benefits and prescription drug coverage;
- Reforms child welfare financing by providing states with flexible grants that will encourage innovative child welfare plans with a stronger emphasis on prevention and family support;
- Helps 1.2 million more people receive health care at Health Centers in 2004; and
- Provides a \$100 million increase for a prevention initiative to reduce the number of deaths and disabilities caused by diabetes, obesity and asthma.

The Department's Major Challenges:

- Managing a vast information technology system more efficiently and effectively; and
- Creating One HHS from a wide variety of disparate organizational units.

Department of Health and Human Services

Tommy G. Thompson, Secretary

www.hhs.gov 202-619-0257

Number of Employees: 65,000

2003 Spending: \$502.0 billion

Major Assets:

Buildings owned or leased: 4,130

Motor vehicles owned or leased: 3,048

Medicare Trust Funds financial assets: \$284.5 billion

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. The Department manages over 300 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 900 million Medicare claims per year.

HHS Priorities

Fighting Bioterrorism

No HHS activity is now more important than national bioterrorism preparedness. HHS agencies are improving our nation's capacity to prevent, identify, and respond to the consequences of biological weapons.

The importance of preparing and responding to public health emergencies was never clearer than during the aftermath of September 11th and the subsequent anthrax attacks. HHS has been working steadfastly since that time to make strides in our nation's preparedness. In 2002, HHS programs awarded over \$1 billion to local health departments and hospitals to improve public health preparedness, and will continue this investment in 2003 and 2004.

Strengthening preparedness also involves the acquisition of vaccines and other countermeasures for bio-defense. The Administration has gained valuable experience and discovered many challenges in recent efforts to ensure an adequate supply of such products, including the smallpox vaccine. Important aspects of the normal budget, acquisition and licensure processes can create delays that may be understandable in other contexts, but are unacceptable in the case of threats from bioterrorism. These delays can obstruct the process of turning scientific discovery into developed products that can protect the American people. It is essential that these barriers be overcome, while still maintaining the discipline they provide and the safety they ensure.

The Administration proposes the creation of three new authorities that will speed the arrival of products that can be used to protect the American people from these threats. The first will allow the government to pre-purchase countermeasures from the private sector as soon as experts agree that a product in development is safe and effective enough to stockpile for use in an emergency, and can ultimately be licensed. The budget authority will be at the Department of Homeland Security and procurement authority will be at HHS. (See the Department of Homeland Security chapter for more details.)

The second new authority will provide the experts at the National Institutes of Health (NIH) with the flexibility they need to hire the best experts, make special purchases, and face other management challenges that can be barriers to quick progress in converting basic scientific discoveries into usable products. The third new authority will allow the Food and Drug Administration (FDA) to work more pro-actively with researchers and industry to allow emergency-use authorization licensure of these countermeasures.

Advancing the President's Initiatives

White House Faith-Based and Community Initiative

Government shouldn't discriminate against faith, government should welcome faith. The power of faith, whether it comes through the Christian church, through Judaism, or through Islam, can change people's lives for the better. And we must welcome that faith in our society.

President George W. Bush
August 7, 2002

Faith-Based and Community Initiative. One of President Bush'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 President envisions a faith-friendly environment where faith-based organizations can compete equally to provide government-sponsored services.

President Bush also created centers for Faith-Based and Community Initiatives in six cabinet departments—HHS, Agriculture, Education, Housing and Urban Development, Justice, and Labor—as well as in the Agency for International Development.

As a result of a White House report (titled *Unequal Playing Field*), which documented barriers to fuller participation, the President's Management Agenda will track the progress of agencies in

removing these barriers. While progress has been made in reducing administrative barriers and increasing outreach to community- and faith-based organizations, more needs to be done to move these organizations into the mainstream of service delivery. (Ratings for each of the five cabinet agencies included in the President's original Executive Order are in the agencies' budget chapters.)

In addition, 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 Budget continues funding for social services provided by faith-based and community organizations with \$100 million for the Compassion Capital Fund. In order to build upon the efforts of charitable organizations, 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 community and faith-based organizations in seeking private funds. The Compassion Capital Fund also supports and promotes research on "best practices" among charitable organizations.

Mentoring Children of Prisoners. The President recognizes that, as a group, the more than two million children with parents in prison have more behavioral, health, and educational challenges than the population at large. Mentoring by caring adults can brighten the outlook for these children. Therefore, the budget includes \$50 million for competitive grants for this purpose.

Promoting Responsible Fatherhood and Marriage. With over 25 million children living in homes without fathers, the Administration seeks to provide \$20 million to promote responsible fatherhood and marriage.

Maternity Group Homes. The Administration 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.

Vouchers for Drug Treatment Services. The budget also proposes a \$200 million initiative that would provide an additional 100,000 individuals in need of drug treatment with expanded options through vouchers for drug treatment services. This would allow these individuals to determine where they will be served and would provide broader access to drug treatment and social service providers, including those that are faith-based.

Health Centers. Health Centers deliver high-quality, affordable healthcare to over 12 million patients at over 3,500 sites across the United States. As described in the performance volume, evaluations and performance data indicate that the health centers program effectively provides a reliable source of care for low-income and uninsured families. Locally managed health centers offer services that are responsive to the unique needs of their communities.

The Health Centers Presidential 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

Hope in the Windy City

Carrie earns her living babysitting for mothers who are working their way off public assistance. She has been a foster parent for over 30 years to seven children, four of whom she has adopted. When her husband died last year, Carrie was left without health insurance. Carrie found care at the Near North Health Service Corporation health center in Chicago, which received an expansion grant last year as part of the President's Initiative. The grant enabled Near North to expand its service capacity and better fulfill its mission to provide care to Carrie and others in need.

Health Resources and Services
Administration

more than one million additional people receive health care in 2004 through 230 new and expanded sites in rural areas and underserved urban neighborhoods.

Innovative Approaches to Drug Treatment. According to the most recent survey by the Substance Abuse and Mental Health Services Administration, nearly 16 million people use illegal drugs. Of these, almost five million individuals struggle with drug dependency and need drug treatment. It is estimated that approximately 100,000 of these people seek treatment but are unable to get help. Effective treatment reduces drug use and the consequences of dependency, like the spread of HIV/AIDS and hepatitis, crime and homelessness. The 2004 Budget proposes \$200 million for a new approach to narrowing the treatment gap using vouchers for drug treatment services. The initiative will involve emergency rooms, health clinics, schools, the criminal justice system and other settings to reach out to those in need of drug treatment. Following an assessment of their needs, individuals will be given a voucher and guidance on treatment options, allowing them to determine for themselves where they will best be served. These investments seek to serve an additional 100,000 individuals and are critical to reducing the impact of substance abuse on the nation's youth, families, and communities.

As described in the section on the Faith-Based and Community Initiative, this initiative will seek to broaden access to a wider range of drug treatment and social service providers, including those that are faith-based, to better serve those who often do not respond to traditional drug treatment.

Generic Drugs. The Administration is committed to making prescription drugs affordable for all Americans. The 2004 President's Budget proposes an increase of \$13 million for the FDA to improve access to generic drugs. This increase will speed up generic drug reviews to bring lower cost prescription drugs to consumers more quickly. This increase will also support targeted intramural and extramural programs that will expand the range of generic drugs available and help prevent adverse events involving generic drugs.

Medical Malpractice Reform. Medical liability lawsuits can threaten access to health care by adding to the cost of medicine for taxpayers and families and by discouraging health professionals from providing critical services such as child delivery and trauma surgery. Physicians who want to volunteer their time to provide care to low-income populations can be dissuaded from doing so because they fear being sued. Over the next year, the Administration will work with the Congress to address medical liability. One approach proposed in the budget is to protect health centers from using resources, which could be directed to patient care, for excessive non-economic awards.

National Institutes of Health. With the support of the American people and the Congress, the Administration demonstrated its strong commitment to biomedical research by completing a five-year doubling of the NIH budget. As a result of the doubling, NIH now funds nearly 10,000 more research grants than it did before the doubling began—10,000 more ideas that could lead to vaccines, cures, and treatments to improve human health. NIH can now support the training of over 1,500 more scientists each year than it could in 1998. This investment will help ensure there are enough trained professionals ready to turn today's research advances into tomorrow's medical success stories.

New opportunities in bio-defense, cancer, HIV/AIDS and diabetes research require more interdisciplinary research, resulting in a shift in how medical research is funded and conducted. The role of NIH in developing urgently needed new tests and treatments for bioterror weapons will likely produce new insights into the treatment of other diseases. Building on the research momentum fostered by the Administration, the 2004 Budget provides \$27.9 billion for NIH. With this investment, NIH will continue to lead the fight to defeat diseases and dangers to public health.

Fighting Global AIDS. The President's Budget continues the Administration's commitment to combat the spread of HIV/AIDS worldwide. In June 2002, the President announced a \$500 million Mother and Child HIV Prevention Initiative focused on countries in Africa and the Caribbean

to treat one million women annually, and to reduce mother-to-child transmission of HIV/AIDS by 40 percent within five years. HHS is participating in this initiative by training physicians and supporting voluntary counseling and testing activities, as well as some treatment activities to help prevent the transmission of HIV from mothers to their infants; and to help those who have contracted HIV. Together with the \$200 million pledged in 2003, the budget proposes the remaining \$300 million (\$150 million each for HHS and the U.S. Agency for International Development—USAID) to meet the President's commitment. In addition, HHS Secretary Thompson is a member of the Board of Directors of the Global Fund, and the 2004 Budget proposes to contribute an additional \$200 million (\$100 million each for HHS and USAID) to the Global Fund to Fight HIV/AIDS, Malaria, and Tuberculosis.



A young girl learns how to use her asthma inhaler.

Improving the Health of the Nation: The Disease Prevention Initiative. Over the past decade, U.S. deaths and disability due to asthma, obesity, and diabetes have increased substantially, and these diseases continue to take a toll on the health of the nation. Diabetes is the sixth-leading cause of death in the United States, with an estimated 17 million sufferers, and the number of cases is increasing by one million per year. The percentage of adults with diagnosed diabetes increased 49 percent between 1990 and 2000. The number of obesity cases is also on the rise. Since 1980, the prevalence of overweight children has nearly doubled and the prevalence of overweight adolescents has nearly tripled. More than 60 percent of adults and 15 percent of children are overweight or obese, and obesity is associated with 300,000 deaths per year. Approximately 26.7 million people have asthma, of whom approximately five million are children. Asthma is responsible for 5,000 deaths, two million emergency department visits, and nearly half a million hospitalizations each year.

In addition to being among the most prevalent and costly health problems facing the nation, these chronic diseases and conditions are also very preventable. Appropriate preventive measures exist that can reduce or delay their occurrence, cost, and severity. Consistent with the President's HealthierUS Initiative, the 2004 Budget proposes an increase of \$100 million, for a targeted disease prevention initiative to combat diabetes, reduce rates of obesity, and alleviate the health complications due to asthma. The Centers for Disease Control and Prevention (CDC), in partnership with other HHS agencies, will provide grants to state or community-level partnerships that can effectively reduce the number of deaths and disabilities caused by these diseases. This program will improve integration and coordination across HHS to address these diseases.

Pandemic Influenza. The budget includes \$100 million for a new effort to protect the American people against the possibility of pandemic influenza. To ensure the reliability of vaccine production and increase our ability to quickly produce greater quantities of vaccine in the case of a pandemic, some American vaccine production capacity must be converted from the current egg-based methods to cell-based technology. HHS will work with manufacturers to ensure that cell-based vaccine production capacity is established.

Medicare

Strengthening and Improving Medicare. One of the President's top priorities is to address the problems confronting the Medicare program and make Medicare secure for future generations. In July 2001, the President announced a framework to strengthen Medicare. The President believes any Medicare modernization package should follow these principles.

Principles for Strengthening and Improving Medicare

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

Medicare will spend over \$250 billion in 2004 on health care for approximately 41 million senior and disabled citizens. However, the number of elderly and disabled who have insurance coverage through Medicare is not a sufficient measure of the success of the program. In the last 40 years, health care services and delivery have advanced in the private marketplace while the Medicare program has remained in the 1960's.

With its cumbersome structure, the Medicare program is unable to adapt to the changing health care marketplace, let alone be an innovative leader. Medicare's out of date benefit does not provide a prescription drug benefit or catastrophic coverage. Medicare's private plan options are shrinking under the weight of insufficient payments and stultifying regulations. Worse yet, Medicare is not financially secure for the retirement of the Baby Boom generation. As discussed in "The Real Fiscal Danger" chapter of this volume, Medicare has enormous liabilities that put beneficiaries at risk. The actuaries estimate that when we look at the full view of Medicare from a budget perspective, the net liability is \$13.3 trillion in net present value terms. This reflects the difference between Medicare payments to the public and Medicare receipts from the public.



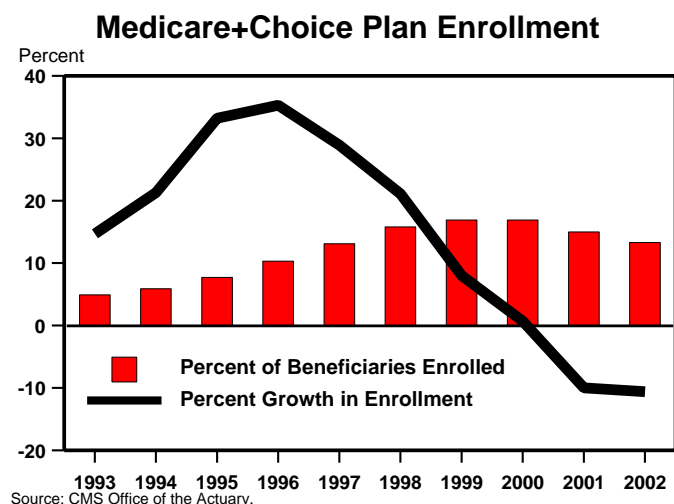
President Bush speaking about strengthening Medicare.

Major Deficiencies in Medicare

Prescription Drugs. Prescription drugs are an increasingly important part of modern medicine, helping to relieve pain, cure disease, and enhance the lives of millions of Americans. Medicare does not cover most outpatient prescription drugs, even though these drugs often replace more expensive hospital care. According to a recent *Health Affairs* study, 22 percent of all seniors surveyed reported going without one or more doses of medication due to costs, with this share rising to 35 percent among those seniors without any drug coverage at all.

Preventive Care. Medicare's coverage of treatments proven to prevent illnesses and save lives is insufficient. For those preventive services Medicare does cover, beneficiaries may face costs in the hundreds of dollars each year in copayments.

Health Plan Options. Medicare+Choice, the program designed to give seniors plan options, including prescription drug coverage, is shrinking due to insufficient payments that bear little relation to increasing health care costs. Where they are available, private plan options give seniors more power. If they are not happy with the service they are receiving, they can simply switch to a different plan. The decline of Medicare+Choice has left beneficiaries with few, if any, health plan options other than the government-managed fee-for-service program.



Cost-Sharing and Catastrophic Coverage. Medicare fails to protect beneficiaries against major out-of-pocket expenditures, hitting the sickest, poorest beneficiaries the hardest. Thus, most beneficiaries must obtain supplemental coverage to fill in Medicare's gaps. Much of the existing supplemental coverage, however, is antiquated and poorly tailored to meet today's health care needs. For example, Medigap—which covers about one-quarter of Medicare beneficiaries—covers a far higher share of the up-front deductibles and cost-sharing than many other private plans, yet few Medigap plans offer prescription drug coverage and even that coverage is thin.

According to the U.S. General Accounting Office (GAO), Medicare expenditures for beneficiaries with Medigap insurance were about \$2,000 higher than for beneficiaries with Medicare only.

Major Elements of Medicare Modernization. The President's Budget builds upon the President's framework. The budget dedicates \$400 billion over 10 years for Medicare modernization including protection against catastrophic costs, better private options for all beneficiaries, and prescription drug coverage.

Providing Access to Prescription Drug Coverage. The drug benefit would protect beneficiaries against high drug expenses and low-income beneficiaries would receive additional assistance. Beneficiaries would have a choice of plans that offer benefits by using some or all of the

Medicare Modernization

(In billions of dollars)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2004–2008	2004–2013
Medicare Modernization.....	6	10	33	38	43	46	49	53	58	64	130	400

tools widely available in private drug plans to lower drug costs and improve quality of care. This benefit would support the continuation of the prescription drug coverage that many beneficiaries already receive through employer-sponsored plans and private health insurance plans.

More Choice Through Health Plan Competition. In the short-term, Medicare+Choice's administrative pricing system must be reformed to link plan payments to the rising costs of health care services provided by the plans, particularly prescription drugs. Medicare's coverage will be improved to give beneficiaries the same kind of reliable health care options that all federal employees and many other Americans enjoy. The foundation must be a market-based system in which private plans can bid to provide coverage for beneficiaries at a competitive price. Those beneficiaries who elect a less costly option should be able to keep most of the savings—so in some cases a beneficiary may pay no premium at all.

Modernized Fee for Service. Medicare's benefit package needs to be updated to reflect better the modern-day insurance offered in the private sector. A rationalized system of cost-sharing would end the program's current system of penalizing patients who need acute care. An improved system should also provide catastrophic coverage, ensuring that beneficiaries are protected against high out-of-pocket costs caused by serious illnesses.

A Truthful View of Medicare's Fiscal Status. Given the financial challenges faced by Medicare in the future, the Congress must be extremely careful that legislative changes not add to the long-term unfunded promises faced by the program, which stand at a staggering \$13.3 trillion.

Versions of Medicare legislation considered in the 107th Congress would have made progress in expanding beneficiary access to prescription drug coverage, but no bill met the President's principles for strengthening and improving Medicare or did enough to modernize the program for the 21st Century.

Provider Payment Issues. In 2002, Medicare payments to physicians decreased over five percent as a result of a statutorily defined payment formula. The formula would require additional decreases in payments for the next several years. The budget proposes to adjust the physician payment formula for actual data in the current and previous update systems. These adjustments would substantially improve physician payment rates. The Administration will work with the Congress to monitor payment issues for other providers. Credible sources such as the Medicare Payment Advisory Commission (MedPAC) and the GAO have found that many providers are being paid in excess of adequate returns. The Administration will consider how savings from provider payment adjustments could be used to help support a comprehensive Medicare modernization package.

Additional Medicare Improvements

- The Administration will pursue legislation to ensure Medicare more accurately reimburses for covered outpatient drugs, and the cost of administering them.
- Medicare and the Federal Employees Health Benefits Program jointly finance health insurance for about 2.1 million federal retirees and their dependents. The Administration will work with stakeholders to better coordinate these two programs and look to the practices of the private sector to ensure high quality, cost-conscious choices for retirees.
- There is limited information available on the quality of care provided to Medicare beneficiaries nationwide, and many providers struggle to find resources for quality improvement. Today, groundbreaking efforts are underway in the Medicare program to provide public information on the quality of care delivered in hospitals and nursing homes. This information will help consumers make more informed health care choices and enable providers to improve their quality of care. These efforts are part of a larger goal of quality improvement throughout the health care sector.

Centers for Medicare and Medicaid Services (CMS) Program Management. *Medicare Appeals Reform.* The budget includes \$129 million for the processing of Medicare appeals. The adjudicative function currently performed by Administrative Law Judges at the Social Security Administration would be transferred to CMS. In addition, the Administration proposes several legislative changes to the Medicare appeals process that would give CMS flexibility to reform the appeals system. These changes will enable CMS to respond to beneficiary and provider appeals in an efficient and effective manner.

Healthy Start, Grow Smart. Infants and toddlers need parents and caregivers who understand the importance of these early years. To help in this goal, the Administration is proposing a new series of booklets called *Healthy Start, Grow Smart*. This monthly guide will be published in both English and Spanish and will be available to parents every month during their baby's first year of life. These booklets provide valuable and age-appropriate information about health, safety, nutritional needs, and early cognitive development that has been proven to help babies thrive. Through the states, HHS will make these pamphlets available to parents with newborns who are receiving Medicaid services.

Medicaid and the State Children's Health Insurance Program

Medicaid. Almost 40 million individuals were enrolled in Medicaid in 2002. Medicaid covers one-fourth of the nation's children and is the largest single purchaser of maternity care and nursing home/long-term care services. The elderly and disabled are one-third of Medicaid beneficiaries, but account for two-thirds of its spending.

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. Approximately 5.3 million children were enrolled in SCHIP programs in 2002.

Both Medicaid and SCHIP rely on state and federal sharing of program expenditures, with the federal contribution based on state per capita income. Total Medicaid spending will be an estimated \$311 billion (\$177 billion federal share) in 2004. At the beginning of 2003, about \$3.2 billion was newly available to state SCHIP programs, in addition to almost \$9.7 billion from previous years' allotments. According to HHS, administrative actions and greater state flexibility through waivers have led to more than one million additional people gaining Medicaid or SCHIP coverage since January 1, 2001.

Medicaid and SCHIP Modernization. While states have considerable discretion in designing their Medicaid programs, many states and other stakeholders have complained that the web of Medicaid laws and administrative guidelines is confusing and burdensome, limiting states' flexibility. States frequently request additional flexibility, through waivers, to tailor their public programs to their specific insurance markets, or to expand eligibility to the uninsured beyond the populations they are required by law to cover. The creation of the SCHIP program added further complexity to the already intricate rules for expanding coverage to low-income Americans.

Some see Medicaid as having two distinct purposes and serving two distinct populations: health insurance for children and families, and health insurance and long-term care for certain elderly and disabled people. In addition, states are looking for ways to restructure their Medicaid programs to address the recent growth in program spending at a time when states' revenue sources are low.

Principles for Medicaid and SCHIP Modernization

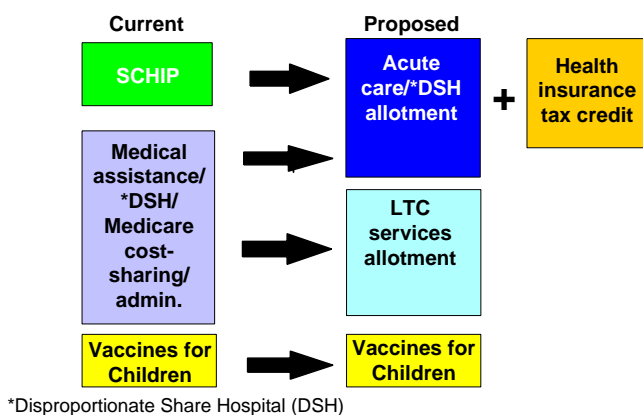
- Provide states the flexibility to design innovative programs without waivers, including increased use of consumer-directed services and home- and community-based care.
- Enhance state capabilities for coordinating with and utilizing the private sector to deliver services.
- Curb the growth of state and federal program costs.
- Simplify the payment policies and rules for these programs.
- Ensure Medicaid and SCHIP funding is clear and accountable to minimize incentives for arbitrary cost-shifting.
- Increase accountability in the state and federal partnership by ensuring that funds are being used to reduce the number of low-income Americans who are uninsured.
- Promote more effective coordination of care for beneficiaries dually eligible for Medicare and Medicaid.

Medicaid has relied on a state and federal matching system for funding: state spending on Medicaid services is matched by the federal government at a state-specific rate. Numerous safeguards have been implemented to ensure fiscal integrity and to avoid abuse of the matching system, but there is often a tension between the states and the federal government over matching payments. For these reasons, the President's Budget proposes State Health Care Partnership Allotments.

In August 2001, the Administration introduced the Health Insurance Flexibility and Accountability (HIFA) demonstration initiative. HIFA gives states the flexibility they need to design innovative ways to increase access to health insurance coverage for the uninsured, with an emphasis on private health insurance coverage. To date, the Administration has approved seven HIFA demonstrations. Four of these demonstrations use Medicaid and/or SCHIP funds to support enrollment in private employer-sponsored health insurance coverage. (See Update on the President's Management Agenda section of this chapter for the latest scorecard on HIFA.)

Building on the HIFA initiative, the budget proposes to create optional Medicaid and SCHIP allotments for states. Under this proposal, all Medicaid and SCHIP funding would be combined and provided to states selecting this option in two individual allotments: one for acute care and the other for long-term care (LTC). (See the accompanying chart.) States would be allowed to transfer some amount (for example, up to 10 percent) between the Acute and LTC allotments. Under the allotment option, states would be required to provide a specified benefit package for those current Medicaid beneficiaries whose coverage is mandated by current law.

How Allotments Would Change Current Medicaid/SCHIP Funding



State allotments would be based on 2002 spending, inflated annually by a specified trend rate. States would be required to meet a Maintenance of Effort for spending on Medicaid and SCHIP services, which would increase each year, but at a lower rate than federal growth. States that choose an allotment option would have dramatically broader flexibility in designing health insurance options for low-income, uninsured Americans. As with the HIFA initiative, integration with private insurance options such as premium assistance programs and coordination with any

federal enacted health tax credit would be encouraged. This proposal is designed to be budget neutral over 10 years.

The accompanying table lays out the costs and savings associated with the State Health Care Partnership Allotments option, as well as the budgetary impact of other Medicaid and SCHIP proposals. It is important to note that scoring for both the State Health Care Partnership Allotments and other Medicaid/SCHIP proposals depends on the number of states that take up the option. Generally, the costs and savings associated with the other proposals decrease as more states take up the allotment option.

Medicaid/SCHIP Policies

(In millions of dollars)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2004– 2008	2004– 2013
State Health Care Partnership													
Allotments		3,258	1,053	1,664	1,213	1,756	2,259	1,759	–153	–4,410	–8,285	8,944	–66
All Other Policies ...	225	154	331	141	117	98	–511	–586	–636	–723	–781	842	–2,396

Again, the use of allotments would be at the state's option. The allotment option assumes that states will be given flexibility in designing their benefit packages, including making it easier to integrate people with disabilities into the community. Therefore, the proposals below that would create new Medicaid demonstrations or fund new or extended coverage apply only to states that do not choose the allotment.

Extending the Availability of 2000 SCHIP Allotments. The Balanced Budget Act of 1997 authorized a capped level of SCHIP funding through 2007. States were given three years to spend their individual allotments. At the end of three years, any unused funds were to be redistributed among states that had spent all of their allotted funds. These redistributed funds were to be available for one additional year, after which any unused funds would revert to the Treasury. An estimated \$1.2 billion in SCHIP funds reverted to the Treasury on October 1, 2002, and an estimated \$1 billion will revert to the Treasury on October 1, 2003.

The Administration proposes to extend the availability of the allotments set to expire in 2003 for one additional year, until the end of 2004. According to current estimates, extending the SCHIP allotment would allow states to continue coverage for children who are currently enrolled and to continue expanding coverage through HIFA waivers.

As assessed in the Program Assessment Rating Tool (PART), the SCHIP program has been successful in enrolling more than one million new children per year into Medicaid and SCHIP and in decreasing the number of uninsured children in the United States. The goals and management of the SCHIP program will be improved with the implementation of national core performance measures with states and increased financial oversight.

Improving Options for People with Disabilities and Long-term Care Needs. The budget proposes several policies that promote work incentives and home and community-based care options for people with disabilities. 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.

New Freedom Initiative. The budget repropose four demonstrations to promote home and community based care for individuals with disabilities. Two of the demonstrations provide respite care services for caregivers of disabled children and adults. Unrelieved caregiver burden is a major contributing factor to institutionalization of individuals with disabilities; respite care is the service often requested by families to keep a family member with a disability at home. The third demonstration will test the therapeutic effectiveness and cost-effectiveness of providing a home- and community-based alternative to psychiatric residential treatment for children enrolled in Medicaid. The fourth demonstration will test methods to alleviate workforce shortages of direct care workers in the community.

“Money Follows the Individual” Rebalancing Demonstration. The budget proposes to create a five-year demonstration that finances 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. This demonstration would also test whether increased use of home and community-based services reduces spending on institutional care, as some advocates believe.

Ticket-to-Work Spousal Exemption. This proposal would give states 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. The budget proposes to establish a state option enabling Medicaid presumptive eligibility for institutionally qualified individuals who are discharged from hospitals into the community.

Long-term care options. The Administration also plans to explore other options to expand Americans’ access to and ability to afford long-term care. The Administration proposals include \$40 million in Real Choice Systems Change Grants to provide financial assistance for states to develop systems that support community-based care alternatives for persons with disabilities who require institutional care.

Continuity of Coverage for Special Populations. The budget includes policies to improve or continue health coverage already available through certain programs.

Transitional Medicaid 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. Finally, there will be an option to allow TMA recipients to purchase private health insurance. These changes will allow for consistent enrollment of TMA beneficiaries while easing the administrative burden on states.



A man tends to his garden.

Special Enrollment Period in the Group Market for Medicaid/SCHIP Eligibles. This legislative proposal would make it easier for Medicaid and SCHIP beneficiaries to enroll in private health insurance, by making eligibility for Medicaid and SCHIP a trigger for private health insurance enrollment outside the plan's open season. This proposal will help states implement premium assistance programs in Medicaid and SCHIP.

Premium Assistance for Low-income Medicare Beneficiaries. Medicare Part B premiums are just over \$700 per beneficiary (\$58.70/month) in 2003, a substantial amount for low-income individuals. The Administration proposes that Medicaid continue to pay Part B premiums for five years for individuals whose income is between 120 and 135 percent of poverty. States would continue to receive a 100 percent federal match for these benefits.



Through the VFC Program this young child receives his vaccination shot.

Vaccines for Children (VFC). The VFC program provides free vaccine to certain categorically-eligible children: Medicaid recipients, the uninsured, American Indians and Native Alaskans, and the underinsured. VFC covers all routinely recommended childhood vaccines, including measles/mumps/rubella, chicken pox, and polio.

The Administration is proposing legislation to change two provisions of VFC to improve access. 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 vaccine at state and local health departments, rather than only at Federally Qualified Health Centers and Rural Health Centers, as is currently required.

Because VFC is administered separately from Medicaid and SCHIP, these proposals would apply to states that choose the allotment option and also to those that do not.

Prescription Drugs in Medicaid

Medicaid Drug Coverage and Payment. Pharmaceutical manufacturers must pay a rebate, shared between the states and federal government, on prescription drugs dispensed to Medicaid beneficiaries. Under current law, this rebate equals the larger of 15.1 percent of the Average Manufacturer Price (AMP) or the difference between AMP and the manufacturer's best price.

Over the past year, it has become evident that the best price component of the rebate can be confusing, as it is not always clear which prices a manufacturer must include when calculating and reporting to CMS its best price. In addition, best price may serve to limit the discounts that private-sector purchasers are able to negotiate with pharmaceutical manufacturers. The Administration is interested in exploring with the Congressional Committees of jurisdiction policy options in this area that would improve the Medicaid drug pricing and reimbursement system and generate program savings.

Pharmacy Plus Waivers. The 2003 Budget included the Pharmacy Plus initiative, through which states are encouraged to expand Medicaid drug-only coverage to low-income senior citizens and people with disabilities. Since the 2003 Budget was transmitted to the Congress, HHS has approved

five Pharmacy Plus waivers and more waivers are pending. Pharmacy Plus is part of the Administration's overall strategy to assist Medicare beneficiaries with drug spending before a drug benefit is available to all beneficiaries as part of a modernized Medicare program. Pharmacy Plus waivers are available to states for the elderly and those with disabilities with incomes below 200 percent of the poverty level and must be budget neutral over the life of the waiver.

Medicaid/SCHIP Program Integrity. One of the Administration's continuing priorities for the Medicaid and SCHIP programs is ensuring their fiscal integrity. The Administration has already made considerable progress in Medicaid/SCHIP program integrity. The 2004 Budget proposes to build upon this success.

Enhancing Medicaid and SCHIP Program Integrity. In 2004, HHS will devote more resources to Medicaid and SCHIP program integrity. This effort will include increasing the number of audits and evaluations of state Medicaid programs, reestablishing and elevating the importance of financial management oversight at CMS and outsourcing appropriate activities to private firms. In addition, HHS will develop a methodology to measure Medicaid and SCHIP improper payments, including producing error rates. The budget proposes to allocate \$20 million in Health Care Fraud and Abuse Control funding in 2004 to help finance this initiative.

Upper Payment Limits. Regulations issued over the past two years have curtailed the use of the Upper Payment Limit, through which some states were able to draw down federal matching funds without putting up state dollars and to redirect Medicaid funding to non-Medicaid programs and purposes. The Administration will continue to monitor this issue and propose regulations as necessary.

Health Care Tax Credits

The Administration again proposes tax policies that will facilitate individuals' purchase of health insurance and health care, including long-term care. These proposals are discussed in detail in the Tax Expenditures chapter of the *Analytical Perspectives* volume.

Reforming Welfare

Welfare Reform Reauthorization. In 1996, the Congress passed legislation to create the Temporary Assistance for Needy Families (TANF) program, replacing Aid to Families with Dependent Children and related welfare programs. Considered one of the most successful federally funded domestic programs in decades, TANF is a \$16.7 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.

The Administration repropose its plan to extend TANF, which expired on September 30, 2002. 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. To better serve vulnerable children, the President's Budget is proposing reforms to several programs within the Administration for Children and Families.

Head Start. The Administration's Good Start, Grow Smart initiative has made modest progress in improving Head Start to date, by sharpening the focus on school readiness, improving teacher training and mandating a system to assess the success of Head Start programs in preparing children for school. However, Head Start is only a piece of an uncoordinated and overlapping puzzle of federal, state and local programs that are failing to meet the social and academic needs of pre-school age children, particularly those most disadvantaged economically. To address this problem, the President's plan will provide states with the opportunity to exercise more control over Head Start, so that they

can better coordinate with state pre-school and other preparatory programs. In addition, the President plans to move responsibility for managing the Head Start program from HHS to the Department of Education. Under the President's plan, 2004 would be a transition year during which HHS would continue to manage the program. The Department of Education would assume full responsibility for the Head Start program in 2005.

The proposed changes reflect the problems identified in the Head Start PART. The Good Start, Grow Smart initiative provides a mechanism to assess the performance of Head Start programs and address the lack of coordination among early education and care programs.

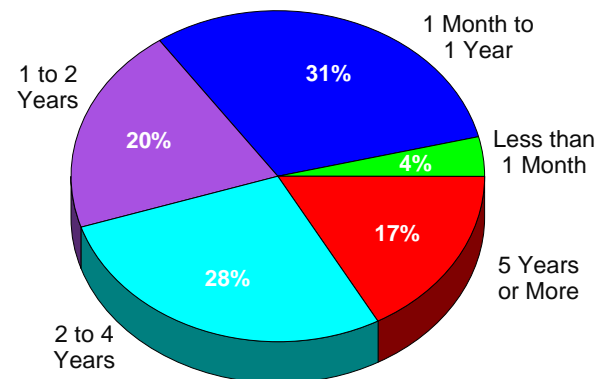
Promoting Safe and Stable Families. To fortify states' ability to strengthen families and to promote child safety, permanency, and well-being, the budget maintains the large increase in funding over 2002 enacted levels to \$505 million. This program also helps to promote adoption and provides post adoption support to families.

Education Assistance for Older Foster Children. The budget includes \$60 million in the Foster Care Independence Program to help older foster care youth transition to adulthood and self-sufficiency after leaving foster care. This initiative would provide vouchers of up to \$5,000 for education or vocational training to help youth aging out of foster care develop the skills to lead independent and productive lives.

Child Welfare Program Option. The President's Budget includes a new legislative proposal to introduce an option available to all states to participate in an alternative financing system for child welfare that will better meet the needs of each state's foster care 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 regarding safety, permanency, and well-being for vulnerable children and their 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.

Average Length of Stay in Foster Care



Source: Adoption and Foster Care Analysis and Reporting System, interim FY 2000 data.

Child Support Enforcement. The President's Budget re-proposes the child support provisions in the TANF reauthorization proposal. In addition, the Administration has developed a package of proposals to increase the government's ability to collect child support more effectively through state and tribal participation. The package includes proposals to streamline current data-matching and introduce new efforts for seizing child support payments. It also increases funding for visitation programs, which include counseling and mediation services between non-custodial parents and their children.

Child Support Enforcement Aggressively Pursues Gambling Proceeds

In 2000, gambling earnings of \$25 billion were reported on over six million tax forms. These earnings are likely to be a significant source of untapped income for recovery of overdue child support. Under a new initiative, the Administration would expand current income intercept opportunities for payment of delinquent child support (as is now done for lottery winnings) to include winnings from other gaming sources (such as casinos, keno and jai alai). To execute this proposal, a secure federal website would be developed that would match data in HHS's database of delinquent child support debtors with gambling winners' information. If the gambling winner is shown to be delinquent in paying child support, winnings will be withheld and distributed to the family. This proposal may deter delinquent parents from gambling, and also would encourage payment of timely child support and responsible parenthood. It is estimated that an additional \$709 million would be collected for families over five years.

Department of Health and Human Services

Enhancing Public Health

Indian Health Service. The 2004 Budget will invest in Indian Health Service (IHS) health infrastructure and prevention activities with the goal of improving the health status of American Indians and Alaska Natives. PART findings discussed in the *Performance and Management Assessments* volume support continued investment in these areas. The Administration will invest in staffing and related operating costs for new IHS facilities that will begin to serve patients, and increase funding for the construction of sanitation facilities so that IHS can increase services to the neediest homes in its inventory. The Administration also proposes to increase funding for the Special Diabetes Program for Indians for prevention activities, and increase funding for specialty health care, not available through IHS or tribal providers, to reduce the number of claims denied after these funds have been exhausted.

Ryan White HIV/AIDS Program. 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 people living with HIV/AIDS. With improved drug treatments, care, and support, there has been a steady increase in the number of people living longer with HIV/AIDS. The Administration supports funding for prevention, treatment and care, and is working to ensure funds are used effectively and in communities that are most impacted by HIV/AIDS. The 2004 Budget includes a \$100 million increase for the Ryan White AIDS Drug Assistance Program (ADAP) to help purchase drug treatments for those living with HIV/AIDS. These additional resources for state ADAPs will provide services for an additional nearly 9,200 people.

Health Care Providers. The budget includes a \$23 million increase for the National Health Service Corps to broaden access to health care by directing doctors and other health care professionals into medically underserved areas. It will increase efforts to recruit underrepresented minorities and other students and health professionals from disadvantaged backgrounds for participation in the program. The budget also proposes to improve the placement of foreign physicians who seek to provide care to rural and other underserved areas following completion of their training.

The 2004 Budget also proposes to redirect resources from health professions grants for advanced nursing to the Nursing Education Loan Repayment and Scholarship Program, which provides education loan repayments and scholarships to registered nurses in exchange for a commitment to serve in health care facilities with too few nurses. The advanced nursing grants do not address the overall basic nursing shortage.

Breast and Cervical Cancer Screening and Treatment. Detecting and treating breast and cervical cancer early continues to be an Administration priority. The Centers for Disease Control and Prevention's (CDC's) breast and cervical cancer program supports screening services for low-income, underinsured, or uninsured women between the ages of 50 and 64 years, and has provided over 3.5 million screening tests to over 1.5 million women. The budget proposes a \$10 million increase for the breast and cervical cancer program, in addition to the \$9 million increase requested in 2003. Overall, these funding increases would support an additional 61,000 screenings, which would improve access to these critical health services. Through the Medicaid program, almost every state has expanded health coverage for breast cancer treatment to uninsured women who are screened under CDC's program.

Improving Health Care Quality and Safety. The 2004 Budget continues the President's commitment to improve the quality of healthcare and patient safety in health care settings. The budget proposes \$84 million in the Agency for Healthcare Research and Quality for patient safety activities to test and develop new interventions that may be reproducible across health care systems. The patient safety total includes a new \$50 million initiative to demonstrate hospital-based information technology solutions, including an emphasis on small community and rural hospitals. These activities are complemented by Medicare incentives to reward hospitals that provide information on quality of care. They are also complemented by new FDA safety initiatives to use modern health information systems to provide faster and more complete information on safety problems involving drugs and devices, so that adverse events involving these products can be avoided.

Social Service Program Reforms. The President's Budget seeks to promote the economic and social well-being of children, youth, the elderly and families. To help low-income households cover home heating and cooling costs, the budget provides \$2 billion. This amount includes a contingency fund of \$300 million for unanticipated needs that may arise. The Homeland Security Act transfers authority for the care and placement of unaccompanied alien children from the Department of Justice's Immigration and Naturalization Service to HHS. Along with the transfer of authority, the Homeland Security Act requires a stronger focus on the appropriate treatment of these children. HHS and the Department of Justice will coordinate efforts to complete the transfer of responsibilities in a manner that fully protects the interests of the children.

The President's Budget proposes to fund the Community Services Block Grant (CSBG) at \$495 million for 2004, a \$75 million reduction from the 2003 President's Budget request level of \$570 million. The CSBG program provides funding to a largely static group of organizations, called Community Action Agencies (CAAs). CSBG funds provide only a small part of these organizations' budgets, and it is unclear what outcomes are produced as a result of federal funds. When CSBG is reauthorized, the Administration intends to develop a set of performance measures to be consistently applied by all states and CAAs to ensure program outcomes and accountability. If reformed, the Administration will again assess the appropriate level of direct federal investment.

The 2004 President's Budget provides \$1.3 billion for Administration on Aging programs. This level includes an increase of \$2.8 million over the 2003 Budget level to fund the White House Conference on Aging. The 2004 Budget also continues the proposal to merge the Administration on Aging's nutrition programs for the elderly with the Department of Agriculture's Nutrition Services Incentive Program.

Performance Evaluation of Select Programs

The PART was used to evaluate 31 different HHS programs. The accompanying table displays selected programs and their assessments. For more information, see the *Performance and Management Assessments* volume.

Program	Rating	Explanation	Recommendation
IHS Sanitation Facilities Construction Program: providing potable water and waste disposal facilities for American Indian/Alaska Native Homes	Moderately Effective	The purpose is clear and the program uses sound management practices. The program uses performance information for planning and management and has effective cost control and audit functions. The program has not been subjected to a recent cost benefit analysis or comprehensive evaluation.	\$20 million increase in funding, so that the program can serve more of the neediest homes in its inventory and conduct an independent, comprehensive evaluation of the program.
Health Centers: providing high quality care to underserved populations	Effective	The purpose is clear and the program is well managed. Evaluations, reports, and performance measures indicate the program's positive impact. The program is hampered by growing tort claim liabilities and did not plan for this rapid growth.	\$169 million increase; improve oversight of malpractice claims, and explore further opportunities to collaborate in substance abuse and other areas.
Substance Abuse Treatment Programs of Regional and National Significance	Adequate	Program is well managed, but has not used performance information to improve outcomes. A 1997 evaluation found drug treatment grants were effective. No evidence supports the impact of research related activities. The program lacks data on new measures.	\$200 million increase for a new approach to expanding treatment through vouchers for services, redirect resources from research to services and increase support for a survey of drug treatment outcomes.

Program	Rating	Explanation	Recommendation
Domestic HIV/AIDS Prevention: providing leadership on HIV/AIDS prevention through surveillance, applied research, and grants to state health departments and community-based organizations.	Results Not Demonstrated	The program purpose is clear, the program has had regular comprehensive evaluations and developed new annual performance goals, but the new goals lack data to indicate progress. The estimated annual number of new HIV infections has not declined and has remained at 40,000 for much of the past decade. The program's long-term outcome goals should be consistent with its budget. The program has also had difficulty with inappropriate spending by some of its grantees.	Maintain funding to continue to address the estimated 40,000 new infections, especially among minorities and women.
National Health Service Corps: placing health professionals in underserved areas	Moderately Effective	The purpose is clear and the program is well managed. Evaluations and reports indicate the program is effective at increasing health care access.	\$23 million increase to place more doctors and other health professionals in areas facing a shortage of health providers and increase recruitment of minorities and others from disadvantaged backgrounds into the program.
Maternal and Child Health Block Grant: providing assistance to states and communities to improve the health of all mothers and children, reduce infant mortality, and provide access to comprehensive pre-and post-natal care	Moderately Effective	The program purpose is clear and has had a significant impact on the health of mothers and children. The program regularly collects timely and credible performance data and uses this information for planning and management. The Block Grant has not undergone a comprehensive evaluation.	\$19 million increase to support the program's strong performance and to ensure continued efforts to improve the health of mothers and children.

Common Measures

Health Common Measure

A powerful way of evaluating and improving program performance is to develop common measures for programs with similar goals. This year, the federal government developed common measures regarding the effectiveness and efficiency of similar programs in different departments. The 2004 Budget takes the first step toward comparing the performance of federal health care systems by displaying newly developed access, quality, and efficiency common measures for HHS' Health Centers and the IHS and the Departments of Veterans Affairs' and Defense's health systems. IHS provides both inpatient care as well as routine and emergency outpatient care while Health Centers provide primary and prevention health care on an outpatient basis. Health Centers and the IHS serve

low income/minority populations and American Indian and Alaska Native (AI/AN) populations, respectively. As illustrated in the accompanying tables, the Health Centers and IHS serve primarily women and individuals under age 30. These populations face higher rates of diseases including diabetes, heart disease, HIV/AIDS and cancer and have a lower life expectancy than the general population. For example, death due to alcoholism is seven times higher and death due to diabetes is four times higher for AI/ANs.

The 2004 Budget analysis considered the most recently available data for these programs and displays the results in each Department's budget chapter. The accompanying common measures table displays, for the two HHS programs, the average cost of patient care, provider appointments for outpatient visits, and the quality of care for those with diabetes. It is important to compare similar programs in the proper context, ensuring comparability of the data. In the future, measures will be further refined and displayed together.

Overview of Health Centers and the IHS Health Care Systems—2004 Budget
(In millions of dollars)

	Health Centers	IHS
Number of individual patients	13,750,000	1,236,000
Male and female individual patients (percent) ...	59% (Female) 41% (Male)	54% (Female) 46% (Male)
Average age of individual patients	30	23
Cost directed to in-house services, excluding contract service (percent)	—	50%
Number of medical workers	10,800	1,392
Annual appropriations request (in millions of dollars)	1,627	2,890

Health Care Common Measures

Common Measures/Description	Goal	Health Centers		IHS	
		2001 Actual	2002 Estimate	2001 Actual	2002 Estimate
Cost —Average cost per individual (total federal and other obligations)	New in 2005 Budget	\$448	\$467	\$2,721	\$2,828
Efficiency —Annual number of outpatient appointments per medical worker	New in 2005 Budget	3,528	3,475	2,955	2,955
Quality —The percentage of diabetic patients who received a blood sugar level test (HbA1c) in the past year	New in 2005 Budget	74.8%	75.0%	95.0%	95.0%

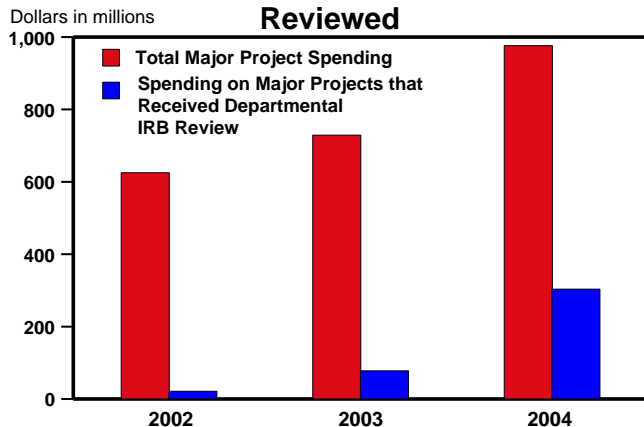
Note: Medical workers include the equivalent number of full-time and part-time physicians, physician assistants, dentists, nurse practitioners, and nurse-midwife providers. The IHS level also includes non-medical spending such as community water and sewer, and environmental health. Health Center diabetes data are only collected from the 40 percent of grantees that are participating in a health disparities initiative.

Rural Water Common Measures

The 2004 Budget also compares the rural water activities of HHS' Indian Health Service, the Department of the Interior's Bureau of Reclamation, the Department of Agriculture's Rural Utilities Service, and the Environmental Protection Agency. See the Department of the Interior chapter for further information on this initiative.

Update on the President's Management Agenda

Only a Fraction of IT is Formally Reviewed

















HHS faces major management challenges in administering a dozen separate operating divisions that are spread over vast geographical distances and cover an enormous variety of programs. Key priorities in meeting these challenges are using information technology (IT) more effectively and streamlining organizational structures to create One HHS.

Information Technology . The largest grant-making agency in the federal government, HHS has led the government-wide E-Grants initiative aimed at creating online citizen access to grant program forms and information. HHS is also leading the government-wide Consolidated Health Informatics

initiative, focused on improving healthcare quality by formulating health data standards. To improve IT management, HHS will expand Department-wide oversight of IT projects to strengthen capital planning and eliminate low-priority and duplicative investments.

Organizational Restructuring . HHS consolidated 40 human resources offices into seven units in 2002, and continues to streamline and consolidate administrative functions across the Department. Improved coordination of these activities will create management efficiencies and cost savings, and will advance the Department toward its One HHS goal.

	Human Capital	Competitive Sourcing	Financial Performance	E-Government	Budget and Performance Integration
Status					
Progress					
<p>HHS has established internal accountability standards to strengthen management agenda efforts. The Department has consolidated duplicative administrative offices, implemented new recruitment programs to address its human capital challenges, and competitively sourced commercial functions such as cleaning services, building maintenance, clerical support, and IT development. A comprehensive financial management corrective action plan has been implemented to resolve internal control weaknesses, and HHS is preparing to measure error rates in state-administered benefit programs such as Head Start, Foster Care, Child Care, TANF, and SCHIP. To advance E-Government, HHS is focused on strengthened HHS management of Enterprise Architecture, IT capital planning and investment control, and IT security. The E-Grants initiative has progressed toward its goal of a single portal for federal grants applications, and the Consolidated Health Informatics initiative is close to creating its first new federal health data standards. In integrating budgeting with performance, HHS has accomplished a notable increase in its number of reportable national health outcome measures and will hold managers accountable for results through performance-based employment contracts.</p>					

Initiative	Status	Progress
Broadened Health Coverage Through State Initiatives		
Faith-Based and Community Initiative		
<p><i>Arrow indicates change in status since baseline evaluation on June 30, 2002.</i></p> <p>Broadened Health Coverage Through State Initiatives. The HIFA demonstration initiative emphasizes integration of Medicaid, SCHIP, and private health insurance coverage options to reduce the number of uninsured. Seven HIFA demonstrations have been approved to date. Four of these demonstrations (New Mexico, Maine, Illinois and Oregon) use Medicaid and/or SCHIP funds to support enrollment in employer sponsored health insurance coverage. An evaluation of HIFA demonstrations will be performed by the Urban Institute in 2003. The Administration has also encouraged states to apply for Pharmacy Plus demonstrations to extend Medicaid drug-only coverage to certain low income elderly or disabled. Five Pharmacy Plus demonstrations have been approved (Illinois, Wisconsin, Maryland, South Carolina, and Florida) which promise to provide pharmacy coverage to as many as 750,000 low-income elderly.</p> <p>Faith-based and Community Initiative. HHS has made substantial progress in identifying and eliminating regulatory and administrative barriers to the full participation of grassroots faith-based and community organizations (FBO/CBOs) in the delivery of services. In response to audits conducted by the Department's Center for Faith-Based and Community Initiatives, HHS has improved outreach to FBO/CBOs by establishing 1-800 numbers, streamlining web-based access and providing single points of contact in key agencies. Training initiatives are giving small and novice grantees the tools to compete for grants. HHS is also making strides in implementing a series of pilot projects to test innovative ways to improve program services by involving FBO/CBOs. Because the majority of HHS-funded social service programs are administered by states, a major challenge facing the initiative is ensuring that FBO/CBOs have a level playing field to compete for the opportunity to provide these services.</p>		

Department of Health and Human Services

(In millions of dollars)

	2002 Actual	Estimate	
		2003	2004
Spending			
Discretionary Budget Authority:			
Food and Drug Administration.....	1,368	1,385	1,406
<i>Program Level</i>	1,552	1,671	1,713
Health Resources and Services Administration	6,122	5,383	5,679
Indian Health Service	2,758	2,817	2,889
<i>Program Level</i>	3,386	3,458	3,582
Centers for Disease Control and Prevention	4,404	4,243	4,230
<i>Program Level</i>	4,427	4,291	4,283
National Institutes of Health	23,182	27,244	27,742
<i>Program Level</i>	23,279	27,344	27,892
Substance Abuse and Mental Health Services Administration	3,136	3,195	3,393
<i>Program Level</i>	3,136	3,195	3,409
Agency for Healthcare Research and Quality	3	—	—
<i>Program Level</i>	300	250	279
Centers for Medicare and Medicaid Services ¹			
Program Administration	2,369	2,417	2,533
MedPAC/OCR/GDM/AHRQ Administration	22	18	18
Administration for Children and Families	13,057	13,080	13,449
Administration on Aging	1,200	1,341	1,344
Office of the Inspector General	36	40	39
Office of the Secretary	364	369	380
Program Support Center Legislative Proposal.....	—	—	13
Public Health and Social Services Emergency Fund	1,671	1,807	1,898
Total, Discretionary budget authority ²	59,692	63,339	65,013
Mandatory Outlays:			
Medicare			
Existing law	224,786	237,926	246,040
Legislative proposals	—	50	6,055
Medicaid/SCHIP			
Existing law	151,204	167,154	181,909
Legislative proposals	—	175	3,356
All other programs			
Existing law	32,505	34,019	34,097
Legislative proposals	—	3	154
Total, Mandatory outlays	408,495	439,327	471,611

¹ Amounts appropriated to the Social Security Administration (SSA) from HI/SMI accounts are included in the corresponding table in the SSA chapter.

² Includes \$1.6 billion in 2002 supplemental funding.

DEPARTMENT OF HOMELAND SECURITY

The President's Proposal:

- Establishes a single department whose primary mission is to protect the American people and their homeland;
- Unifies principal border and transportation security agencies;
- Further coordinates a cohesive network of disaster response capabilities;
- Creates a central point for analysis and dissemination of intelligence and other information pertaining to terrorist threats to protect America's critical infrastructure; and
- Joins research and development efforts to detect and counter potential terrorist attacks.

The Department's Major Challenges:

- Merging 22 disparate agencies and programs into a cohesive department that has centralized leadership and decentralized operations;
- Unifying multiple field structures into one regional reporting structure;
- Successfully integrating the existing border security and interior enforcement functions; and
- Improving information sharing and counterterrorism cooperation within the Department and with other responsible federal agencies.

Department of Homeland Security

Tom Ridge, Secretary

www.dhs.gov

Number of Employees: 179,241

2003 Spending: \$28.2 billion

Our nation suffered terribly on September 11, 2001. Since then, the President and all levels of government have worked tirelessly to defend America against another such attack. The creation of the new Department of Homeland Security (DHS) is one of the boldest and most important steps taken to date.

The new department will unite much of the federal government's effort to secure the homeland, with the primary goal being an America that is stronger, safer, and more secure. This goal will be a formidable challenge. Securing the American homeland presents hurdles of monumental scale and complexity, but the federal government has no more important mission.

The *National Strategy for Homeland Security*, released by the President on July 16, 2002, is a comprehensive plan for using America's talents and resources to enhance our protection and reduce our vulnerability to terrorist attacks. This plan remains the foundation of the President's mission to

protect the American people and their way of life. Accordingly, the 2004 Budget supports initiatives in the *National Strategy*.

DHS will be responsible for pursuing many of the goals outlined in the *National Strategy* but the challenge of homeland security extends beyond the new department. Other departments and agencies of the federal government—including the Federal Bureau of Investigation (FBI) and other elements of the Departments of Justice, Defense, Health and Human Services (HHS), and the intelligence community—have vitally important roles to play in homeland security in addition to their other important missions. Moreover, homeland security is a national mission, not just a federal mission, so the *National Strategy* calls for close collaboration—and shared responsibilities—with state and local agencies, the private sector, and American citizens.

The Primary Mission of the Department is to:

- prevent terrorist attacks within the United States;
- reduce the vulnerability of the United States to terrorism;
- minimize the damage, and assist in the recovery, from terrorist attacks that do occur within the United States;
- carry out all functions of entities transferred to the Department, including by acting as a focal point regarding natural and manmade crises and emergency planning;
- ensure that the function of the agencies and subdivisions within the Department that are not related directly to securing the homeland are not diminished or neglected except by a specific explicit Act of Congress; and
- monitor connection between illegal drug trafficking and terrorism, coordinate efforts to sever such connections, and otherwise contribute to efforts to interdict illegal drug trafficking.

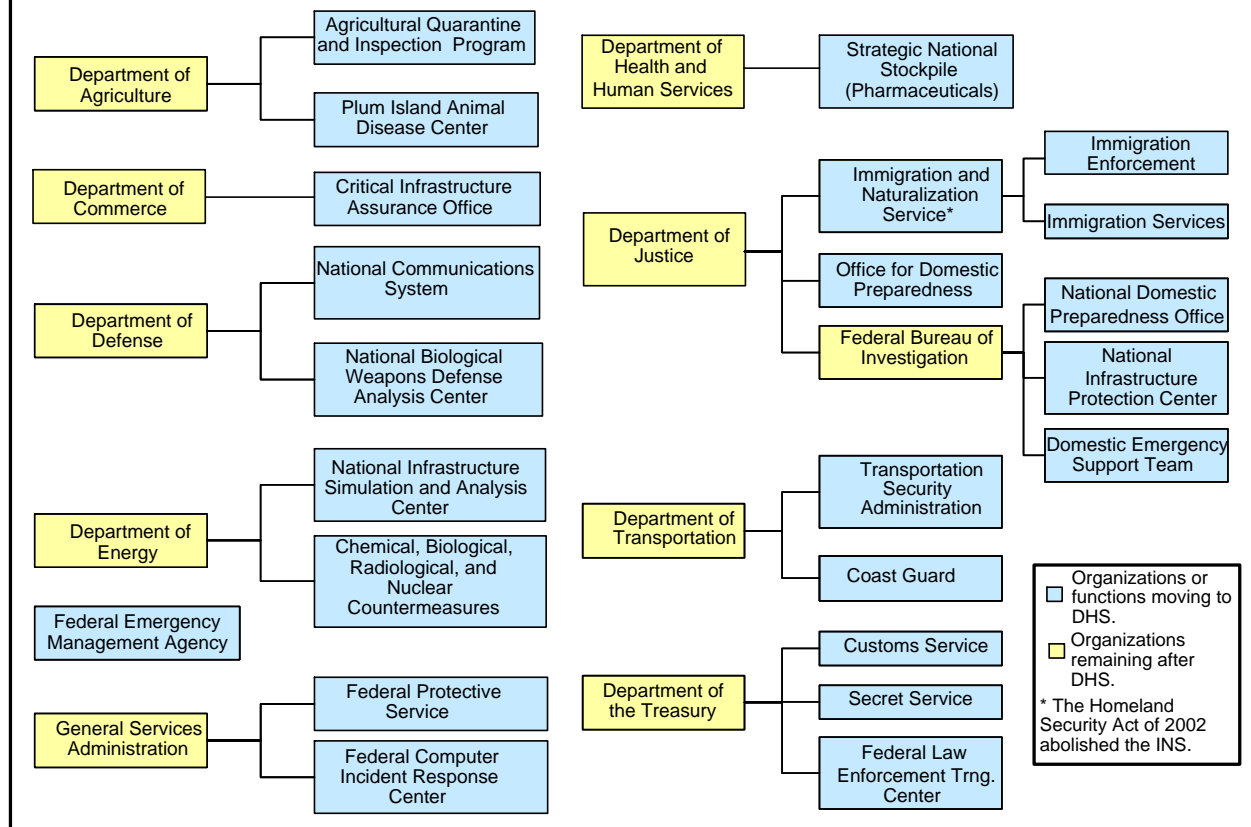
Section 101(b) of the Homeland Security Act of 2002

Overview

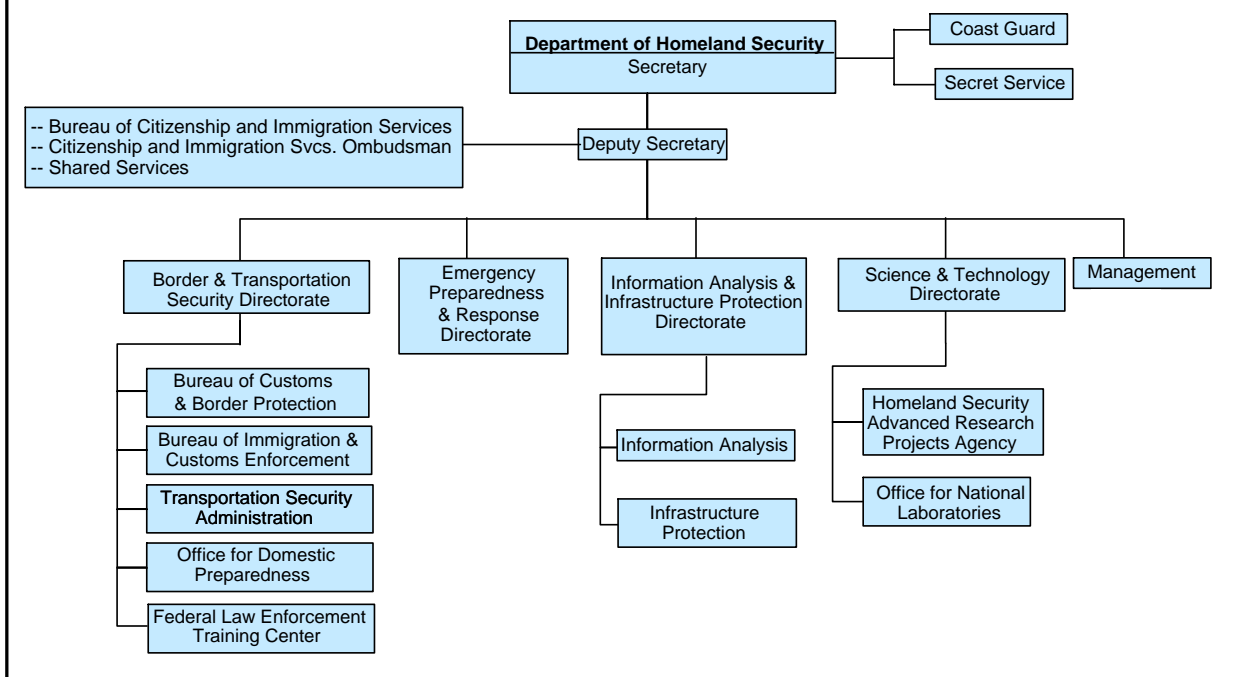
The September 11th attacks highlighted much more than America's vulnerability; they highlighted the federal government's limitations in protecting the homeland from unconventional attacks. At the time of the attacks, no single federal agency was responsible for protecting the homeland. Instead, homeland security was a secondary mission to over 100 agencies and programs that operated in a confusing, bureaucratic matrix. These agencies and programs often did not share information or work with each other readily.

The accompanying chart illustrates the confusion that existed prior to the creation of the new department. The homeland security bureaucracy was like a jigsaw puzzle that was missing connecting pieces. Few of the pieces fit together. To make matters worse, many of the individual agencies were not working well and even efforts to improve management were not being undertaken in a coordinated way. For example, the Immigration and Naturalization Service (INS), an agency that had been plagued by years of mismanagement, was just beginning to reorganize in order to create a clear division between its two missions of ensuring the integrity of our borders and providing service to legal immigrants. But this reorganization was only focused on INS operations, not overall homeland security.

Before DHS...



...After DHS



After September 11th, the President acted quickly and decisively to protect the nation. He immediately secured \$40 billion in emergency funding and created the Office of Homeland Security, led by former Pennsylvania Governor Tom Ridge, to coordinate the implementation of a comprehensive national strategy to secure the United States from terrorist threats or attacks. As the President's national strategy developed, it became clear that a more profound change was needed to meet the challenge of protecting against the possible terrorist threats of tomorrow. Maintaining the status quo structure, even with enhanced inter-agency cooperation, was an unacceptable risk that the nation could ill afford. Consequently, on June 6, 2002, the President proposed creating a new cabinet-level department with the primary mission of protecting the American people and our homeland. The Congress responded, and on November 25, 2002, the President signed into law the Homeland Security Act of 2002 creating the new department.

Addressing Past Problems

DHS will address the communication and accountability vacuum that existed among federal agencies and programs by consolidating border and transportation security functions, merging response activities, creating a central point to map terrorist threats against vulnerabilities in our critical infrastructure, and coordinating homeland security research and development efforts. The department is structured around four major organizations:

- Border and Transportation Security;
- Emergency Preparedness and Response;
- Information Analysis and Infrastructure Protection; and
- Science and Technology.

To be sure, as the new department organizes itself, problems will be inevitable. Different cultures inside the 22 agencies must be reconciled. Diverse activities from conducting cutting-edge scientific research to inspecting cargo must be unified to secure the nation. Information technology must be integrated, staff must be realigned, new processes must be developed, and stifling bureaucracy must be overcome.

The President and the Administration are acting swiftly, aggressively, and sensibly to address the problems of the past and focus on the future protection of the American people. For instance, during its first year, DHS will unify four different border inspection functions into one. It will link existing information systems into a cohesive network—reengineering the \$3 billion spent annually by these agencies on information technology. It will merge 15 different compensation systems into a unified compensation system that rewards employee performance. And it will consolidate at least 19 different financial management systems into an integrated system.

In addition to these changes, DHS will create a powerful and logical regional structure. Currently, some of the major agencies being merged into DHS—the INS, the Federal Emergency Management Agency, the Customs Service, and the Coast Guard—maintain a unique regional structure and lines of authority which lead separately back to Washington. This current field structure of existing agencies spans 42 districts, 21 sectors, and 20 management centers domestically, as well as over 100 international offices in 43 countries. The redundant structure has eroded accountability, blurred lines of responsibility, and led to duplicative efforts.

DHS will have one regional structure with directors within each geographic area in charge of all operations. The regional directors will report directly to the Secretary. The Coast Guard will be an exception given its distinct military mission, and will continue to report to the Commandant of the Coast Guard who will report to the Secretary. This reform will not only clarify responsibility but also provide a platform to clearly develop and broadcast the Department's vision and corporate culture.

In short, the Department will put into place an organizational structure that meets the dual needs of centralized planning and decentralized execution. Headquarters will focus on national policy while the regions focus on state and local security needs. Headquarters will be responsible for functions such as planning, policy, budgeting, strategy, interagency coordination, integrated intelligence and analysis, integrated research and development, public affairs, legislative affairs, information technology, and legal affairs. Regional directors will be responsible for all aspects of homeland and non-homeland security missions within their assigned regions and will integrate all elements of DHS into a unified effort to provide maximum security.

Additionally, in order to build on the partnership with state and local governments and the private sector started by the Office of Homeland Security, the Department will establish a liaison function, within the Office of the Secretary, with state and local governments and the private sector. It will link state and local governments, companies, and individuals with the right person within DHS, to eliminate the frustration too often experienced when trying to get an answer from a large federal agency.

Funding Highlights for 2004

From 2002 to 2004, resources for the agencies and programs moving into DHS grew by more than 60 percent to \$36.2 billion. During the same period, nearly 61,000 staff were added to protect the homeland. Highlights for 2004 include:

- About \$500 million to assess the nation's critical infrastructure (e.g., nuclear power plants, water facilities, telecommunications networks, and transportation systems) and to work to ensure that vulnerabilities are addressed;
- \$350 million in new funding for vigorous research, development, test, and evaluation capabilities that have not existed for homeland security specific projects, such as nuclear and bioterrorism detection technologies;
- \$373 million for border security and trade initiatives including technology investments along the border such as radiation detection and x-ray machines for inspecting cargo containers; and
- \$3.5 billion for the Office of Domestic Preparedness to ensure that first responders are properly trained and equipped, of which \$500 million is for assistance to firefighters, particularly for terrorist preparedness, and \$500 million is for state and local law enforcement anti-terrorism activities.

Securing the Nation's Borders and Transportation Systems

America historically has relied heavily on two oceans and friendly neighbors for border security. The increasing mobility and destructive potential of modern terrorism has required rethinking border and transportation security.

Securing our border and transportation systems presents an enormous task. Ports-of-entry into the United States stretch across 7,500 miles of land border between the United States and Mexico and Canada and 95,000 miles of shoreline and navigable rivers. Each year more than 500 million persons, 130 million motor vehicles, 2.5 million railcars, and 5.7 million cargo containers must be inspected at the border. The conditions and venues where the tasks are performed 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 Montana.

Border and Transportation Initiatives

- Ensure accountability in border and transportation security.
- Create “smart borders” that are more secure.
- Increase the security of international shipping containers.
- Continue implementation of the Aviation and Transportation Security Act of 2001.
- Continue implementation of the First Responder initiative.

National Strategy for Homeland Security

In carrying out these tasks, the government must be sensitive to a variety of priorities such as commercial activity, travel and tourism, in addition to security. An enormous volume of trade crosses the borders every day. Some \$1.35 trillion in imports were processed in 2001. DHS must work smarter to find the right balance between the appropriate level of screening and security, and the free flow of commerce.

The task of securing our nation does not end at the borders. More than 400 commercial airports are dispersed throughout the country. More than 600 million commercial airline passengers must be screened annually. Of this, 61 million passengers arrive on some 500,000 international flights each year. The rail and commercial motor transport systems pose attractive targets to terrorists and must also be secured. The sheer magnitude and variety of the targets in our transportation systems makes this a daunting task.

DHS brings together a wide range of assets to secure our borders and transportation system including almost 113,000 employees, nearly 250 airplanes and helicopters, and more than 280 boats of various sizes all under the control of the Secretary. These assets will be combined in the Border and Transportation Security (BTS) directorate.

Since the September 11th terrorist attacks, funding for border and transportation agencies has increased by \$7.5 billion (over 100 percent). About 61,000 personnel have been hired to provide enhanced border and transportation security to our nation. Significant investments (approximately \$4.3 billion) have also been made in equipment and capital. More important than these investments, however, will be the enhanced coordination and collaboration that a consolidated border and transportation security effort will be able to achieve. The Administration is not only building a stronger system, but also one that is far more nimble and efficient.



Technology helps reduce delays at border crossings.

Creating “Smart Borders”

Until now, the focus of homeland security initiatives has been on securing our physical boundaries. Tomorrow’s focus must be on creating “smart borders” to provide protection by identifying threats before they get near our borders while continuing to facilitate trade.

The Department inherits over 4,600 new border enforcement personnel hired since 2002, for a total of more than 41,000 employees. In addition, about \$500 million is available for additional inspection technology to increase border and port security. Many of the projects in the border area are significant undertakings, and will be expanded and fine-tuned over the next few years. Recent funding increases for border-related security efforts will ensure that these activities have the support and funding needed to succeed.

For example, the budget continues support for the Advance Passenger Information System (APIS) that is used by border agencies to transmit identifying data on passengers bound for and departing from the United States. This information is checked against multiple criminal databases, including the National Crime Information Center database maintained by the FBI. In order to overcome the limits of the existing system and to provide more effective and efficient support for aviation security, over \$60 million has been devoted to APIS since the attacks of September 11, 2001.

The Department is also continuing to develop and implement the Entry-Exit System. This project entails significant investment in infrastructure and technology to build a comprehensive and integrated system that will enable it to track both the entry and exit of visitors to the United States. From 2002 through 2004, \$860 million will be used to support this initiative. A precursor for the Entry-Exit System has already been implemented. It requires visitors who may present an elevated national security concern to provide important information about their visit upon arrival and to confirm their departure from the United States. In addition, expanded electronic information is now required for airline passengers, which enables more accurate entry and exit data to be analyzed on visitors to our country.

The Department will continue the Container Security Initiative, which began in January 2002, to address the vulnerability of cargo containers being used to smuggle terrorists and their weapons and supplies. Under this initiative, personnel will be posted overseas to work with foreign customs authorities in identifying and screening high-risk containers before they are placed on ships destined for the United States. The primary goal is to enlist the cooperation of the 20 world ports that account for 50 percent of the containers shipped to the United States. Participants include England, Belgium, Germany, the Netherlands, Singapore, Hong Kong, and Italy.

Using Risk Management Effectively



Here, a cargo container is inspected with a portable x-ray machine. Based on risk management assessments that are part of the “smart borders” efforts, the border of the future will be increasingly transparent to the continuous stream of goods and people engaged in legitimate activities. DHS will allocate resources in a balanced way to manage risk in our border and transportation security systems while ensuring the efficient flow of goods, services, and people.

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, over 500 companies are participating in C-TPAT. The Department's goal is to have the top 1,000 importers sign up, accounting for 61 percent of all cargo entering the country.

Integrating Border Protection and Immigration and Customs Enforcement

Security operations along the borders are presently fragmented with four different organizations patrolling and enforcing laws at the borders: the United States Customs Service, the Agricultural Quarantine and Inspection (AQI) program, and INS' Inspection program and Border Patrol.

DHS will create two operating agencies by merging the four existing organizations. One agency will be focused on border security; the other focused on enforcement of immigration and customs laws inside the United States. Both agencies will be organized under the Under Secretary for BTS. All field personnel will report to a regional director. DHS will consult with the appropriate employee representatives on this reorganization.



A dog makes its rounds at a U.S. border.

The Bureau of Customs and Border Protection will consist primarily of Border Patrol officers and inspectors from INS, Customs and AQI. This roughly 42,200-person bureau will focus exclusively on security at and in-between ports-of-entry. They will provide "one-stop shopping" for people entering the United States by unifying inspection functions and the chain of command. In the past, a person entering the United States would have been inspected by people from multiple agencies. Under this new agency, a person entering the United States will experience a seamless inspection process.

The Bureau of Immigration and Customs Enforcement will be made up of investigative and other enforcement personnel from the Customs Service, INS, and the Federal Protective Service. This roughly 14,400-person bureau will focus on enforcement of the immigration and customs laws as they relate to foreign nationals and goods within the United States. They will locate, detain and deport illegal immigrants, review foreign students, and investigate smuggling and other immigration and customs-related criminal offenses.

Securing the Nation's Airports

Following the terrorist attacks, security was strengthened at all airports. Restrictions on parking and carry-on items, while onerous, were put in place to secure the airports quickly. Passengers were asked to arrive earlier, and often faced longer screening lines. Much has changed since those early days. The federal government has taken many positive steps, like hiring and training new federal screeners, to improve security for the long term.

Improving Airport Screening



Through the work of TSA, airport screeners are better trained, have the latest screening technology, and are making better use of intelligence information than the screening workforce prior to September 11th. Professionalizing this workforce has been one element of a multi-tiered aviation security strategy on the ground and in the air.

In November 2001, Congress established the Transportation Security Administration (TSA) and set a deadline of November 19, 2002, for TSA to take full control of all passenger screening operations at airports and a deadline of December 31, 2002, to screen all airline baggage. This has been a tremendous undertaking. Over the course of the past year, TSA has successfully hired, trained and deployed a screener workforce to each of the 429 airports with scheduled commercial flights. More than 6,800 screening devices have been deployed to detect weapons and explosives, putting into use the latest technology to protect passengers. All passenger baggage is now screened through such devices or by alternative screening methods. TSA is also using intelligence information and technology more effectively to identify higher-risk passengers. As a result, overlapping layers of screening have been reduced,

such as screening at terminal gates. In 2004, the budget includes over \$4.8 billion to continue these efforts in the nation's airports.

In addition to improved passenger and baggage screening, TSA has deployed thousands of federal air marshals on domestic and international flights. Security located on the airplane itself represents one of the last possible defenses against on-board threats by persons intending to do the aircraft or the nation's aviation system harm. Airlines are also actively working to install more secure doors to bar unauthorized entry into cockpits. All 6,000 cockpit doors on large commercial aircraft will be replaced this year.

Supporting First Responders

Nearly three million state and local first responders regularly put their lives on the line to protect the lives of others and make our country safer. The Administration's "First Responder" initiative will provide firefighters, emergency medical services, emergency management agencies, and law enforcement personnel with coordinated training, grants for preparedness equipment, technical assistance, and federal, state, and local joint exercises.

In 2004, DHS proposes \$3.5 billion for this effort—an increase of \$3 billion over 2002. This request includes \$500 million for grants that provide firefighters with health and safety equipment and vehicles as they prepare to respond to possible future terrorist incidents. The request includes \$500 million for state and local law enforcement terrorism prevention initiatives. The funding also supports up to \$181 million for the Citizen Corps initiative launched in January 2002. Citizen Corps supports local efforts to engage individuals in helping communities prevent, prepare for, and respond to disasters of all kinds, including terrorist attacks.



Responding to Tragedy Effectively

Consolidating and moving the Office of Domestic Preparedness (ODP) and related functions to DHS will improve overall response coordination by providing states and localities with a "one-stop shop" for funding and training needs. ODP's network of training centers provides state and local first responders with specialized courses on responding to a range of terrorist threats. Since September 11th, enrollment has increased 136 percent—supporting training of over 80,000 first responders in 2002. The Administration's First Responder initiative supports continued growth in training that must meet rigorous quality standards set by DHS.

In 2002, \$750 million was awarded in equipment, training, and exercises grants to all of the states and U.S. territories. This funding supported training over 80,000 first responders. State and local agencies are using these funds to purchase equipment critical to improving their readiness for potential terrorist incidents, including protective gear for working in hazardous environments, devices for detecting and disarming explosives and other dangerous materials, interoperable communications equipment, and medical supplies. These purchases are based on state response plans.

Securing the Nation's Ports and Ensuring Safety in Our Waters

Overall, the 2004 Budget provides the Coast Guard with a 36-percent increase (\$1.5 billion) over its 2002 Budget. To increase safety in our seaports, the budget includes \$65 million to deploy six new Coast Guard Maritime Safety and Security Teams to respond to terrorist threats or incidents in domestic ports and waterways. It also provides an additional \$53 million to buy nine Coast Guard coastal patrol boats to serve as vessel escorts into U.S. ports.



The Palermo Senator Incident

On the eve of September 11, 2002, an inspection team in Port Elizabeth, New Jersey, detected trace amounts of radiation in the cargo hold of a ship, the Palermo Senator, bound for New York City. The Coast Guard ordered the vessel back to sea and guarded it in a special security zone while it was inspected more closely. Although the ship was found not to be a threat, the incident highlighted the need to prevent weapons of mass destruction from being smuggled into U.S. ports. Under DHS, identification and boarding of high-interest vessels will be heightened as multiple agencies with key roles in cargo security coordinate their intelligence, communications, and operations.

Through its continuing support of the Deepwater program, which is upgrading the Coast Guard's aging fleet of cutters, aircraft, and related systems, the Administration is working to increase the Coast Guard's capacity to fulfill its security responsibilities. The 2004 Budget requests \$500 million for this initiative. These new vessels and aircraft will help improve performance across DHS as the Coast Guard's activities and assets become more closely integrated with other DHS components.

The Coast Guard's non-homeland security activities, such as search and rescue, aids to navigation, and environmental protection, will remain major priorities. Over 50 percent of the Coast Guard's budget is devoted to such functions. The top priority among these other missions is maritime search and rescue. For 2004, the budget requests an additional \$20 million for hiring additional search and rescue staff. The budget also requests \$134 million to continue development of a "maritime 911" system needed to speed response to calls for help. This system will be fully deployed in 2006.



Coast Guard diver practices rescue techniques at sea.

Responding to National Emergencies

Emergency Preparedness and Response Initiative.

- Create a national incident management system.
- Augment America's pharmaceutical and vaccine stockpiles.

National Strategy for Homeland Security

An effective response to a major terrorist incident—as well as a natural disaster—rests on being well prepared. DHS will consolidate and coordinate all necessary response efforts quickly and effectively.

Creating a National Incident Management System

A single, flexible incident management plan is necessary as part of an effective response to an emergency. Federal response resources are currently organized around teams that can be called on during an emergency to provide specialized expertise and support to state and local responders. These programs operate under multiple plans including the Federal Response Plan, National Contingency Plan, and the Federal Radiological Emergency Response Plan.

DHS is integrating these plans into a single all-incident management plan. Following a catastrophic event, DHS, through the regional directors, will activate an Emergency Response Team (ERT), several of which will be located at pre-positioned sites around the country. Depending on the nature of the emergency, an ERT would be able to call on support from a variety of standing federal teams supported by other federal agencies and state and local personnel.

Augmenting America's Medical Stockpile

According to the Homeland Security Act of 2002, DHS is responsible for “providing the Federal Government’s response to terrorist attacks and major disasters.” In preparing for a possible bioterrorist attack against the United States, DHS will work closely with HHS to assure optimal medical preparedness and response capacity to meet threats to our nation. The Strategic National Stockpile, which the Congress transferred from HHS to DHS, contains drugs, vaccines, other medical supplies and equipment that can be delivered to any place in the country within 12 hours of a request for assistance. In the last year, the stockpile has been augmented in several ways. It now holds enough smallpox vaccine for every American, sufficient treatments for 20 million persons exposed to anthrax, and treatments for injuries following a chemical attack or explosion. The federal government has worked with every state to ensure rapid distribution of the stockpile to their citizens if needed. This budget contains \$400 million to maintain the stockpile and to strengthen its future capacity.



The Strategic National Stockpile contains medical supplies, drugs, and equipment that can be delivered anywhere in the country within 12 hours.

The Administration discovered many challenges in its recent efforts to ensure an adequate supply and delivery of vaccines, drugs, and other stockpile resources needed to respond to a bioterrorism attack. The current timeline for developing, procuring, and licensing vaccines and medicines to counter bioterrorism can be years. In some cases this may discourage companies from entering the market and making the necessary investments to produce adequate supplies of needed medical countermeasures.

The Administration proposes a new authority to overcome hurdles that impede our ability to stockpile adequate amounts of needed drugs and vaccines to protect Americans from bioterrorism. This authority will allow the government to pre-purchase critically needed vaccines or medication for biodefense as soon as experts agree it is safe and effective enough to place in the Department's Strategic National Stockpile for use in a homeland security incident. It will also serve to assure potential manufacturers that if they can create a safe and effective product needed to counter bioterrorism threats, the government can purchase it. The 2004 Budget for DHS includes about \$900 million to make these purchases.

In addition, the Administration proposes two new authorities for HHS to speed the process of turning scientific discovery into products that can be used to protect the American people in a crisis. More information on these new authorities is discussed in the Department of Health and Human Services chapter.

Recovering from Disasters

When a major disaster strikes, assistance is necessary to meet emergency needs of families and individuals, and to help pay for the rebuilding and repair of critical community infrastructure. In 2002, there were 42 major disasters (e.g., floods, tornadoes), as well as continued response to previous disasters, including the attacks of September 11, 2001. In 2002 alone, over \$7 billion in additional funding was provided for September 11th recovery efforts, principally in New York City. Also, in December 2002, the *DisasterHelp.gov* website was launched to assist users in finding information and services relating to the disaster management: preparedness, response, recovery, and mitigation. The 2004 Budget provides \$3.2 billion for disaster relief—a level consistent with the average non-terrorist event costs over the past five years. This includes \$2 billion in new money as well as money left over from prior years.

The 2004 Budget proposes a new \$300 million pre-disaster hazard mitigation program. Experience has shown that the devastation caused by disasters can be minimized through well-designed mitigation programs. This new program replaces the existing formula-based program previously funded through the Disaster Relief Fund with competitive awards to ensure that the most worthwhile and cost effective projects are funded.

DHS will also continue its commitment to protect the public against flood damage by supporting the National Flood Insurance Program. The budget includes \$200 million to continue replacing the nation's Flood Insurance Rate Maps, many of which are out of date and inaccurate.

Improving Information Analysis and Infrastructure Protection

The attacks of September 11th highlighted the fact that terrorists are capable of causing significant damage to our country by attacking our critical infrastructure—those assets, systems, and functions vital to our national security, public health and safety, and economy. Working in close collaboration with the FBI and the intelligence community, the Department will play a key role in developing and disseminating assessments and advisories of terrorist threats to

state and local law enforcement and our citizens, as appropriate. The Department's primary responsibility, however, will be to translate these assessments into improved security for the United States by taking action that reduces America's vulnerability to terrorist attack.

Information Analysis and Infrastructure Protection Initiative.

- Harness the best analytic and modeling tools to develop effective protective solutions.
- Build new intelligence capabilities.
- Develop a national infrastructure protection plan.
- Build and maintain a complete and accurate assessment of America's critical infrastructure and key assets.

National Strategy for Homeland Security

Assessing and Protecting the Nation's Critical Infrastructure

A key effort in protecting critical infrastructure is finding where the vulnerabilities lie. While different federal agencies are responsible for specific infrastructure sectors, no one agency currently looks across all sectors to determine national priorities and divisions of responsibility.

The Department is responsible for identifying America's critical infrastructures and key assets of national-level importance: food, water, agriculture, public health, emergency services, information and telecommunications, banking and finance, energy, transportation, chemical, defense industry, postal and shipping, and national monuments and icons. It will maintain up-to-date assessments of the nature and extent of their vulnerability to terrorist attack. By understanding the consequences that would result if these targets were attacked by terrorists, the Department will be able to determine which infrastructures and assets present the greatest potential danger to America—and, in so doing, to prioritize national protective efforts. The 2004 Budget includes about \$500 million to identify key critical infrastructure vulnerabilities and support the necessary steps to ensure security is improved at these sites.

Sharing Information Effectively

The Department is also in charge of issuing warnings, threat advisories, and recommended response measures to America's public safety agencies, elected officials, industry, and the public. In close coordination with the FBI, DHS will disseminate timely, actionable information to the public, private sector, and state and local officials related to specific threats and vulnerabilities, as well as information on what steps to take in response to a threat. In support of the Department's protective action responsibilities, the budget requests almost \$300 million for warning advisories, threat assessments, a communications system, and outreach efforts to state and local governments and the private sector.

Of course, the information exchange goes both ways. As part of the outreach effort, state and local officials will also provide DHS with information for analysis and dissemination. This means that governors will be made aware of appropriate information that affects them. State law enforcement



Coordinating Information

Since the beginning of the war on terrorism, intelligence and federal law enforcement agencies have gathered a wealth of information on terrorist organizations. In a major collaborative effort that broke traditional agencies' practices, the Central Intelligence Agency, Defense Intelligence Agency, National Security Agency, and FBI established a coordinated effort to exploit the massive numbers of captured documents for analysis. In addition to finding specific terrorist data, discovering links between people and organizations that help in understanding the global terrorist network is crucial to maintaining homeland security. DHS will continue and expand this effort.

personnel can also inform the nation at large of suspicious activity. Everyone from the local law enforcement to the President must be as well informed as possible in an effort to stop terrorist attacks before they happen.

Advancing and Harnessing Science and Technology

Just as science has helped us defeat past enemies overseas, so too will it help us defeat the efforts of terrorists to attack our homeland and disrupt our way of life. New technologies to detect and counter potential attacks by chemical, biological, radiological, and nuclear weapons, as well as analyze threats and share information, will help prevent and minimize the damage from future terrorist attacks. At \$803 million, the 2004 Budget for the Department's science and technology activities represents almost an eight-fold increase in funding over the 2002 Budget.

Science and Technology Initiatives.

- Establish a system for high-risk, high-payoff homeland security research.
- Coordinate research and development of the homeland security components.
- Develop chemical, biological, radiological, and nuclear countermeasures.
- Apply new technologies for identification or verification (e.g., biometrics).

National Strategy for Homeland Security

Promoting High-Risk, High Payoff Research

DHS will develop and implement a long-term research and development program that includes investment in revolutionary capabilities with high payoff potential. The Department will house a Science and Technology Directorate that will assess the Department's near and long-term needs; develop

a national policy and strategic plan for identifying research and development priorities and goals; and support the conduct of research and development for developing countermeasures to chemical, biological, radiological, and nuclear weapons and other terrorist threats. For example, DHS will develop new tools to correlate reports from law enforcement and intelligence agencies to improve warnings of potential terrorist attacks. Additional examples of specific technology advancements include developing and deploying systems to provide on-the-spot readings of potential abnormal biological or chemical levels and hand-held portable radiation detection equipment to increase the accuracy and speed of inspections at U.S. borders.

DHS will harness the expertise, energy and ingenuity of the private sector, academia and government labs to develop and produce advanced technologies, systems, and procedures needed for homeland security. Many businesses that could play a role in homeland security research and development are unaccustomed to working with the federal government and some avoid it entirely due to onerous contracting and oversight requirements. Thus the Administration sought and received authority, as part of the Act, for DHS to use flexible contracting mechanisms that can streamline reporting requirements and increase flexibility in contract provisions. The use of these provisions will make doing business with the Department more straightforward and productive than was the case previously, and allow for the creation of technology to improve homeland security.

Coordinating Homeland Security Research and Development

The Department will coordinate federally-funded homeland security research and development projects to avoid duplication of effort. To date, each department with homeland security research and development projects has carried them out in its own assigned area, under its own procedures. However, lacking an awareness of the needs and activities of other departments, these efforts did not support a coherent, effective national response to security threats. Many of the agencies involved have little frontline knowledge of homeland security research and little or no experience in supporting research and in the acquisition of technologies and systems.

One of the Department's tasks will be to overcome these shortfalls by ensuring the effectiveness of existing activities or by promoting new capabilities where none existed previously. In 2004, \$350 million in new funding is requested for vigorous research, development, test, and evaluation capabilities. These funds will be used to promote innovative, high payoff capabilities through the Homeland Security Advanced Research Projects Agency, as well as focused efforts to rapidly evaluate and prototype near-term technologies available from the private sector.

Detecting Biological Agents

Following September 11th, the National Nuclear Security Administration accelerated its program to develop a sensor system to detect biological agents. This system protects large-scale special events by employing the latest state-of-the-art DNA sequencing techniques to identify a host of biological threat agents. The system was demonstrated at the 2002 Winter Olympics and was deployed to New York in September 2002 to provide protection during the September 11th memorial ceremonies and the United Nations General Assembly meeting. DHS will continue to work on this system and work to develop others that will detect nuclear or biological agents.

In addition, funds will support the development of standards for homeland security equipment that will be used by the state and local first responder community for dealing with current and emerging threats. Finally, research and development activities will be funded to enhance the broad spectrum of missions within the Department, such as improving capabilities for inspecting cargo and processing people at our borders, and dealing with natural or man-made disasters.

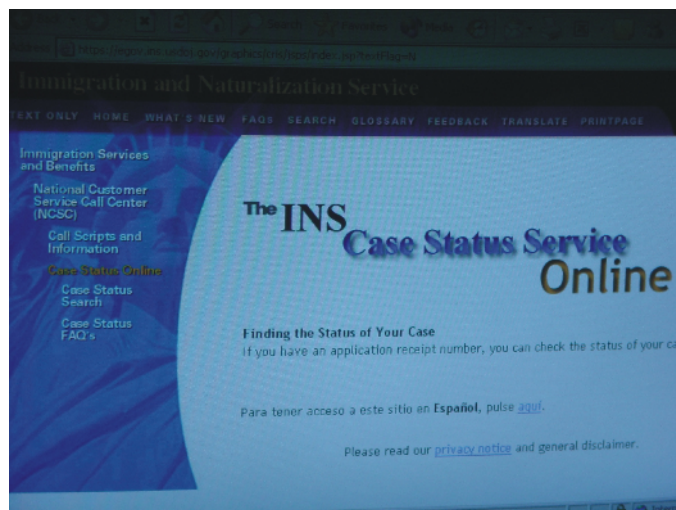
Providing Improved Service to the Nation's Immigrants

Americans have long cherished our identity as a nation of immigrants. Under DHS, the Bureau of Citizenship and Immigration Services aims to greatly improve the administration of immigration benefits to the more than seven million annual applicants. The Department is committed to building and maintaining an immigration services system that provides immigration information and benefits in a timely, accurate, consistent, courteous, and professional manner.

The 2004 Budget continues funding for the President's \$500 million initiative to reduce the backlog of applications and ensure a six-month processing standard for all applications. To support this commitment, the Bureau will focus on three critical elements:

- achieving a high-level of performance by establishing clear, concrete performance milestones and actively monitoring progress towards these milestones;
- transforming business practices by implementing significant information technology improvements and identifying improvements to change the current way of doing business; and
- ensuring integrity by establishing comprehensive quality assurance measures.

Applying Online



One way customer service has improved while guaranteeing process integrity was the successful implementation of Case Status Online. Customers who have a receipt number for an application or petition filed at a Service Center can check the status of their pending case online and avoid prolonged waits on the phone or at a local office.

The plan to reduce the application backlog represents a balance of processing more applications while improving quality through error reductions. Over the last year, the focus has been on key quality improvements and expanded national security checks, such as performing background name checks on all applications before approval. Although the checks have initially meant somewhat longer processing times, enhanced security will help ensure that only eligible applicants are given the right to enter the country.

Another goal of the Department is ensuring that our nation's policies for issuing visas to visitors are consistent with security and foreign policy interests. The Secretary of Homeland Security will have legal authority over the issuance and denial of visas, although the Secretary of State will manage the activities of consular officers and will retain the power to deny visas based upon foreign policy interests.

Supporting Additional Responsibilities



The Secret Service's primary job is to protect the President, Vice President, and other public officials.

The United States Secret Service plays a unique and critical role in DHS by protecting the President, the Vice President, and other public officials. In addition, the Secret Service protects our nation's currency and financial integrity. Funding proposed in 2004 allows the Secret Service to accomplish these core missions. In addition, \$40 million is provided to support the Secret Service's protective effort surrounding the 2004 presidential campaign. The 2004 Budget proposes \$1.1 billion for the Secret Service – 23 percent more than 2002.

Ensuring that our nation's law enforcement personnel have the necessary tools to prevent terrorism will continue to be the focus of the

Federal Law Enforcement Training Center (FLETC). FLETC delivers basic and advanced training to more than 74 federal agencies and also conducts numerous training programs for state, local and international officials.

Improving Counterterrorism Cooperation with FBI and the Intelligence Community

The FBI leads the nation's counterterrorism law enforcement efforts. The FBI, through the Joint Terrorism Task Forces, works side-by-side with members of our entire law enforcement community, including state and local officials, to identify, halt, and, where appropriate, prosecute, suspected terrorists. DHS inherits many law enforcement agencies and therefore is an active participant on each of the sixty-six task forces located throughout the country, and on the national task force located at FBI headquarters. The Department will also closely coordinate its homeland security efforts with the FBI.

Linking Systems Effectively

Achieving true homeland security requires technology that guarantees real-time information sharing, improves response time to detect and respond to potential threats, and improves decision-making. These criteria are essential in ensuring wise investments in information technology (IT) that advance homeland security. For example, a border agent in Tijuana must be able to provide enforcement information to inspections agents in other areas of the country on a real-time basis. DHS will have an IT infrastructure that supports collaboration among the workers in the federal, state, and local homeland security related agencies.

To accomplish the nation's homeland security goals, DHS must operate from a world-class, unified IT infrastructure that links the resources of the component agencies. Merging the existing IT resources of 22 different component agencies into one Department presents a number of challenges. First, IT spending is traditionally agency-specific with little leveraging prior to procurement across agencies. As a result, the federal government has many duplicative systems, particularly in the areas of IT infrastructure such as telecommunications and networks as well as with business management systems such as financial management systems. Secondly, there are many legal and cultural barriers that prevent agencies from exchanging and integrating information. To overcome these barriers, the Administration initiated a process last year to centrally review new IT

investments of DHS component agencies in order to prevent redundant investments and misspent taxpayer dollars. As a result, new IT investments were and will continue to be modified to address the government's overall homeland security needs and not the needs of only one agency.

Consolidation and integration of IT also presents an opportunity to improve homeland security through better use of DHS component agencies' IT resources. DHS requires a modern IT environment that efficiently and effectively supports homeland security missions, enhances productivity, facilitates information sharing while ensuring security and privacy, and generates savings.

Instilling the President's Management Agenda

DHS encounters an enormous challenge to reorganize and integrate roughly 22 disparate agencies with nearly 180,000 employees into four mission organizations. This challenge presents an opportunity for the Department to become the model of management excellence to manage resources effectively to deliver measurable results.

Key to success are new management flexibilities that were requested by the President in the areas of human resources, procurement, and budget and performance integration. DHS will empower

Connecting Information








Databases used for law enforcement, immigration, intelligence, and public health surveillance have not been connected in ways that allow us to recognize information gaps or redundancies. As a result, government agencies storing terrorism information, such as terrorist "watch lists," have not been able to share that information systematically with other agencies. These differences can result in errors—for example when a visa application or border crossing is not consistently checked against the watch lists. DHS will work to link systems, as appropriate, to enable effective communication.

To succeed in their mission, leaders of the new department must change the culture of many diverse agencies, directing all of them toward the principal objective of protecting the American people.

President George W. Bush
November 25, 2002

the new workforce by creating “ownership” and accountability. In the past, federal organizations have been susceptible to criticism that they were not using the flexibilities given them to maximize performance. In DHS, the use of these new management flexibilities will be tracked as measurable goals within the President’s five management initiatives.

Because DHS is new, status starts at red reflecting the known condition of several of the large components being transferred to the department. Progress ratings will be determined in the next year.

	Human Capital	Competitive Sourcing/ Procurement	Financial Performance	E-Government	Budget and Performance Integration
Status					

During the next two years, the Department will focus on near-term challenges. For example, in the area of human capital, most of the 22 combining agencies have at present unique personnel systems. DHS will blend the personnel systems of the incoming 22 agencies into a unified system that is consistent, coherent, and rewards good performance. Strategic use of managerial flexibilities is essential in order to put the right person, in the right place, at the right time.

DHS also faces the challenge of targeting its \$36.2 billion budget to efforts that meet its central mission. Budgetary flexibility is essential to enabling the Department to redirect funds from obsolete or low priority programs to homeland priorities. DHS inherits agencies in various financial conditions with numerous financial systems. DHS must work to unify the 19 existing systems and ensure that the chosen system directly links performance with spending. In addition, the Department is committed to developing concrete performance milestones upon which to hold its managers and employees accountable.

In the area of information technology, the Department is faced with the challenge of integrating hundreds of “stovepipe” systems into a coherent operating network. Communication and information sharing is essential to preventing another terrorist attack. The goal is to have modern information technology systems that efficiently and effectively support homeland security missions, enhance productivity, facilitate information sharing, and generate budgetary savings. DHS will focus on developing a solid, coherent infrastructure; developing business management cases for all of its inherited systems to determine whether they should continue operation; and evaluating mission-related systems to identify overlap and opportunities for improvement.

Performance Evaluation of Select Programs

The Program Assessment Rating Tool (PART) evaluations reflect a collaborative effort between the Office of Management and Budget and the various policy officials within the respective departments. Nine PART analyses were conducted for programs moved to DHS. Because DHS is a new department, it will undertake performance evaluations of its programs over the next two years.

For further information on the programs moving to DHS, please see the DHS chapter in the *Performance and Management Assessments* volume.

Department of Homeland Security
(in millions of dollars)

	2002		Estimate	
	Actual	Supplemental	2003	2004
Spending:				
Discretionary Budget Authority:				
Border and Transportation Security				
Customs and Border Protection	4,063	870	5,466	5,649
Immigration and Customs Enforcement	2,127	179	2,375	2,488
Transportation Security Administration ¹	1,242	2,435	5,338	4,812
Federal Law Enforcement Training Center	137	31	143	146
Office for Domestic Preparedness	260	635	3,564	3,558
Total, Border and Transportation Security	7,829	4,150	16,886	16,653
U.S. Coast Guard	4,129	464	5,149	5,634
Emergency Preparedness and Response	3,098	9,403	3,425	3,287
Science and Technology	90	77	561	803
Information Analysis and Infrastructure Protection	117	36	177	829
Other Department of Homeland Security (DHS)	1,516	142	1,686	1,979
Total, Discretionary budget authority	16,779	14,272	27,884	29,185
Mandatory Spending:				
Border and Transportation Security				
Budget authority	1,267	—	1,449	1,398
Outlays	1,094	—	1,181	1,176
U.S. Coast Guard				
Budget authority	1,050	—	1,025	1,155
Outlays	970	—	1,016	1,136
Emergency Preparedness and Response				
Budget authority	1,458	—	1,700	2,676
Outlays	872	—	1,462	2,046
Other DHS				
Budget authority	1,567	—	1,627	1,764
Outlays	1,386	—	1,492	1,492
Total, Mandatory budget authority	5,342	—	5,801	6,993
Total, Mandatory outlays	4,322	—	5,151	5,850
Credit activity:				
Direct Loan Disbursements:				
Disaster Assistance	11	—	19	25

¹ Includes discretionary fee-funded airport security activities.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

The President's Proposal:

- Expands homeownership opportunities, especially for minority families, with new financing options and funding for buyer education, down payment assistance, and self-help programs;
- Reforms low-income housing assistance by creating a state block grant for the voucher program to deliver more flexible and effective program administration;
- Helps reduce chronic homelessness with a new Samaritan grant that supports promising local strategies; and
- Reduces erroneous payments, reduces financial risks, and increases program effectiveness through improved management.

The Department's Major Challenges:

- Reforming housing and community development programs to improve performance by devolving administration, targeting needs, and giving families more housing choices;
- Strengthening financial controls and information systems to reduce waste, including \$2 billion of annual rent subsidy overpayments; and
- Eliminating fraud from Federal Housing Administration loan guarantee programs by enforcing the rules and barring lenders and others who abuse the program.

Department of Housing and Urban Development

Mel Martinez, Secretary

www.hud.gov 202-708-1112

Number of Employees: 10,500

2003 Spending: \$38.0 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.

The Department of Housing and Urban Development (HUD) subsidizes housing costs for approximately five million low-income households through rental assistance, construction grants, and loans. It also helps revitalize over 4,000 localities through community development programs and offers housing and services to help families and homeless persons toward self-sufficiency. HUD also encourages homeownership by providing mortgage insurance for six million homeowners, many of whom otherwise might not qualify for loans, and by managing

billions of dollars in both guarantees of mortgages and mortgage-backed securities.

Overview

The President's Budget offers new strategies to: 1) meet aggressive goals for increasing homeownership and ending chronic homelessness; 2) strengthen housing assistance and community development programs; and 3) continue the effort to improve HUD's performance and provide better stewardship of funds.



President Bush and Secretary Martinez at a Habitat for Humanity building site in Waco, Texas.

The Administration has a multi-part strategy to expand homeownership with a special focus on increasing opportunities for minority households. This strategy includes new financing options, increased funding to educate borrowers, down payment assistance, and support of self-help programs.

The budget converts funding for housing vouchers to a block grant, giving states the flexibility to administer the program while continuing to help the same number of low-income families as are currently assisted. Greater flexibility will allow states to increase the benefits of this assistance.

The 2004 Budget continues and strengthens the Administration's commitment to end chronic homelessness by proposing a new competitive grant as part of a broader Samaritan Initiative. As part of this initiative, HUD will work with the Departments of Health and Human Services, Veterans Affairs, and others to support innovative local strategies to end chronic homelessness.

The Administration will review the impact of the 2000 Census on the Community Development Block Grant to states and localities and will develop proposals for a revised formula, if appropriate. Any proposals will include factors of need and distress.

Expand Homeownership Opportunity

The overall homeownership rate for American households has reached an all-time high of 68 percent. However, while far more households now share in the benefits of homeownership, minority households continue to share at substantially lower rates. The rate among white households is 74 percent compared to 49 percent for all minority households. The President has issued America's Homeownership Challenge to increase minority homeownership by 5.5 million through 2010 and continue high overall homeownership rates. The strategy calls on public and private partners to help achieve this goal. The Administration is fully committed to ensuring equal protection of the law in housing.

HUD is responding to the President's Challenge in several ways:

Offering Financing Options. The budget proposes a new Federal Housing Administration (FHA) mortgage product that initially charges borrowers a higher premium rate, but rewards good behavior by reducing borrower mortgage insurance premiums after 24 consecutive on-time payments. The proposal will create new homeownership opportunities for more families with poor credit records who are served at a higher cost in the subprime market or not served at all.

Providing Assistance with Down Payment and Closing Costs. The budget fully funds the President's Down Payment Assistance Initiative, providing \$200 million to help approximately 40,000 low-income families with the down payment on their first home. The budget continues to strengthen the

ability of public housing authorities to use Section 8 Housing Voucher funds as down payment assistance for families seeking to make the transition from renting to owning.

Simplifying the Buying Process and Increasing Competition. The mortgage origination process is too complicated, too costly, and too much of a mystery for many borrowers. The Administration is reforming real estate settlement procedures to make the home-buying process more consumer friendly by making settlement agreements and paperwork easier to understand. Buyers also will be able to shop for settlement services at the best package price. This competition is expected to reduce the initial cost of buying a home by an average of \$700.

Educating Homeowners. The budget increases Housing Counseling by \$10 million, providing \$45 million to help families manage their finances and improve poor credit ratings in order to achieve homeownership. This service will allow families to learn about the loan products and services available to them and how to identify and avoid predatory lending practices.

Increasing the Supply of Affordable Housing. The budget provides a five-percent increase in HOME formula funding. On average, state and local grantees use 25 percent of their HOME funds to assist homebuyers by financing the costs of land acquisition, new construction, rehabilitation, or down payments. Minority households represent over half of the 200,000 homebuyers assisted under the program. The budget also 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 through self-help and volunteer labor.

Providing a Single-Family Homeownership Tax Credit. To promote the development of affordable single-family homes for low-income homebuyers, a tax credit of up to 50 percent of the cost of constructing a new home or rehabilitating an existing home would be provided. To qualify, eligible homebuyers must have incomes that do not exceed 80 percent of their area median.

The budget proposes an increase for the Neighborhood Reinvestment Corporation of \$10 million, for a total of \$115 million. The Corporation, a public nonprofit organization chartered by Congress in 1978 and independent of HUD, is another partner in the President's goal to expand first-time minority homeownership. The Corporation 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. The Corporation expects to generate \$2.1 billion in direct housing and community development investment from 2004 activity.

Reform Low-Income Housing Assistance

Convert Housing Voucher Program to State Block Grant

The Section 8 housing choice voucher program and the Section 8 project-based housing subsidy program are two of HUD's major rental housing programs, helping three million low-income households pay the rent on privately owned apartments. The budget proposes converting the voucher program to a state-run block grant called Housing Assistance for Needy Families. Project-based assistance would continue to be administered by HUD. Administration by states would better assist low-income households to locate decent, safe, and affordable housing because states could tailor programs to the needs of particular communities. For example, in states that have large cities with expensive rental housing, a higher rent ceiling could be allowed in those areas.

States would be required to serve at least the same number of families as they currently serve, but would have much more flexibility to set the terms of assistance. Coordination by states with Temporary Assistance for Needy Families programs would be encouraged, to better reach families transitioning from welfare to work. As states tailor program administration to their needs, the result will be better utilization of funds to help more low-income households secure housing. A block grant will also improve financial management and increase use of funds. Last year, more than \$1.7 billion in available federal aid was not used by the PHAs. This additional assistance could have housed 200,000 families.

State-Wide Effort Better Serves Families and Increases Efficiency

Massachusetts has established a state-wide collaboration to help low-income families more easily obtain rental assistance while cutting administrative burdens and costs.

Families in search of a voucher have been placing their names on a number of waiting lists at local public housing authorities (PHAs), consuming valuable time and energy, as well as duplicating efforts of PHA staff. Beginning in 2003, over 40 of the 125 PHAs across the state will initiate a centralized on-line waiting list, simplifying the application process for both applicants and housing authority staff. While waiting lists were rarely open in the past, this consolidated system will always be open to new applicants, and families will more readily receive the assistance they need.

The Administration's block grant proposal will facilitate more such creative solutions to housing needs.

How Do the Current and Proposed Housing Voucher Programs Compare

What remains the same?	What will change?
<ul style="list-style-type: none"> Households shop for and choose the housing that best meets their needs; they can move when needs change and retain assistance. Assistance remains targeted to those with low incomes and greater needs. At least the same number of households will be assisted in each state. 	<ul style="list-style-type: none"> States can streamline and set rules to meet market conditions or support their own policy goals. Consolidated administration over wider areas will promote efficiency and facilitate moves for households who wish to relocate. States can better coordinate housing assistance with other aid to low-income households. Federal oversight will focus on outcomes and reward superior performance.

Increase Funding for High Performing HOME Program

The 2004 Budget increases HOME funding by \$113 million above the 2003 request—providing \$2.2 billion to 600 state and local affordable housing programs. Flexible design and strong management enable HOME to address affordable housing problems under widely varying local market conditions, warranting this increase. These findings reflect the performance evaluation further described in the Performance Evaluations of Select Programs section. Communities fund a variety of activities to assist renters, new homebuyers, or existing homeowners. HOME dollars have leveraged over \$20 billion in other funds and create no long-term federal liability. Grantees are required to work with community-based nonprofits in providing affordable housing.

Expand Efforts to Combat Lead-Based Paint Poisoning in Children

Lead-based paint poisoning disproportionately affects young children from low-income families living in older housing units. Over the years, the federal government has pursued a strategy to contain existing lead-based paint hazards with the goal of eventually ending the danger. The Administration continues to pursue these goals aggressively through various programs, including grants through HUD's Office of Healthy Homes and Lead Hazard Control for lead-based paint reduction, which the budget is proposing to increase from \$126 million in 2003 to \$136 million in 2004, an eight-percent increase.

In addition to continuing these worthwhile containment efforts, the Administration proposes that \$25 million of HOME funds be used to provide competitive grants to localities to administer innovative lead reduction initiatives. Research indicates, for example, that a major contributor to lead hazard in many homes is the presence of older, leaky windows that accelerate the deterioration of paint containing lead. Under this initiative, communities would be able to develop a program, such as a window-replacement program, to address such specific local problems. Grants would be leveraged by local funds and non-governmental sources. The Administration expects that this initiative will enable communities with a pronounced problem of lead-based paint in older homes to use these resources, in conjunction with the private sector, to eliminate this major source of lead hazard in many homes.

Strengthen Public Housing

The budget proposes to reform the public housing subsidy system in a manner similar to the President's 2003 Budget proposal. The Public Housing Reinvestment Initiative would give public housing authorities a new ability to leverage private capital. Instead of funding public housing capital repairs through the current obsolete formula, in 2004 approximately 10 percent of public housing units are expected to voluntarily change to a new funding system that relies on mortgage refinancing. Borrowing would be underwritten against individual projects and rely on the financial

Remember the HUD you saw on "The Sopranos"? Fact or Fiction?

A recent episode of "The Sopranos" treated a HUD mortgage insurance program as a fraud opportunity for the mob. Unfortunately, this dramatization had its roots in reality—an actual scam involving New York City brownstones.

In the recent past, families receiving FHA financing have been victimized by "property flipping", which used inflated appraisals to make distressed properties appear as good homes to buy. When the homes' low values became apparent, homebuyers were left with homes in poor condition, and FHA was left holding the bag for the cost of over-valued mortgages. Over the years, the General Accounting Office and others identified many weaknesses in HUD programs that invited such scandals and wasted dollars.

Today's HUD is out to end this troubled history. HUD's current leadership is reforming programs, tightening up on administration, and enforcing the rules to prevent this kind of abuse. FHA has issued new rules to prevent property flipping and catch inflated appraisals. Dozens of lenders who used to underwrite FHA loans have been dropped under these rules. Owners of 1,200 FHA-insured multifamily properties recently were referred for possible enforcement action because buildings simply were not kept up. HUD also is making a series of changes to eliminate \$1 billion annually of erroneous rent subsidy overpayments within two years. If all these funds were recaptured and put to additional housing assistance, they could fund over 150,000 low-income vouchers.

It will take more time and a lot more hard work to repair a generation's worth of problems. But the reality is changing.

viability of individual properties. This approach focuses attention on asset management and would strengthen financial discipline.

The Administration's proposal also promotes public housing resident choice and mobility. Following mortgage-based refinancing, funding for recapitalized units would be consolidated into portable, project-based vouchers. With vouchers, assisted households would be empowered with the choice to move after at least one year of occupancy. The approach has received endorsement by two of the three public housing industry groups and by the Millennial Housing Commission.

HOPE VI

In 1992, Congress established the Revitalization of Severely Distressed Public Housing program (HOPE VI) to address the nation's most severely distressed public housing. Since its inception, HOPE VI has granted 377 awards to 146 Housing Authorities in 37 states, the District of Columbia, Puerto Rico, and the Virgin Islands at a cost of almost \$5 billion. HOPE VI awards from 1993 to 2001 have funded the demolition of over 115,000 severely distressed public housing units and construction of an eventual 60,000 revitalized dwellings.

Authorization for HOPE VI expired September 30, 2002. The budget proposes not to extend the program, which has served its purpose of demolishing 100,000 of the most severely distressed public housing units. Instead, this budget addresses affordable housing needs by enlarging the HOME block grant, refinancing viable public housing, and reforming other low-income housing programs so that resources go farther.

Comparing the Cost of Low-Income Rental Housing Assistance

The federal government operates a range of programs that deliver rental housing assistance. The accompanying table uses historical data to estimate the cost of providing, under common conditions, assistance to one household for 30 years. The voucher program, which provides assistance directly to the household to rent in the private rental market, is more cost-effective than the other programs listed, which rely on subsidized construction. This comparison was one motive for reforming Housing for Persons with Disabilities (see later discussion). While cost is important, these programs may produce different levels of benefits as housing will vary in physical and neighborhood quality. For example, the cost of Housing for Persons with Disabilities is increased by the need to provide accessibility features. Also, housing conditions in local markets can make some programs easier to use than others. To reflect differences between urban and rural housing markets, separate estimates are shown based on national averages and non-metropolitan (including rural) areas only.

Cost per Household for 30 Years of Low-Income Assistance ¹	
National Average:	
Housing Vouchers.....	\$106,367
Elderly Housing (Section 202)	\$128,361
Housing for Persons with Disabilities (Section 811).....	\$132,017
Low-Income Housing Tax Credit Plus Vouchers	\$132,460
Non-Metropolitan Average:	
Housing Vouchers.....	\$43,921
Rural Multifamily Housing Loans and Grants (Department of Agriculture).....	\$81,649

¹ Costs are present value (today's dollars) calculations of providing assistance to a low-income household in a one-bedroom apartment for 30 years. Characteristics such as household income have been standardized in order to make the programs more comparable.

Reform Housing for Persons with Disabilities with Local Needs in Mind

The President's Budget proposes reforming Housing for Persons with Disabilities to provide faith-based and other nonprofit sponsors more flexibility in using grant funds to respond to local needs. The funding made available under the existing program allows for the development of relatively few housing units for very low-income persons with disabilities. Units take a long time to construct and are costly when compared to non-development programs. (See the Performance Evaluation of Select Programs section of this chapter.) The new program would give priority to projects that are part of a local strategy to house those people with disabilities most at risk of homelessness, as part of the Administration's Samaritan Initiative to end chronic homelessness.

End Chronic Homelessness: The Samaritan Initiative

The Administration continues the commitment made in 2003 to end chronic homelessness within a decade through a new Samaritan Initiative. The chronically homeless are a sub-population of perhaps 150,000 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 comprise roughly 10 percent of the homeless population, they consume more than one-half of all homeless services because their needs are not comprehensively addressed. Thus, they remain in the homeless system or on the street.

The Samaritan Initiative includes a proposed new comprehensive competitive grant, to be jointly administered by HUD, and the Departments of Health and Human Services (HHS) and Veterans Affairs (VA). Grants will support the most promising local strategies to move chronically homeless persons from the streets to safe permanent housing with supportive services. In 2004, 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. Priority in the competition for these grants will be given to comprehensive state and local efforts that promote access by chronically homeless persons to federal mainstream programs that can benefit them.

By focusing on the chronically homeless, who are heavy users of emergency shelters and other services, savings can be achieved over time. Such savings can be made available in the future to address the needs of other segments of the homeless population—including families—who, with the right assistance, could return to self-sufficiency with far less trouble.

The Samaritan Initiative is a performance-based idea. The expected outcome will be a reduction and then an end to homelessness on the streets of our country. In addition to this initiative, the budget proposes consolidation of HUD's three competitive grant programs to increase efficiency in the delivery of homeless assistance to communities.

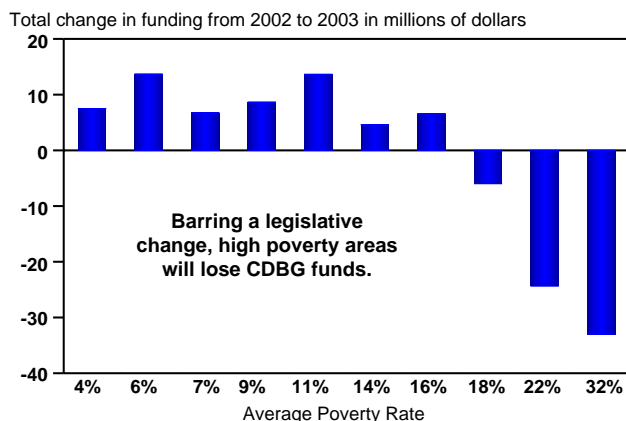
Reform the Community Development Block Grant Formula

The Community Development Block Grant (CDBG) provides annual grants totaling \$4.4 billion to over 1,000 eligible cities, counties, and states to fund a broad set of activities aimed at the "development of viable urban communities" including housing rehabilitation, public facilities, economic development, administration, and planning.

A Tale of Four Cities

Although El Paso, Memphis, and Fresno each have about the same number of persons in poverty as Cleveland, they would have to combine their CDBG grants to match Cleveland's \$30 million annual grant.

Including 2000 Census Data Shifts CDBG Funding from High to Low Poverty Areas



In 2003, as new Census data are incorporated in the CDBG formula, funding for grantees will shift. If the formula is not changed, funds will shift from poorer to wealthier communities; almost 90 percent of CDBG funding lost would come from communities with poverty rates above the national average.

To continue the commitment in the 2003 Budget to “develop proposals for a new CDBG allocation formula and a process to allocate more to those who need these funds and will use them effectively,” the Administration is reviewing the impact of the 2000 Census on CDBG. Measures of need and fiscal capacity will be considered in guiding revised formula allocations.

As part of its Consolidated Plan Improvement Initiative, HUD will develop reform proposals to improve the formula program’s effectiveness including incentives to reward states and communities that commit to a results-oriented, outcome-based performance plan focusing on long-term change for neighborhoods or low-income persons.











Performance Evaluation of Select Programs





A mix of approaches aimed at finding housing for at-risk persons produced a range of results for HUD programs subjected to the new Program Assessment Rating Tool (PART). PART ratings for four programs designed to assist the housing needs of vulnerable populations are presented in the following table. For further details on these and other evaluations, see the HUD chapter in the *Performance and Management Assessments* volume.

Program	Rating	Explanation	Recommendation
Housing Vouchers	Moderately Effective	This program has a strong public purpose and provides cost-effective, market-based assistance. It also compares favorably to alternative forms of housing assistance in cost and in offering low-income families more choice in housing and neighborhoods.	To improve administration and offer more flexibility, convert program to a state block grant.
Project-Based Rental Assistance	Ineffective	This program has a poor focus on program outcomes and compares unfavorably to vouchers in cost and opportunities for choice.	Make management changes, including stepped-up enforcement, to improve performance.

Program	Rating	Explanation	Recommendation
HOME Investment Partnerships	Moderately Effective	This program has a clear purpose, strong management, and flexible design to meet local affordable housing needs. It does not create escalating financial demands and has shown progress toward performance goals.	Increase funding and develop outcome measures to further sharpen focus on performance.
Housing for Persons with Disabilities	Results Not Demonstrated	Development delays and cost increases are common. More focus on cost-effectiveness, efficiency in delivery of assistance, and measured outcomes is needed.	Amend authorization to streamline the delivery of new housing assistance; refocus on those most at risk of chronic homelessness.

Update on the President's Management Agenda

	Human Capital	Competitive Sourcing	Financial Performance	E-Government	Budget and Performance Integration
Status					
Progress					
<p>HUD made progress in addressing the five government-wide initiatives in the President's Management Agenda. It implemented new internal controls and mandatory training for those who approve spending, which should result in better stewardship of taxpayer funds and avoid the unauthorized overspending that occurred in the 1990s. The first phase of a new financial accounting system for the FHA was implemented on time and within budget. Oversight and cost control of information technology investments improved. The 2004 Budget used outcomes rather than outputs in selected cases to guide policy and funding choices. A new performance-based budget format provided a better way to integrate performance into budgeting. While progress is encouraging, HUD has a long way to go in many areas. Status remains red until improvements reach the targeted levels.</p>					

Initiative	Status	Progress
HUD Management and Performance		
Faith-Based and Community Initiative		
<p>Arrow indicates change in status since baseline evaluation on June 30, 2002.</p>		

HUD Management and Performance. HUD has achieved consistent progress in overhauling its management and performance. Housing provided to HUD-assisted tenants is better today than it was a year ago; more units comply with HUD's physical standards. Some large, long-troubled public housing authorities are turning around. HUD has a plan to reduce overpaid rent subsidies and assure eligibility for housing assistance. FHA has lowered the risks of its loan guarantees by eliminating firms with inflated appraisals and by improving the way it manages defaulted properties.

Faith-Based and Community Initiative. HUD has made significant progress in building the means to reach out to faith-based and community organizations. HUD now has a coordinated outreach and technical assistance plan to increase the quality of grant applications from such grassroots organizations. HUD has revised rules for eight major programs to help increase participation. Further steps are planned to level the playing field for these organizations. These include streamlining of the grant application process to match the capabilities of small and first-time grant applicants and establishing pilot programs for these organizations.

Department of Housing and Urban Development

(In millions of dollars)

	2002 Actual	Estimate	
		2003	2004
Spending			
Discretionary Budget Authority:			
Community Development Block Grant	5,000	4,732	4,732
HOME Investment Partnerships	1,796	2,084	2,197
Homeless Assistance Grants	1,123	1,130	1,325
Samaritan Housing Grant.....	—	—	50
Housing Opportunities for Persons with AIDS	277	292	297
Housing Certificate Fund.....	13,931	16,427	—
Housing Assistance for Needy Families (Housing Vouchers).....	—	—	12,535
Project-Based Rental Assistance	—	—	4,523
Public Housing	6,338	5,956	6,215
Revitalization of Severely Distressed Public Housing (HOPE VI)	574	574	—
Housing for the Elderly	783	773	773
Housing for Persons with Disabilities	241	251	251
Federal Housing Administration (FHA).....	−2,880	−3,226	−3,378
Fair Housing and Equal Opportunity	46	46	50
Lead Hazard Reduction.....	110	126	136
New York Disaster Recovery Assistance (CDBG).....	2,783	—	—
All other programs	1,306	1,736	1,595
Total, Discretionary budget authority ¹	31,428	30,901	31,301
 Total, Mandatory outlays	 −3,671	 194	 −1,953
Credit activity			
Direct Loan Disbursements:			
FHA	—	51	54
All other programs	9	—	—
Total, Direct loan disbursements	9	51	54
 Guaranteed Loans:			
FHA	156,982	157,226	164,042
Community Development Loan Guarantees	309	261	304
All other programs	57	29	117
Total, Guaranteed loans	157,348	157,516	164,463

¹ Includes \$2.8 billion in 2002 supplemental funding.

DEPARTMENT OF THE INTERIOR

The President's Proposal:

- Continues commitments to:
 - eliminate the maintenance and construction backlog in National Parks and at Bureau of Indian Affairs schools;
 - fully fund the Land and Water Conservation Fund; and
 - fund the Natural Resource Challenge to conserve park ecosystems.
- Strengthens ongoing Indian Trust reforms;
- Increases support for National Wildlife Refuges;
- Authorizes oil and gas exploration and, if discovered, development of a small portion of the Arctic National Wildlife Refuge in an environmentally responsible manner; and
- Proposes a tax credit for private, voluntary protection of land for conservation.

The Department's Major Challenges:

- Reforming Indian Trust programs; and
- Preventing deterioration of aging infrastructure on Department of the Interior lands.

Department of the Interior

Gale Norton, Secretary

www.doi.gov 202-208-7351

Number of Employees: 70,037

2003 Spending: \$10.4 billion

Major Assets: 437 million acres of stewardship lands and 700 million acres of mineral estate.

Organization: Eight bureaus—National Park Service; Bureau of Land Management; Fish and Wildlife Service; Bureau of Indian Affairs; Minerals Management Service; Office of Surface Mining; U.S. Geological Survey; and Bureau of Reclamation.

The Department of the Interior (DOI) manages 507 million acres of land (roughly one-fifth of the land area of the United States), 700 million acres of subsurface minerals, and the nation's Outer Continental Shelf. DOI protects much of the nation's natural and cultural resources, and serves as the largest supplier and manager of water in 17 western states. DOI is accountable for meeting many of the government's trust responsibilities to Indian tribes and U.S.-affiliated island communities. The agency also generates and disseminates U.S. earth science information and research findings to the public. Major responsibilities include the 387 national parks, 540 national wildlife refuges, 69 national fish hatcheries,

406 hydroelectric facilities and reservoirs, and 262 million acres of Bureau of Land Management (BLM) administered public lands.

Overview

The nation's vast resources provide the public both social and economic benefits. Careful management of our lands and water and the creatures that inhabit them requires that they be used in an environmentally responsible manner. This chapter describes DOI's major activities and explains the Department's efforts to improve its performance and management.

DOI's main activities fall within four broad categories:

- resource protection (such as habitat conservation, environmental restoration, historic preservation, and invasive species control);
- recreation (such as providing access, opportunities and facilities for hiking, hunting, bird-watching, and camping);
- resource use (such as environmentally responsible development of oil, gas, coal, and other minerals, as well as cattle grazing, timber production and water management); and
- serving communities (such as protecting lives and property, fulfilling Indian trust responsibilities and advancing knowledge through scientific leadership).

The chapter focuses on the performance of selected DOI programs. The Administration has begun reviewing programs throughout the federal government using the Program Assessment Rating Tool (PART). The PART identifies strengths and weaknesses of programs, thus helping to inform budget, management, and policy recommendations. Several of the DOI programs evaluated using the PART are discussed in this chapter. Overall, many DOI programs lack adequate performance measures or data to demonstrate they are achieving results. DOI is addressing this issue by establishing better measures for almost all its programs and beginning to collect data on these measures. For a full presentation of all DOI PART evaluations, see the *Performance and Management Assessments* volume. The final section of this chapter reviews major management issues at the Department.

Resource Protection

The President's Budget continues to focus on achieving results. For example, in 2004:

- The National Park Service (NPS) will establish 25 of 32 monitoring networks to track the "vital signs" that best indicate how a park's ecosystem is doing;
- BLM will treat 233,000 acres to prevent the spread of noxious weeds, and remediate 260 abandoned hardrock mines;
- The Fish and Wildlife Service (FWS) will help prevent four additional species from becoming listed under the Endangered Species Act; and
- The Bureau of Reclamation (BOR) will lead a multi-bureau coordinated effort to eradicate invasive species, including treatment of 22,000 acres of Tamarisk (a stream-bank dwelling tree that depletes water supplies), 25 miles of irrigation drainage infested with Giant Salvinia, and one river-mile infested with Hydrilla (both aquatic weeds).



The Fish and Wildlife Service and a private landowner restored this prairie pothole in Minnesota. The pothole provides resting, rearing, and breeding habitat for migratory birds. This collaborative effort led to the development of the Partners for Fish and Wildlife program.

DOI will link these performance measures and others to long-term resource protection goals as part of its new strategic plan to help ensure that conservation and resource management actions on DOI lands contribute to resource protection.

Partnerships are central to all of DOI's conservation efforts. The federal government needs to cooperate with states, local governments, and private parties to achieve conservation goals. The following sections describe how the Administration is emphasizing partnerships across various conservation programs.

Land and Water Conservation Fund

When the Land and Water Conservation Fund (LWCF) was established in 1965, many thought the best way to protect natural resources was for the federal government to acquire and manage lands. We now recognize more conducive approaches for improving the health of lands and watersheds. Conservation easements, for example, can protect wildlife habitat while allowing private landowners to use their lands in a sustainable manner.

For the third year in a row, the budget carries out the President's commitment to fully fund the LWCF at \$900 million through a number of different programs that promote conservation. To complement federal land acquisition, an equivalent or better outcome can often be realized by helping others safeguard natural resources on their own land. Acting as good stewards of the current land inventory also avoids forcing new responsibilities on federal agencies at a time when they are trying to better manage what they already own. The programs funded from the LWCF have various natural resource goals, and all emphasize partnerships. Through partnerships and voluntary incentives, LWCF programs focus on maintaining or restoring public lands in coordination with other landowners. Importantly, all of these programs are consistent with LWCF's intent to "conserve, develop, and utilize such resources for the benefit and enjoyment of the American people."

Cooperative Conservation Initiative

Many good ideas arise from local initiatives. The Cooperative Conservation Initiative (CCI) will tap into these ideas to foster conservation through the creativity of the American people. The CCI allocates \$113 million in matching funds for resource conservation projects. Projects will be selected on the basis of innovation, results, and the involvement of local communities. Projects could include BLM working with a neighbor to improve streambeds, or NPS and gateway communities jointly removing non-native plants from national parks. The benefits multiply both through matching funds from partners and from their investment of time and energy. The CCI does more than just provide a financial incentive for agencies and localities to share responsibility for conservation. It lays the foundation—project by project—for conservation through consultation, cooperation and communication.

Endangered Species and Wildlife

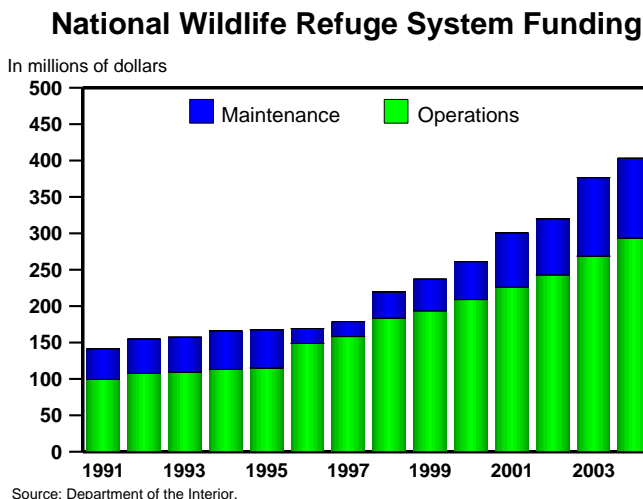
The Endangered Species Act (ESA) charges the Department with conserving threatened and endangered species and their habitat. The President's 2004 Budget provides \$129 million for the FWS endangered species program. The budget increases the ESA listing program by 35 percent to address a litigation-driven workload. The budget also provides a \$5 million increase for restoring and recovering salmon in the Columbia River Basin. The President's Budget will help prevent four additional species from becoming listed under ESA, and maintain or improve the status of roughly 320 listed species. We also believe the budget will achieve the target of recovering four species so that they may be removed from the ESA list.

In addition, the Administration is looking to protect a wide range of fish and wildlife by working with states and landowners. In 2004, an estimated \$822 million benefiting fish and wildlife will

be dispersed through various grant and payment programs, including \$50 million for the Landowner Incentive and Private stewardship programs to help private landowners protect and manage habitat, while continuing traditional land use activities. This total also includes a \$6 million increase for the North American Wetlands Conservation Fund.

National Wildlife Refuge System

In last year's budget, the President supported the National Wildlife Refuge System (NWRS) and to celebrate its 100th anniversary in 2003 requested a \$57 million increase to address the highest priority operations, maintenance, and planning needs of the NWRS. The Refuge System receives more than 39 million visitors each year. This year, the President's Budget adds yet another \$26 million on top of last year's request to continue addressing high-priority needs, including invasive species, law enforcement, and building partnerships to accomplish the NWRS mission to conserve, manage and restore fish, wildlife, plants and their habitats.



NPS Natural Resource Challenge

National parks reflect our natural, cultural and historical heritage. Yet, the National Park Service knows relatively little about how to measure the condition of its parks or monitor changes within them. The President committed to providing park managers "access to the best scientific research about the ecosystems they manage." That is the purpose of the Natural Resource Challenge.

The Challenge lays out a framework for measuring performance in preserving natural resource conditions in national parks. The NPS will collect baseline data on natural resources and then identify and monitor the "vital signs"—such as population changes in a key species—that best represent the ecosystem's overall health. With a \$9 million increase, NPS will be on track to establish, by 2004, 25 of 32 monitoring networks that include every national park with significant natural resources. This funding increase reflects good program management in completing inventories and monitoring resources, as revealed in the PART review (see the *Performance and Management Assessments* volume).

Invasive Species

Invasive species, such as the zebra mussel and Asian long-horned beetle, cause severe ecological problems and impose significant economic costs annually. To help get the most value for each dollar, the National Invasive Species Council (NISC) developed one of the first interagency examples of a performance-based budget. NISC and its co-chair agencies, the Departments of the Interior, Agriculture, and Commerce, the Environmental Protection Agency and the Army Corps of Engineers developed common goals statements, actions, and performance measures. The budget funds \$250 million for a number of high-priority actions related to prevention, control, early detection and rapid response toward invasive species. This performance-based budget represents only a portion of federal invasive species activities, and will be expanded in the 2005 Budget process.

National Fish Hatchery System

The Fisheries program is a critical partner with states, tribes and others in the effort to conserve the nation's fish and other aquatic resources which are among the richest and most diverse in the world. The National Fish Hatchery System (NFHS), comprising 69 fish hatcheries, nine fish health centers, and seven fish technology centers, is a critical component of the FWS Fisheries program.

Hatcheries Support Recovery of Species

As part of a state and federal agency partnership to recover the pallid sturgeon, the Neosho National Fish Hatchery in southwestern Missouri is raising and releasing endangered fish into the lower Missouri River pursuant to recovery objectives in its recovery plan. Once restored, the pallid sturgeon will provide an economically valuable sport fishery.

Where once the NFHS focused primarily on sport fish species, its conservation mission has expanded and now includes a more balanced approach to conserving, recovering, and managing aquatic resources and species, including restoring sustainable native fish populations and recovering threatened and endangered species. Over the past year, the Fisheries program engaged a variety of partners to help focus the federal role in conserving the nation's aquatic resources. The Administration also assessed the NFHS using the PART. Through the PART process, a draft mission statement was developed, program design flaws were identified, and key performance measures were developed. For example, one measure of success for the NFHS is the contribution hatchery fish make toward the recovery of listed species. During the PART process, a NFHS performance measure was crafted to measure the percentage of recovery plan tasks implemented. Based on NFHS's positive direction, the President's Budget includes an increase of \$5 million for operations. Another \$3 million is included to conduct condition assessments at 20 NFHS facilities (75 percent of all NFHS facilities will have condition assessments completed by the end of 2004) and to provide additional maintenance at 59 critical water management facilities to achieve performance measures.

Conservation Tax Credit

To offer cost effective, market-based approaches to conservation, the President's Budget also includes an incentive for private, voluntary land protection through a 50 percent capital gains tax exclusion. Private landowners who voluntarily sell land or water to a government agency or qualified organization for conservation purposes are eligible to keep 50 percent of the proceeds tax free. 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.

Recreation

For many, getting back to nature offers peace and seclusion, as well as an opportunity to exercise. More Americans are visiting DOI lands to hike, bike, learn about history, or just get away. To facilitate planning recreational outings, the Recreation One-Stop initiative will provide a user-friendly website (www.recreation.gov), offering a single point of access to find information, make reservations or order passes for recreational opportunities nationwide.

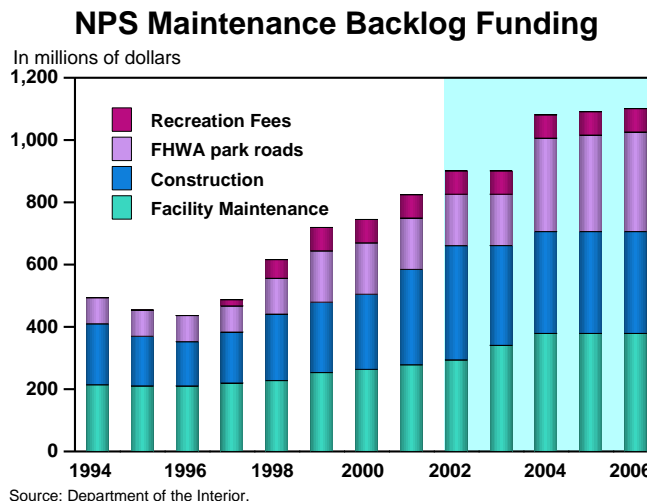
By paying recreation user fees, public land users cover some of the costs of the services they receive. Under the Recreation Fee Demonstration Authority, the Departments of Agriculture and the Interior raised close to \$200 million annually from fees. This program enjoys broad public support because all money from fees is plowed back into the lands and facilities that visitors use. The fees supplement appropriated dollars, so both users and taxpayers are helping to support stewardship. The Administration encourages the Congress to make this recreation fee authority permanent.

DOI sites are experiencing a substantial growth in visitation. Although over 90 percent of visitors rate their experience as good or very good, the increased visitation is starting to show in Interior's aging facilities. All DOI bureaus must find ways to maintain infrastructure reliably and cost-effectively.

National Park Service Maintenance Backlog

Americans invented the concept of national parks when the Congress set aside land for Yellowstone in 1872, and visitation has climbed steadily ever since. As visits grow and the number of parks increases to 387 and counting, pressure builds on park managers to maintain safe roads, good trails, and clean facilities.

When visiting Sequoia National Park in May 2001, the President remarked that "many of our parks have gone neglected" and committed to "spend \$5 billion over five years to clean up the backlog in maintenance, and make our parks more inviting and acceptable to all citizens." The accompanying chart shows how the Administration will do it. This five-year total doubles the amount in the same categories over the five years from 1994 to 1998.



Before and after road repairs at Glacier National Park in Montana. Maintenance can enhance safety and the beauty of national parks.

But it takes much more than money to eliminate the maintenance backlog—the money must be well spent. NPS needs to assess the condition of buildings and other facilities, then build a system to monitor changes, and measure performance in making repairs. This is not glamorous work. Yet, over the past two years, NPS has been developing a Facility Condition Index (a measure commonly used by private firms) to monitor facility conditions. NPS will have a service-wide baseline by the summer of 2003. Despite these good efforts, the PART review found areas where NPS management needs to improve, such as increased use of efficiency measures and capital asset plans (see the *Performance and Management Assessments* volume). NPS expects to address these areas before the next PART review and the 2005 Budget.

Americans have already made a great investment in national park roads, trails, and buildings. In 2001, for example, NPS funded and completed 200 repair and rehabilitation projects. It plans to complete over 1,100 such projects in 2002 through 2004. Park road conditions are also starting to improve for the first time since 1987.

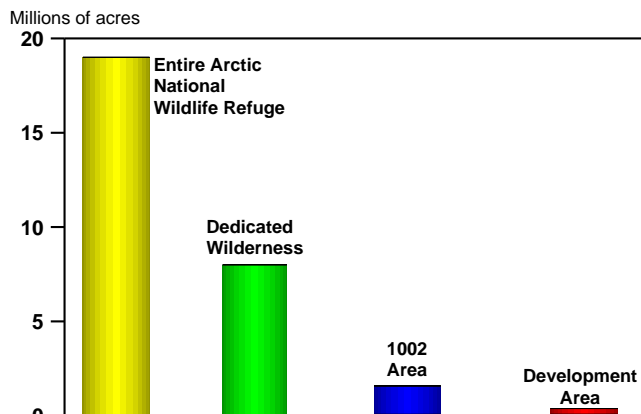
Resource Use

Public lands contain bountiful resources for the nation, such as oil, natural gas, coal, other minerals, and timber. DOI manages these natural resources, while balancing vital economic needs with the need for scenic vistas, wildlife habitat, recreation, and a healthy environment.

Oil and Natural Gas

The United States uses about 20 million barrels of oil daily and almost seven billion barrels each year, of which more than half is imported. Of the domestically produced oil and gas, 29 percent of the oil and 35 percent of the natural gas comes from federal lands and offshore areas.

Oil and Gas Development Area in ANWR



Source: Department of the Interior.

The National Energy Policy proposes to expand and diversify the country's energy supplies. Diversification is important for both energy security, and national security. DOI's Minerals Management Service (MMS) and BLM are carrying out the National Energy Policy by continuing to issue or propose leases on federal offshore (Outer Continental Shelf) and onshore tracts with known or probable petroleum deposits. Leasing is allowed only where safe and environmentally sound mineral development can occur.

DOI is also 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), sometimes referred to as the 1002 Area. DOI estimates that recoverable oil from the 1002 area is between 5.7 and 16 billion barrels of oil, and would disturb about one-tenth of one percent of the 1002 land area.

Coal

Coal is America's most abundant fuel source, and is expected to remain the dominant fuel in meeting increasing electricity demand through 2020. Recognizing this trend, the National Energy Policy calls for ramping up domestic coal production. New clean coal technologies show that air pollution can be and has been reduced, and energy efficiency increased. DOI plays a key role in domestic coal production. In 2002, coal mined on lands controlled by BLM accounted for about 35 percent of domestic coal production. BLM's lease application processing time currently averages 18 months. One of BLM's objectives in the coming year is to continue to improve its lease application review process.

Renewable Resources

The BLM also administers over 18,500 grazing allotments, producing 13 million animal unit months of grazing, and manages over 49 million acres of forested land for multiple uses, including supply of timber and other forest products. For several years though, BLM has struggled with a grazing permit backlog resulting from insufficient planning and a spike in the number of expiring permits. In 2004, BLM will process approximately 1,450 expiring grazing permits and largely eliminate its grazing permit backlog.

BOR operates 58 hydroelectric plants that produce over 10 percent (or 42 billion kWh) of the electricity in 17 western states, delivers water to one out of every five western farmers for about 10

million acres of irrigated land producing 60 percent of the nation's vegetables and 25 percent of its fruits and nuts; and delivers 10 trillion gallons of municipal, residential and industrial water to over 31 million people in the west.

Common Measures: Rural Water

The Administration developed common measures to compare the rural water activities of four federal agencies – the BOR's rural water projects, the Indian Health Service's (IHS) Sanitation Facilities Construction program, the Rural Utilities Service's (RUS) Water and Waste Disposal program, and the Environmental Protection Agency's (EPA) Drinking Water State Revolving Fund. All four agencies develop water infrastructure but their means of service delivery differ: BOR and IHS focus on construction while RUS and EPA focus on financing.

The wide variation in data reported for the two measures (water connections per million dollars invested and population served per million dollars invested) reflects many differences in the programs. These measures are imperfect, but do allow a broad assessment of program efficiency. BOR and IHS work primarily in western states with low population densities and large service areas, and are involved in large-scale infrastructure development, which contributes to their relatively lower efficiency. In contrast, the higher efficiencies for EPA and RUS reflect the focus of their resources in serving socio-economically and geographically more diverse populations. This exercise shows that while each program may serve a unique population, there is general overlap in program mission: all focus on providing a safe, reliable source of drinking water to rural communities. The Administration will further analyze these programs in the coming year to improve and streamline federal assistance for drinking water in rural areas.

Rural Water Programs	2001 Funding (in millions of dollars) ¹	Water Connections per Million Dollars		Population Served per Million Dollars	
		East	West	East	West
Construction Agencies:					
Bureau of Reclamation	59	none	21	none	363
Indian Health Service	76	174	212	766	933
Financing Agencies:					
Rural Utilities Service	493	841	649	1,989	1,779
Environmental Protection Agency	823	831	764	1,913	1,655

¹ Funding level shown does not reflect cost shares and contributions from program partners.

Serving Communities

DOI provides scientific knowledge, information and tools to inform decision making and community-based programs. DOI is also responsible for fulfilling the federal government's trust responsibilities to American Indians and promoting self-determination on behalf of tribal governments and Alaska Natives.

Scientific Information and Knowledge to Inform Decision Making

Scientific information is the cornerstone for the Department's natural resource and land management responsibilities, providing a sound basis for resource protection and use as well as recreation. The USGS will enhance the geospatial data available through the National Biological Information Infrastructure (NBII), by creating two new nodes and enhancing two existing nodes. NBII nodes are cooperative efforts to develop technologies, tools, and standards needed to make biological data and information more accessible. USGS will continue to expand the amount of data available on the National Water Information System Website (*NWISWeb*), a frequent destination for resource managers, emergency managers and outdoor lovers. This USGS website provides a one-stop shop for 100 years of data on stream flow, water availability and water quality presented with user

friendly charts and maps. NWISweb (<http://waterdata.usgs.gov/nwis/>) recently won an award from *Government Executive* magazine for providing citizens with useful access to government information.

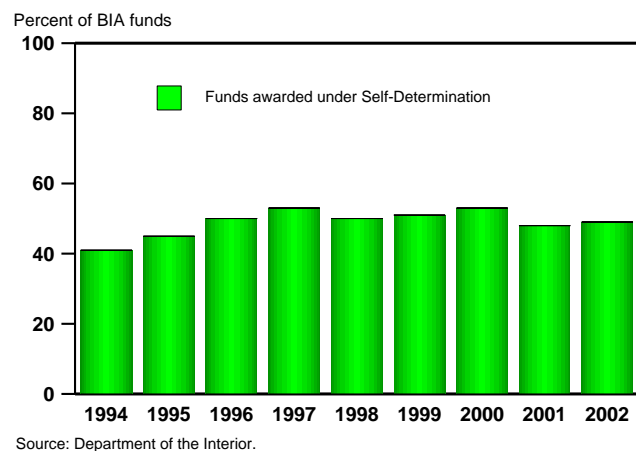
Enhancing Educational Opportunities for American Indian Children

The Bureau of Indian Affairs (BIA) operates, either directly or through tribal grants and contracts, 185 schools serving approximately 48,000 students in 23 states, or about nine percent of all Indian students across the country. The President's November 2002 National American Indian Heritage Month Proclamation reaffirms his commitment to the education of American Indian children as "essential to the future success of tribal communities." Yet a PART review of BIA school operations found that students continue to lag behind in reaching academic performance goals. In 2002, BIA kicked off a pilot program, focused on five schools in greatest need of improvement, and aimed at helping the faculty increase student academic achievement. This effort will continue and expand in 2003 and 2004. The budget also makes available a third installment (\$148 million) for eliminating the school maintenance and repair backlog. Another \$141 million has been put forward to build replacement schools for the remaining schools on the current BIA priority list, as well as additional schools placed on a new priority list.

As the 30th anniversary of the Indian Self-Determination Act approaches, the Administration will encourage more tribes to exercise their authority as sovereign nations by contracting services currently operated by BIA. The accompanying chart shows that the funding for self-determination and self-governance agreements has grown from 41 percent in 1994 to 49 percent in 2002.

Eliminating obstacles to tribal operation of BIA schools encourages Indian self-determination. In school year 2002–2003, 121 of the 185 BIA schools are tribally run. One issue that has discouraged tribes from contracting for school operations has been the need to fund administrative overhead costs, especially in the first year. The budget proposes a separate fund providing all first-year indirect and one-time start-up costs for tribes willing to contract for a BIA-operated school.

BIA Funding for Self Determination



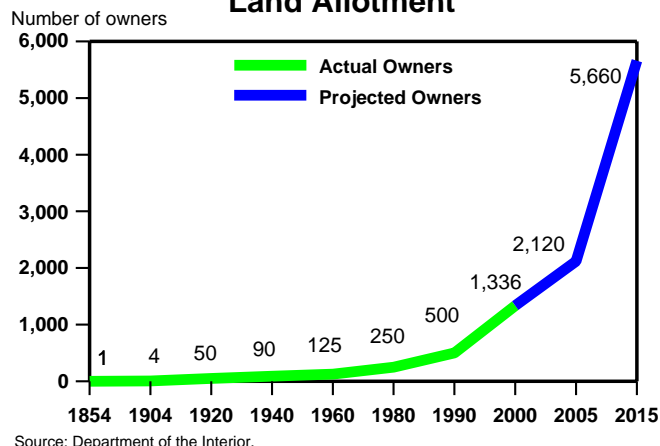
Indian Trust Management

The President's Budget provides \$481 million, a \$168 million increase, to correct deficiencies in trust programs and meet the mandates of a U.S. District Court in the *Cobell v. Norton* case. For decades, Indian trust funds have lacked modern and effective accounting, management, and financial control systems. The Secretary of the Interior will continue to undertake actions to strengthen DOI's trust reform strategy and customer services, including the establishment of regional trust offices and local trust officers to improve oversight and accountability.

DOI manages approximately 56 million acres of Indian trust lands owned by tribes and their members. Oil, gas, timber, and other leases generate about \$1.1 billion in annual income for the Indian landowners. The Office of the Special Trustee for American Indians (OST) is responsible for distributing about \$800 million each year among 1,400 tribal trust accounts and about \$300 million annually to 275,000 individual trust accounts. The OST budget includes \$275 million, a \$123 million increase, to implement modern land ownership and leasing systems; audit historical transactions in tribal and

individual trust accounts; improve trust records management; and strengthen oversight of trust operations at regional and local levels. The BIA budget includes \$206 million, a \$45 million increase, to further modernize trust information systems, improve trust land and resources management, and consolidate fractionated ownership of trust lands.

Increasing Fractionation of an 80 Acre Land Allotment



The 2004 Budget includes \$21 million for expanding the pilot program for purchasing small ownership interests to reduce federal trust management expenses in the future. Indian land consolidation also enhances tribal opportunities for economic and social development on reservations. Over 10 million acres of Indian trust lands are owned by individuals, with about four million ownership interests distributed among 400,000 individuals. About 1.5 million ownership interests are two percent or less. With each generation the ownership interests are split between heirs and get smaller. The federal government must manage accounts for each of these increasingly











small or “fractionated” interests which drive up costs.

Performance Evaluation of Select Programs

Program	Rating	Explanation	Recommendation
National Park Service Facility Management	Results Not Demonstrated	Needs a better way to measure its performance in maintaining park facilities. Facility Condition Index (FCI) in place by 2003.	Establish FCI baseline and targets by June 2003. Speed up condition assessments and use of facility maintenance management systems.
DOI Wildland Fire Management	Results Not Demonstrated	Program is in transition. No data is currently available for new performance measures. Significant questions remain about the cost effectiveness of fire suppression.	Increase accountability for firefighting costs; improve the process for allocating fire preparedness resources; and ensure a proper balance between the federal government and states in sharing suppression costs.
National Fish Hatchery System	Results Not Demonstrated	Program is in transition. Mission and design issues need to be addressed. No data are currently available for new performance measures.	Adopt mission statement and develop evaluation schedule. Fund new performance measures related to recovery and fisheries management plan objectives.

Program	Rating	Explanation	Recommendation
National Park Service Natural Resource Challenge	Moderately Effective	Program will determine and monitor the "vital signs" that best indicate how a park ecosystem is doing.	By 2004, start up 25 of 32 monitoring networks that include every national park with significant natural resources.
Indian School Construction	Results Not Demonstrated	Limited flexibility to adjust funding levels for delays or changes in design. No construction cost comparison between BIA schools and state schools.	Complete an independent study of costs and size of replacement schools. Ensure Presidential commitment to eliminate 2001 school maintenance backlog is met.
Rural Water Supply Projects	Results Not Demonstrated	Lacks oversight in project development phase, inadequate local cost-share, and has significant mission overlap with other rural water programs.	Develop and submit legislation to establish program guidelines for project development and local cost-share. Devise performance measures.
Tribal Land Consolidation	Moderately Effective	Pilot program has reduced rate of growth of ownership shares on five Midwest reservations	Strategic plan needed for targeting federal acquisitions to reduce trust management costs and to enhance tribal economic development.

Update on the President's Management Agenda

	Human Capital	Competitive Sourcing	Financial Performance	E-Government	Budget and Performance Integration
Status					
Progress					
<p>The Department faces multiple challenges in managing a number of semi-autonomous bureaus, but has shown signs of progress over the last two quarters. It has both a Human Capital strategic plan and implementation plan linked to DOI's mission and strategic goals. In E-Government, DOI drafted an initial Enterprise Architecture. To integrate budget and performance, Interior will soon release for public comment a new, department-wide strategic plan, which will replace multiple bureau-level plans. Competitive sourcing remains a challenge for an organization that has many locations with few employees. DOI is taking the initiative to find more efficient ways to review activities performed by small groups of employees. Indian Trust Fund reform remains the greatest financial management challenge. DOI has corrected eight material weaknesses this year but has several weaknesses remaining. To improve its status ratings, the Department will need to provide more evidence that its efforts are starting to show results.</p>					

Department of the Interior
(In millions of dollars)

	2002 Actual	Estimate	
		2003	2004
Spending			
Discretionary Budget Authority:			
National Park Service ¹	2,379	2,354	2,362
Bureau of Indian Affairs.....	2,233	2,251	2,314
Bureau of Land Management.....	1,661	1,638	1,678
Fish and Wildlife Service	1,259	1,281	1,285
U.S. Geological Survey	914	867	896
Bureau of Reclamation/Central Utah Project ²	909	851	885
Office of Surface Mining	306	279	281
Minerals Management Service.....	157	170	171
Office of Special Trustee for American Indians	99	151	275
All other programs	422	391	440
Total, Discretionary budget authority	10,339	10,233	10,587
Mandatory Outlays:			
Oil and Gas Receipts from Outer Continental Shelf lands	-5,024	-4,300	-3,989
All other programs	-210	-49	50
Legislative Proposal (Insular Affairs, Compacts of Free Association)	—	—	19
Total, Mandatory outlays	-5,234	-4,349	-3,920
Credit activity:			
Direct Loan Disbursements:			
American Samoa direct loan	3	1	1
Bureau of Reclamation direct loans	24	25	—
Total, Direct loan disbursements	27	26	1
Guaranteed loans:			
Indian guaranteed loan program	65	65	66
Total, Guaranteed loans	65	65	66

¹ The National Park Service total does not include \$2.5 million for Fort Baker redevelopment pursuant to P.L. 107-248.

² The Bureau of Reclamation total for 2002 does not include \$200 million for the Desert Terminal Lake transfer.

DEPARTMENT OF JUSTICE

The President's Proposal:

- Makes fighting terrorism and protecting homeland security the Department's top priority;
- Holds accountable those in corporate America who violate their positions of trust; and
- Protects our children from predators.

The Department's Major Challenge:

- Achieving a smooth transfer of the Immigration and Naturalization Service and the Office for Domestic Preparedness to the new Department of Homeland Security.

Department of Justice

John Ashcroft, Attorney General

www.usdoj.gov 202-514-2000

Number of Employees: 105,953

2003 Spending: \$22.2 billion

Major Assets: The Department is comprised of 39 separate organizations and is headquartered in Washington, D.C., although it conducts much of its work in offices located throughout the country and overseas. The Department owns 31,920 vehicles, 2,953 buildings, and 36,079 acres of land.

The Department of Justice (DOJ) is headed by the Attorney General, and comprises 39 separate organizations. Major bureaus include the U.S. Attorneys who prosecute offenders and represent the U. S. government in court; the major investigative agencies—the Federal Bureau of Investigation (FBI) and the Drug Enforcement Administration (DEA)—which prevent and deter crimes and arrest criminal suspects; the U.S. Marshals Service, which protects the federal judiciary, apprehends fugitives, and places people in federal custody; and the Bureau of Prisons (BOP), which confines federal offenders

and prepares them for reentry into society. Litigating divisions enforce federal criminal and civil laws, including civil rights, tax, antitrust, environmental, and civil justice statutes. State and local assistance programs are administered by the Office of Justice Programs (OJP) and the Office of Community Oriented Policing Services (COPS). Numerous other offices help the Department fulfill its mission. Although headquartered in Washington, D.C., the Department conducts much of its work in offices located throughout the country and overseas. The Immigration and Naturalization Service (INS) and the Office for Domestic Preparedness are now located within the newly created Department of Homeland Security, but cooperation between agencies continues to be strengthened.

Safeguarding the Nation from Terror

Since the horrific attacks of September 11th, DOJ has marshaled its full power and expertise to assist in the recovery and defend our homeland, while safeguarding liberty and freedom. The Department has helped secure the nation's borders from further attack, identified and located suspected terrorists around the world, and has begun to prosecute those who gave aid and support to the enemy. The Department is renewing its commitment to the American people that it will:

- eliminate terrorist networks wherever they exist;
- prevent terrorist attacks before they occur; and
- bring to justice those who would perpetrate terrorist acts against Americans.

Justice will have a new partner in its counterterrorism efforts: the Department of Homeland Security (DHS). In particular, Justice and DHS will collaborate in preventing terrorist attacks, just as Justice now works closely with the Department of Defense and U.S. intelligence agencies. However, the creation of DHS will bring changes and challenges to Justice's counterterrorism organization and programs.

Under legislation signed by the President, INS Enforcement is being transferred from Justice to DHS to become part of the latter's Border and Transportation Security Directorate. INS Services also goes to DHS and will become the new Bureau of Citizenship and Immigration Services. Other DOJ components are also being transferred to DHS. These components' functions previously accounted for almost 19 percent of the Department's budgetary resources. The impact of these transfers is expected to affect virtually all of the Presidential management initiatives.

At the same time, the legislation transferred the Bureau of Alcohol, Tobacco, and Firearms (ATF) from the Department of the Treasury to Justice. This transfer will give Justice additional expertise and personnel to investigate incidents involving explosives and firearms. Together, these changes will provide Justice and the federal government with a stronger response to terrorist threats.

The President's 2004 Budget builds upon existing proposals and further strengthens counterterrorism and counterintelligence efforts; it supports funding increases of \$669 million and 2,170 positions for DOJ, as shown in the accompanying table.

2004 Counterterrorism/Counterintelligence Enhancements

DOJ Component	Budget Authority (in millions of dollars)	Positions
Federal Bureau of Investigation	383	1,911
Office of Justice Programs	215	—
Bureau of Prisons	23	2
U.S. Marshals	18	222
U.S. Attorneys	2	21
Other	28	14
Total	669	2,170

Justice has revised its strategic plan and taken other actions to reinforce its counterterrorism priority. The FBI, in particular, has reorganized to focus more attention on prevention efforts, and has shifted resources from other activities to terrorism prevention.

Disrupting and dismantling terrorist networks and preventing terrorist attacks depend on timely and accurate intelligence. The budget supports a number of improvements to intelligence capabilities, including:

- \$63 million for the FBI to hire 811 more analysts and surveillance personnel to increase its ability to gather, interpret, and disseminate intelligence information more quickly and accurately.
- \$89 million to support FBI-led interagency task forces designed to identify and locate terrorists and their supporters. Funding includes \$61 million for the Foreign Terrorist Tracking Task Force (FTTTF), which collects and analyzes information to track and detect foreign terrorists and their supporters; \$12 million to expand Joint Terrorism Task Forces, which are coordinated efforts between FBI field offices and their counterparts in federal, state, and local law enforcement agencies; and \$4 million for analyses and investigation of terrorist financing.
- \$12 million to link information from federal, state, and local law enforcement to outstanding terrorism threats and investigations. This effort will leverage the Regional Information Sharing System's integrated network of regional law enforcement intelligence centers and will give law enforcement agencies better access to data mining and data integration technology.

Responding to Unconventional Threats

The terrorists behind the horrific events of September 11th used commercial aircraft in an unconventional manner, aided by flight training that was easily obtained in the United States. Intelligence gathered since then indicates that other missions involving aircraft—such as the use of crop dusters to spread toxic materials—may have been under consideration by terrorists. As of the end of 2002, the new FTTTF has processed—on an expedited basis—over 27,000 background checks of pilots. The FTTTF identified 194 individuals who were possible absconders (or aliens who have received and ignored final orders of deportation), traveling on stolen passports, or visa violators, for further investigation. Increased scrutiny is already being given to flight school students, and will be critical to preventing future terrorist acts from the illicit use of private aviation.



Crop dusters spraying forest land.

In addition to protecting the nation by preventing terrorist attacks, the Administration is committed to mounting a quick response to any potential terrorist activity. Among the new initiatives are:

- \$28 million for new agents and other staff to enhance the FBI's capacity to investigate and respond to terrorist acts;
- \$60 million to investigate and respond to cybercrime, including attacks against the nation's critical infrastructure, such as transportation systems, financial services, and power supplies;
- \$24 million for FBI response units, such as aviation support, crisis response, and hostage rescue/SWAT teams;
- \$37 million to support improved personnel, facility, and information security in the FBI;
- \$23 million for additional maximum security prison space to house terrorist inmates;
- \$2 million is requested to assist the United States Attorneys in counterterrorism prosecutions; and

- \$2.5 million to increase training for state and local enforcement on the investigation and prosecution of terrorist incidents. DHS will support law enforcement training on incident management and response.

Fighting Corporate Fraud



A corporate executive is led away after pleading guilty to charges related to accounting fraud. In 2002, the rate of corporate criminal probes has gone up, and a record 598 civil enforcement actions were brought against individuals and companies accused of breaking securities laws.

Catching Corporate Crooks

I say as plainly as I can to CEOs: if you break the law, we will hunt you down, we will arrest you, and we'll prosecute you.

President George W. Bush

August 13, 2002

The Administration will aggressively pursue, investigate, and prosecute those in corporate America who violate their positions of trust, whether they are corporate officers, directors, accounting firms, or other advisers, or lending institutions. A multi-agency Corporate Fraud Task Force has been established to lead these investigations—and to prosecute individuals when appropriate. The task force is focusing its efforts on “real-time enforcement” to bring cases to court in a matter of months rather than years. The task force has already used real time enforcement to bring indictments and obtain guilty pleas.

Recently, several large corporations have failed or suffered significant economic losses caused by accounting fraud and other misconduct. Such losses resulted in the pensions and jobs of lifelong employees being wiped out. Stockholders and other investors also have suffered significant losses, as has the general economy. The President’s Budget includes an additional \$25 million for DOJ to expand investigative and prosecutorial capacity to address this crisis of confidence. The FBI will receive \$16 million of this amount to hire additional agents to investigate corporate fraud; the balance will go to the U.S. Attorneys and Legal Divisions to prosecute aggressively those involved in criminal acts of corporate fraud. Complementing the Justice efforts will be those of the Securities and Exchange Commission, whose budget will nearly double over the 2002 level to enhance its role in fighting corporate fraud.

Combating Crime

As DOJ reprioritizes to focus on counterterrorism, state and local law enforcement agencies will bear a larger responsibility in the fight against crime. While the budget reduces overall grant funding, the Department will maintain or expand funding for select high-impact initiatives that can bring closure to unsolved crimes, break the cycle of offenders’ drug abuse, and reduce gun-related violence in our communities.

- The Administration will seek \$190 million to help clear the backlog of unanalyzed DNA samples, invest in the latest crime lab technology, train criminal justice professionals to make better use of DNA evidence, and promote other uses of forensic DNA to prosecute offenders and exonerate the innocent.
- Given the well-established link between drug abuse and crime, the Administration proposes an additional \$16 million to enhance the capacity and effectiveness of the Drug Courts program, which supports state and local court-supervised treatment and testing of low-level, non-violent drug offenders.
- The budget also increases funding for the Youth Gun Crime Interdiction initiative of Project Safe Neighborhoods, a national network of law enforcement and community initiatives set up to enforce existing gun laws and deter gun crime. As a result of the ATF transfer, the entire \$328 million Project Safe Neighborhoods initiative now falls within DOJ.

Protecting Our Children. The President's Budget proposes additional support for programs that have proved effective in safeguarding children.

Computer telecommunications have become one of the most prevalent techniques used by pedophiles and other sexual predators to transmit illegal photographic images of minors and to lure children into illicit sexual relationships. The FBI's Innocent Images initiative identifies and investigates sexual predators who use the Internet to sexually exploit children. Funding has been increased by over 31 percent to add more FBI agents to aid in the fight against these predators.



**Do You Know Where Your Children Are?
They're on the Internet.**

The Internet brings the world faster communication, entertainment, information, and many other benefits. It also can bring risk, particularly to the young who are not able to recognize and avoid potential dangers. The temptation of Internet chat rooms can lead children astray when those at the other end of an electronic connection are not who or what they claim. The FBI's Innocent Images program focuses on identifying and arresting Internet predators trying to lure minors into illegal acts. The FBI reported 646 convictions in 2002 for crimes against children via computer.

The request for the Missing and Exploited Children Program maintains the same strong commitment to the Internet Crimes Against Children Task Forces, which links federal, state and local law enforcement efforts to prevent and prosecute online child predators. For 2004, the budget also proposes a \$2.5 million increase for the AMBER Alert initiative, which alerts the public about child abductions in their area. The AMBER Alert program has already led to the recovery of 41 abducted children.

To help prevent the avoidable deaths and injuries that result when children gain unsupervised access to family firearms, the Administration will continue the Project ChildSafe initiative, which aims to make gun locks available for every gun owner in America. Due to DOJ's ability to obtain cost-effective locks in bulk, the goal can be achieved ahead of schedule and under budget with \$26 million in 2004.

Drug Enforcement. The Department's drug enforcement strategy is aimed at reducing the supply of illegal drugs in the United States. The centerpiece of the strategy calls for strengthening the Organized Crime and Drug Enforcement Task Force (OCDETF) program and restoring its original purpose of targeting the most significant domestic and international drug traffickers. The OCDETF program is charged with leading the Department's effort, in consultation with the DEA and the Office of National Drug Control Policy, to develop the first-ever national list of targeted drug trafficking organizations. This new centralized and coordinated approach is expected to result in a five-percent reduction in 2004 in the availability of drugs on the street and a more efficient and effective use of federal resources.

Breaking the Chain of Drugs and Terror

The OCDETF investigation Operation Mountain Express III resulted in the dismantlement of a massive international trafficking ring involved in the smuggling of pseudoephedrine in tractor trailer loads from Canada via Detroit and Chicago to California, where the drug was used by organizations run from Mexico to produce large quantities of methamphetamine in clandestine laboratories. OCDETF investigators from DEA, Customs, the IRS, and the Royal Canadian Mounted Police uncovered a link between these Canadian and U.S.-based pseudoephedrine traffickers and Middle East terrorist groups. These traffickers were funneling their profits to organizations in the Middle East with connections to known terrorist organizations, including Hezbollah. This OCDETF investigation resulted in the arrests of defendants in 12 cities across the United States and Canada and the seizure of over 35 tons of pseudoephedrine (with a potential production capability of 30,000 pounds of methamphetamine), 179 pounds of finished methamphetamine, six clandestine laboratories, and \$4.5 million in U.S. currency.

In support of this strategy, the budget combines the Treasury, Transportation and Justice OCDETF programs within DOJ and increases the combined funding level by 15 percent over the combined funding level in 2003. Significant increases include:

- \$22 million to expand the FTTTF to include drug investigative information from OCDETF agencies;
- \$26 million to expand drug investigations linked to the Attorney General's Consolidated Priority Organization Target list; and
- \$10 million to expand drug-related financial and money laundering investigations.

Performance Evaluation of Select Programs

Program Assessment Rating Tool (PART) analyses were completed for 10 DOJ programs, including the DEA, BOP, FBI, and various OJP activities. There is wide variance in the effectiveness ratings among the DOJ programs subjected to the PART assessment. A consistent theme throughout the PART analyses, however, is the lack of long-term, outcome-oriented goals. DOJ intends to develop goals that align with its strategic objectives. For further details, see the DOJ chapter in the *Performance and Management Assessments* volume.

Program	Rating	Explanation	Recommendation
Bureau of Prisons (BOP)	Moderately Effective	BOP was established seven decades ago and represents over 15 percent of DOJ's total budget authority. BOP has seen a dramatic increase in funding and inmate population over the past decade. While rated moderately effective, BOP lacks long term, measurable goals with associated targets and timeframes.	The budget requests the activation of newly constructed prison facilities and increased reliance on contract bedspace for low/minimum/special category inmates.
Drug Courts	Results Not Demonstrated	The program has been instrumental to the creation of hundreds of drug courts throughout the country. Independent studies indicate these courts can provide an effective intervention to substance abusers who might not otherwise receive treatment, and generally result in lower re-arrest rates. There is room for improvement in clarifying this program's long-term scope and goals, and in collecting grantee data.	The budget proposes a \$16 million increase, which will support the creation of additional courts, as well as initiatives to lower the program's drop-out rate and improve long-term effectiveness.
Community Oriented Policing Services (COPS)	Results Not Demonstrated	COPS surpassed its original goal of funding 100,000 police officers. Through 2002, almost 117,000 officers have been funded. Yet fewer than 90,000 COPS-funded officers are actually "on the street," and their impact on crime is unclear.	The budget requests no funding for the hiring program, but continues other community policing programs and provides that officer hiring is a permissible use of Justice Assistance Grant funds.
Juvenile Accountability Block Grants	Ineffective	The program lacks clear objectives, performance goals, or measurable results. Application criteria are minimal. Grants can be used for 16 different activities and there is no consistent definition of "accountability." As a result, it is not currently possible to link funding to performance.	The budget requests no funding for this program in 2004.

Program	Rating	Explanation	Recommendation
Drug Enforcement Administration (DEA)	Results Not Demonstrated	<p>Program is unable to demonstrate progress in reducing the availability of illegal drugs in the United States. Strategic goals and objectives lack specificity in targets and time frames.</p> <p>Annual performance measures need further refinement to establish links to an impact on drug availability, baseline data, and ambitious targets.</p> <p>Program managers are not held accountable for achieving results.</p>	<p>DEA will collect appropriate performance information to determine what effect its efforts have on the drug problem. In addition, DEA will: 1) revise its strategic plan to include specific, ambitious goals with clear time-frames, and continue to develop and refine existing performance measures; 2) continue development of more specific measures that could assist in resource allocations, priority shifts, or other management actions; 3) hold managers accountable for performance by identifying specific performance goals and schedules, and implementing periodic reviews to assess results; and 4) contract for a comprehensive, independent evaluation of its program performance.</p>

DOJ has the mission of helping state and local law enforcement win the war on terror and fight crime, while at the same time ensuring that federal dollars are used effectively. Of particular concern are the billions of dollars in state and local law enforcement grants that have been awarded through programs that lack verifiable performance goals or measures, such as the State Criminal Alien Assistance Program, Byrne formula grants, Local Law Enforcement Block Grants, Juvenile Accountability Block Grants, and COPS hiring grants. Some of these programs were eliminated in the 2003 Budget, and others have been assessed using the new PART.

For example, in rating the Juvenile Accountability Block Grant Program (JABG) ineffective, the PART analysis found that it had no long-term objectives or annual performance goals. Funding criteria are minimal, there are competing definitions of “accountability,” and there is no clear standard of performance through which the Department can hold grantees accountable. As these flaws appear inherent to JABG’s structure, the budget does not fund this program. The PART found similar, though less severe, problems with other grant programs’ performance goals and measures. The Administration will continue to use Government Performance and Results Act, the PART analysis, and other evaluations to develop better outcome measures for these programs, and to determine what works and what does not.

COPS—Mission Complete

Through the end of 2002, the COPS program had awarded grants to hire or redeploy 117,000 police officers, over 16 percent more than the original goal of funding 100,000 by the end of 2000. However, despite the expenditure of \$7 billion for such hiring grants since 1994, the program's impact on crime is inconclusive, and grantees cannot account for almost 18,000 of the positions funded through 2000. Given this track record, and the new focus on law enforcement initiatives to prevent and respond to future terrorist attacks, no funding is requested for COPS hiring grants.



The COPS program's impact on crime has been inconclusive.

Shortening the Timeline for Prisons

In 2004, an additional \$252 million is requested to activate seven new prisons: four medium- and three high-level facilities. The prisons are located in various regions and will help maintain system-wide capacity and occupancy at reasonable levels. Funding for opening the new prisons is made available, in part, by using previously appropriated planning and construction resources that are not needed at this time.

Funding for BOP has doubled in the past decade and now accounts for over 28 percent of the Department's total budget. These increases are due exclusively to providing new prison bedspace to keep pace with the rapidly growing number of federal inmates. In the past, BOP received funding for new projects in a piecemeal fashion. First, there was a site selection phase; then an architectural and design phase; then a construction phase; and finally, an activation phase. Further slowing the process, BOP would have to enter into "hard sell" negotiations with potential prison-host communities. Lengthy lead times were required to convince community and business leaders, civic groups, and local and national political representatives to accept having a federal prison facility in their backyard. This prolonged approach to prison construction took years to complete.

Under improved practices currently in use, BOP enters into a two-step process: 1) site/selection/environmental review; and 2) design/build contracts. By using this method, BOP is able to reduce significantly the time it takes to construct and activate prisons. The design/build concept has already been successfully demonstrated at several new BOP prison complexes, saving BOP time and construction dollars. For example, BOP's Petersburg, Virginia medium-security and the Coleman, Florida high-security prisons were completed in just 25 months. This streamlined process also allows the Department to consider alternatives to traditional prison construction projects, including purchasing private facilities and increasing the use of contract facilities to meet future prison bedspace needs. BOP has already acquired a former monastery, an Olympic village, and a community college to help meet its prison bedspace needs. Community resistance to prison facilities is now rare. Local communities nationwide now compete for federal prison projects.

Private Prisons—No Vacancy











Today, 16 percent of federal inmates are housed in non-BOP prisons, approximately 13,000 are in privately managed prisons, and another 13,000 are in state and local correctional facilities. Just 1.5 percent of federal inmates were housed in non-BOP facilities 20 years ago.

Some years ago, BOP committed to contracting out bedspace for certain low/minimum-security inmates. Currently, BOP has contracted bedspace for its criminal alien and juvenile inmate populations—as these groups fall outside the normal classification of federal inmates. This year, BOP also developed a separate classification for female inmates. Female offenders are mostly non-violent and generally do not require the same degree of security as male offenders. Therefore, contracting out for this population is appropriate and can save millions in construction dollars and reduce female inmate crowding, currently estimated at 60 percent above the number of inmates that facilities were built to house. Funding requested in the President's 2003 Budget for construction of a secure female facility to be activated in 2005 is being proposed for rescission, so that funding to contract out for new female inmate bedspace is being requested in 2004.

All for One and One for All

For 2004, law enforcement asset forfeiture fund responsibility is proposed for transfer from the Department of the Treasury to DOJ. Seized assets consist mainly of real property, cash, vehicles, jewelry, and commercial businesses. These assets are forfeited by convicted criminals and then sold with the proceeds deposited into the asset forfeiture fund. A single government-wide asset forfeiture fund, which is crucial to information and resource sharing among federal, state, and local governments, will end the confusion and complexity that arises among various law enforcement agencies in compensating informants, sharing forfeited proceeds, and reporting requirements.

Update on the President's Management Agenda

	Human Capital	Competitive Sourcing	Financial Performance	E-Government	Budget and Performance Integration
Status					
Progress					
DOJ is reducing or eliminating lower priority programs, curtailing inflationary increases, and redirecting personnel and resources to those programs and initiatives that are critical to the fight against terrorism and ensuring our nation's homeland is secure. Justice's 2004 budget is presented in a new format which allows the identification of programs which are performing and those that are not. In short, if programs are not meeting their goals, are duplicative or are underperforming, they will be reduced, terminated, or redirected. Overall, Justice has made good progress in the implementation of the President's Management Agenda initiatives, but remains a long way from reaching the goals.					

Department of Justice
(In millions of dollars)

	2002 Actual	Estimate	
		2003	2004
Spending			
Discretionary Budget Authority:			
Federal Bureau of Investigation.....	4,294	4,241	4,640
Drug Enforcement Administration	1,499	1,546	1,559
Bureau of Alcohol, Tobacco, Firearms, and Explosives	781	802	852
Federal Prison System	4,617	4,480	4,492
U.S. Marshals Service	670	706	721
U.S. Attorneys	1,405	1,506	1,557
Organized Crime and Drug Enforcement Task Forces.....	338	362	542
State and Local Assistance	4,344	2,668	2,282
All other programs	1,729	1,998	2,133
Subtotal, gross discretionary budget authority.....	19,677	18,309	18,778
Less Crime Victims Fund delay ¹	—	—	–1,081
Total, net discretionary budget authority ²	19,677	18,309	17,697
Mandatory Outlays:			
September 11 th Victims Compensation	20	2,740	2,361
Asset Forfeiture Fund			
Existing law	419	467	471
Legislative proposal	—	—	221
All other programs	1,069	955	1,632
Total, Mandatory outlays	1,508	4,162	4,685

¹ Savings from the Crime Victims Fund were \$1,033 million in 2002 and \$1,261 million in 2003.

² Includes \$1.1 billion in 2002 supplemental funding.

DEPARTMENT OF LABOR

The President's Proposal:

- Strengthens and protects America's 21st Century workforce by:
 - reforming employment and job training programs;
 - involving employers more in identifying the training and skills needed in the workforce;
 - helping unemployed workers find jobs with flexible Re-employment Accounts; and
 - evaluating all employment and training programs with common measures;
- Reforms the Unemployment Insurance system to increase state control, improve customer service, and reduce employers' federal payroll taxes; and
- Reinforces critical worker protections, including retirement security and health and safety.

The Department's Major Challenges:

- Making job training and employment programs more efficient and results-oriented;
- Eliminating erroneous payments in the Unemployment Insurance program, which could annually save states hundreds of millions of dollars; and
- Improving the inefficient, labor-intensive foreign labor certification program.

Department of Labor

Elaine L. Chao, Secretary

www.dol.gov 1-866-4-USA-DOL

Number of Employees: 17,274

2003 Spending: \$70.7 billion

Major Assets: 4,034 vehicles and 12 buildings containing 489,000 square feet.

The Department of Labor (DOL) promotes workers' safety and health; safeguards workers' wages, rights, benefits, and equal employment opportunities; administers employment and training grant and benefit programs; finances and oversees the states' unemployment insurance systems; and protects union members' rights under the law.

Pursuing Change, Protecting Workers

The President proposes ambitious reforms to make job training and benefit programs work better for their customers, while fortifying critical programs that protect workers' wages, benefits, and well-being in the workplace.

Performance-Based Reform of Federal Job Training and Employment Programs

In 2003, the Administration launched a multi-year review of federal job training and employment programs. In 2004, the Administration will use the opportunity presented by the reauthorization of the Workforce Investment Act (WIA) to make significant improvements in these programs. Many of these proposed reforms are designed to correct program weaknesses identified through the new Program Assessment Rating Tool (PART), described later in the chapter. For example, the PART identified significant overlap in job training programs, contributing to a patchwork of financial and program management structures at the state and local levels, inefficient administrative arrangements, and problems in tracking expenditures. The PART also indicated that WIA does not allow the Secretary to redirect unspent funds to states that have exhausted their available resources but face continuing needs.

The Administration's reforms will attack these problems by eliminating duplication through program consolidation; strengthening resource allocation; improving accountability; enhancing the role of employers in the national workforce system; and increasing state flexibility.

The Administration proposes to merge three adult training and employment programs—the WIA adult program, dislocated worker program, and Employment Service state grants—into a single \$3.1 billion grant. This reform will give states and the Secretary of Labor the ability to target resources where needed, facilitate coordination, and eliminate duplication among current services for adults.

The Administration's reauthorization proposal for youth job training will minimize overlap between DOL and the Department of Education by targeting all of DOL's formula resources on out-of-school youth programs and national grant resources on non-school and out-of-school youth programs that have proven effective. DOL's youth investments will focus on providing young people with a strong, core academic foundation in conjunction with appropriate supplemental vocational skills and training leading to post-secondary degree and certification options.

The Administration also will propose reforms to improve the operation and effectiveness of the One-Stop system. One-Stop Career Centers provide a user-friendly way for employers to find workers and job seekers to get labor market information and employment and training services to help them find new or better jobs.

For the past few years, large amounts of WIA state formula grants funding have remained unspent and in the Treasury at the end of the year. In 2004, these programs will start the year with balances exceeding \$1.5 billion. While total unexpended balances remain high, some states and local areas have exhausted the resources available to them. Accordingly, the 2004 Budget uses these unspent funds to maintain service levels while providing more flexibility to DOL and states to reallocate and target funding where it is most needed.

The 2003 Budget proposed to end programs identified as ineffective or duplicative, including the Migrant and Seasonal Farmworkers program, the Youth Opportunity Grants program, Responsible Reintegration of Youthful Offenders, and the National Skill Standards Board. In order to support programs with track records of returning people to work, the 2004 Budget continues to call for their elimination.

Common Measures for Job Training Programs

To strengthen accountability, the budget adopts a set of common performance measurements for the major federal job training programs. Six agencies running 31 programs have identified the following measures for adult and youth job training programs:

Adult Programs	Youth Programs
Entered Employment	Placement in Employment or Education
Retention in Employment	Attainment of a Degree or Certificate
Earnings Gains	Literacy and Numeracy Gains
Program Efficiency	Program Efficiency

With common terms and definitions across programs, states and local areas managing multiple programs will be able to use a simplified format and measurement system for reporting performance. In 2004, the six partner agencies will prepare guidelines for comparing the performance of similar programs. These performance comparisons will appear in the 2005 Budget.

Offering Re-employment Accounts to At-Risk Job Seekers

Currently, about 40 percent of all Unemployment Insurance (UI) beneficiaries use the standard 26 weeks of benefits without returning to work. Of the people who receive more weeks—temporary extended benefits—75 percent do not find new jobs before exhausting their benefits. These data suggest that the longer a person stays on UI, the less likely it is he or she will find re-employment.

The President's economic growth plan proposes to solve this problem with a new tool, Re-employment Accounts. These accounts will promote the re-employment of unemployed individuals who are identified as likely to exhaust their UI benefits. The Re-employment Accounts, which states will have considerable flexibility to design, will provide up to \$3,000 to certain job seekers to allow them to purchase the training, re-employment, or supportive services they need to get back to work. In addition to whatever services they select, individuals will still be able to receive, free of charge, basic re-employment services (such as resume drafting) from states and One Stop Career Centers. If workers land a job within 13 weeks after starting UI benefits, they may keep the money remaining in their account as a re-employment bonus. Because they reward work, eliminate red tape, and promote individual choice, Re-employment Accounts will be included in the Administration's WIA reauthorization proposal.

Aside from the assistance noted above, the President's Budgets for 2003 and 2004 invest billions of dollars each year in employment, training, trade adjustment assistance, and student grants and loan programs.

The President's Budgets Invest Billions of Dollars in Training for America's Workers

(Budgetary resources in millions of dollars)

	2002 Actual	Estimate	
		2003	2004
Department of Labor:			
Training and Employment resources ¹	7,263	7,064	7,502
Economic Growth Package—Re-employment Accounts ²	—	1,600	2,000
Department of Education:			
Estimated Pell Grant spending for technical and two-year postsecondary schools.....	5,652	5,440	6,390
Total	12,915	14,104	15,892
Addendum:			
Student Loans for technical and two-year postsecondary schools	4,527	5,235	5,793

¹ Includes new budget authority for WIA programs, Employment Service state grants, and Community Service Employment for Older Americans; and spending for Trade Adjustment Assistance training and benefits.

² Anticipated spending from \$3,600 million in 2003 funding for Re-employment Accounts.

Reforming Unemployment Insurance Administration

On the administrative side, the UI system is an unwieldy relic that badly needs an overhaul. In the 2004 Budget, the Administration again proposes long-term reforms that will promote flexibility and strengthen the critical UI assistance that states provide to America's workers. Employers and states agree that the current system is flawed.

Employers complain that their federal unemployment taxes are too high and that too few of those funds go back to states to run the UI program. States express frustration because federal funding falls short of what they believe they need to run their UI programs. The Administration answers these concerns with a package designed to make the UI system more responsive to the needs of workers and employers by giving states flexibility and control. These changes would not affect workers' UI benefits, which are paid by state, not federal, funds. The President's reforms would:

- Reduce employers' federal payroll taxes.

The Administration would cut the Federal Unemployment Tax Act (FUTA) payroll tax by 25 percent or \$1 billion in 2005, with additional reductions over the following four years. By 2009, FUTA would be reduced to 0.2 percent of the first \$7,000 in wages.

- Give states control over administrative funding.

This would help states improve the timeliness and accuracy of benefit payments and prevent and detect overpayments. Currently, states pay for unemployment benefits, while the federal government gives states money to run their programs. Shifting control from the federal government to the states would let states control all the costs of operating their UI programs. The transfer of control would come with transitional aid to states. The Administration would give states \$5.4 billion to phase in the new system over five years.

- Retain the federal safety net so that no worker is denied benefits.

Federal loans to pay benefits would remain available for states that run short of funding. With the enactment of the Administration's reforms, states will be well positioned to respond immediately to changing economic conditions and have additional flexibility to serve jobless workers better through a strengthened UI system.

Fixing the Foreign Labor Certification Process

Currently, DOL's processing of employer applications for permanent certification of foreign workers is labor- and time-intensive. It can take up to six years for a foreign worker to be certified as eligible to work in the United States, which undermines the program's purpose and encourages employers and workers to break the rules. Federal and state reviews are duplicative, contributing to the problem. In 2003, the Department will make changes to the permanent program that will prevent future backlogs by expediting certification and eliminate altogether the state role in the processing of applications. The Department has already streamlined certification for H-1B high-tech workers. The 2004 Budget includes \$72 million as the first part of a two-year drive to eliminate the 300,000-case backlog in the permanent foreign labor certification program.

Protecting Workers

The budget demonstrates the President's strong commitment to the more than 180 worker protection laws DOL oversees. DOL will continue to meet its responsibilities through a balance of vigorous and targeted enforcement and compliance assistance. In most cases, partnership and compliance assistance will be effective, since most employers want to fulfill their obligations under the law. When

necessary, however, DOL will apply strong enforcement as a means of achieving compliance and safeguarding workers' benefits, wages, health, and safety. Moreover, the changing composition of the nation's workforce, including rapid growth in the number of non-English-speaking workers, demands new approaches to protecting workers. The 2004 Budget incorporates these new approaches, providing, for example, additional funds to the Occupational Safety and Health Administration (OSHA) for training and information directed to non-English-speaking workers, including materials translated into their own language.

Protecting workers' retirement savings. The 2004 Budget for the Employee Benefits Security Administration (EBSA, formerly the Pension and Welfare Benefits Administration) of \$129 million is a 10-percent increase to provide:

1) additional enforcement to safeguard workers' retirement savings and other benefits in the wake of corporate fraud cases; and 2) expanded compliance assistance efforts to educate employers and pension plan administrators on their responsibilities, including under the new corporate accountability laws. With these additional resources, EBSA expects to dispose of 19 percent more civil and criminal cases in fiscal year 2004 than in 2003 and restore, protect, or recover \$69 million more in pension plan assets.

In early 2002, the President proposed new retirement savings protections to provide workers with greater confidence in, and choice and control of, their retirement savings. The President has proposed to:

- strengthen workers' ability to manage their retirement funds by giving them more freedom to diversify their investments;
- provide better information to workers through improved 401(k) and pension plan statements; and
- encourage employers to provide their employees with access to professional investment advice.

Savings start as an individual responsibility, but government can help by expanding the rewards of saving and by strengthening protections for saving.

President George W. Bush
February 28, 2002

Caught in a 401(k) Delay?

Workers have the right to have the 401(k) contributions that are withheld from their paychecks invested into their accounts as quickly as possible. DOL has moved to crack down on those employers that delay these investments and, instead, use workers' 401(k) contributions for their own purposes. (Currently, about one-third of 401(k) investigations involve such delays.) Even if the employer later repays this illegal and unwilling "loan," workers will have lost investment returns while their contributions were diverted. DOL is working to locate and punish wrongdoers on several fronts: 1) alerting workers to identify and report delinquent contributions; 2) communicating acceptable practices to employers; 3) deploying extra enforcement to pursue these abuses; and 4) encouraging delinquent employers to self-correct violations and make specified remedies, to avoid enforcement measures and fines.

Some of the President's plan has already been enacted in the Sarbanes-Oxley Act of 2002; he will continue to work with the Congress to enact the rest of his plan. DOL has begun implementing the new law, which allows workers to make more informed choices about their retirement savings (for example, by giving advance notice to workers of periods during which they will not be allowed to make changes in their retirement accounts), and applies the same restrictions on corporate executives as on workers. Under the new law, executives cannot make trades in their retirement accounts when workers cannot.

Ensuring safe and healthy workplaces. The budget strengthens protections for worker safety and health, providing an additional \$25 million for OSHA and the Mine Safety and Health Administration (MSHA). Occupational injury and illness rates have reached historic lows: in 2001, there were less than six injury and illness cases per 100 full-time workers. Still, recent incidents—such as the July 2002 flooding of the Quecreek mine in Pennsylvania—provide grave reminders of the hazards workers still face. In addition, safety and health problems are more severe in certain parts of the workforce. For example, in 2001 the injury and illness rate of mines with fewer than five employees was almost twice that of larger mines. The budget addresses these problems and responds to changes in the workforce, providing specialized assistance to small businesses and non-English-speaking workers. For example, MSHA's new Office of Small Mines will develop and distribute educational materials to help small mines comply with federal regulations, offer training, and review regulations that impose undue burdens on small mines. OSHA will also target small businesses, helping small employers navigate workplace safety requirements and making them aware of services (such as free on-site consultation) that are available to help them.



MSHA Assistant Secretary David Lauriski helps pull a rescued miner to safety. Nine miners were trapped in the Quecreek mine when water from an adjacent mine flooded it. MSHA helped with the successful rescue of all nine men.

Standing up for the rights of union members. Just as it demands corporate accountability, the Administration will see that unions fulfill their statutory responsibilities to members under the Labor-Management Reporting and Disclosure Act. The 2004 Budget gives DOL the resources it needs to improve compliance assistance, help union members become more informed about their rights and their union's affairs, and promote financial transparency and integrity. Specifically, the budget includes an additional \$5 million for the Office of Labor-

Management Standards (OLMS), the only federal office charged with overseeing unions' financial affairs. To crack down on labor racketeering, \$2.5 million has been set aside to increase the DOL Inspector General's efforts in that area.

Cracking Down on Labor Racketeering

Labor racketeering activities have real costs for workers, businesses, and the public, in the form of diminished wages and benefits, reduced business opportunities and revenue, and higher prices. The DOL Inspector General has focused on addressing corruption in internal union affairs, labor-management relations, and employee benefit plans. In 2002 alone, this work resulted in 218 indictments and 151 convictions of union officials, organized crime figures, and benefit plan service providers.

One DOL priority is to root out union corruption by organized crime. A recent investigation involving this type of activity on the New York and New Jersey waterfronts resulted in the indictment of 17 individuals on charges of racketeering, extortion, gambling, money laundering, and wire fraud.

Civil monetary penalty reforms. In some cases, employers' compliance with labor laws is linked to the threat of enforcement, backed by strong sanctions. In some areas, however, 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 violations causing the death or serious injury of youths in the workplace 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 by a factor of four, from \$55,000 to \$220,000, to make its penalties more consistent with those levied by OSHA. The budget also proposes to authorize OLMS to impose civil monetary penalties on unions and others that fail to file their required financial reports on a timely basis. Authorizing civil monetary penalties is intended to improve compliance with the filing requirement, not to penalize inadvertent lapses.

Improving Federal Workers' Compensation Programs

The FECA and the Black Lung Benefits Act (Black Lung) programs play a critical role in protecting workers' economic security, providing cash and medical benefits and rehabilitation services to federal employees and coal miners whose ability to work has been diminished by an occupational injury or illness.

Last year the Administration proposed a package of FECA legislative reforms to correct program inequities, update benefits, improve customer service, and reduce disincentives to return to work. The Administration also proposed legislation to restructure the Black Lung Disability Trust Fund's mounting debt, the annual interest on which eclipses the program's combined benefit and administrative costs. The 2004 Budget renews those requests.

FECA improvements. The budget proposes reforms to:

- Put into place "full cost" budgeting for FECA.

The budget allows DOL to bill federal agencies for their full workers' compensation costs, improving agencies' incentive to make workplace safety a priority.

- Adopt "best practices" of state workers' compensation programs.

In line with state workers' compensation systems, the budget proposes to deter frivolous claims by requiring a waiting period before benefits are paid. The budget also proposes a slightly higher benefit level for all claimants, instead of compensating those with dependents at a higher level for the same injury and wage loss, as is done currently by FECA but rarely by state workers' compensation systems.

- Promote benefit equity.

Because they are tax-free, FECA benefits are generally more generous than federal retirement benefits. Such situations offer an incentive for individuals to remain on FECA beyond when they would normally have retired. While holding harmless all current beneficiaries, the budget proposes to provide future FECA recipients over age 65 a level of benefits typically provided by federal retirement programs.

- Update benefits and improve customer service.

The reform would modernize the way awards are paid to allow for uniform lump-sum payments, and eliminate reporting requirements and other archaic restrictions on some beneficiaries.

Retiring the Black Lung Disability Trust Fund debt. The Black Lung Disability Trust Fund, from which Black Lung benefits and administrative costs are paid, is funded through a tax on each ton of coal mined. In the Trust Fund's early years, excise tax revenue did not cover the program's costs, so DOL had to borrow from the Treasury. Although since 1990 excise tax revenues have generally been sufficient to finance beneficiaries' medical and income support costs, they have not been enough to cover ever-growing interest costs on the Trust Fund's debt. Consequently, DOL leaves the principal unpaid and continues to borrow more just to pay interest on a debt approaching \$9 billion. DOL's Inspector General has repeatedly identified the Trust Fund debt as a threat to the program's financial











stability and integrity. In 2003, the Administration offered a solution to refinance and eventually retire the Trust Fund's debt. It will be repropounded in 2004.

Performance Evaluation of Select Programs

The Administration is identifying needed improvements in a number of DOL's programs using the new PART. Used government-wide, the PART is a tool for evaluating a program's design and purpose, how well it is managed, and whether the program produces positive results for taxpayers. The accompanying table rates the performance of three DOL programs. For further details on these and other DOL programs, see the DOL chapter in the *Performance and Management Assessments* volume.

Program	Rating	Explanation	Recommendation
Community Service Employment for Older Americans (CSEOA)	Results Not Demonstrated	CSEOA's mission—to address short-term employment needs for low-income older Americans—is clear. CSEOA has limited data to show progress on performance measures and lacks rigorous, long-term goals. Competition and outcome evaluations could strengthen service delivery and program design.	Competitively award national grants. Add a cost-effectiveness measure. As part of the new job training common measures, adopt three long-term employment-outcome measures to allow comparisons across similar programs.
Occupational Safety and Health Administration (OSHA)	Adequate	OSHA has a clear mission and generally achieves its performance goals, but measurement of its performance is hindered by the lack of timely data. OSHA does not demonstrate efficiency gains or maximization of net benefits, or perform cost-benefit comparisons of proposed regulations.	Conduct more rigorous analyses of proposed standards and regulatory alternatives. Evaluate the effectiveness of regulatory and non-regulatory programs. Improve the timeliness of data collection and performance measurement.
Federal Employees' Compensation Act (FECA)	Moderately Effective	FECA has a rational program design, and generally meets its relatively ambitious performance goals. One goal is to reduce the number of days injured individuals are away from work, which is a key outcome but not completely within DOL's control. Independent outcome evaluations are limited. Claimant satisfaction, while improved, remains too low at 59 percent.	Propose changes to improve fairness and charge federal agencies for their full FECA costs. Launch an independent evaluation of program strategies and best practices in other workers' compensation systems. Consider adding a cost-effectiveness goal. Set ambitious goals for improving customer satisfaction.



Update on the President's Management Agenda

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

Arrows indicate change in status since baseline evaluation on September 30, 2001.

DOL's four yellow status marks and four green progress scores reflect its long-term commitment to, and effective day-to-day implementation of, the President's Management Agenda. In the human capital area, five DOL agencies have identified core competencies to close skill gaps in mission-critical occupations, and additional agencies will be undergoing their analyses in early 2003. The Department exceeded its 2002 competitive sourcing goal by directly converting activities (including a portion of its information technology work) to the private sector. While DOL continues to identify functions that could be opened to competition, it has not yet completed a public-private competition. To improve financial management, DOL is developing a new core accounting system and performance measures to help states reduce erroneous payments of unemployment insurance benefits, which could save hundreds of millions of dollars annually. DOL's financial performance status was upgraded to yellow when the Secretary reported that all the Department's systems met federal standards. In E-Government, DOL has led the creation of *GovBenefits.gov*, a website that informs visitors about federal benefit programs for which they may qualify. DOL was among the first agencies to propose a viable format for linking program budgets to performance, which boosted its status from red to yellow.

In support of the President's Management Agenda, the 2004 Budget for DOL includes \$24 million to address management issues such as workforce restructuring and recruiting, and \$49 million for a central fund for Department-wide information technology improvements.

Initiative	Status	Progress
Faith-Based and Community Initiative		

Arrow indicates change in status since baseline evaluation on June 30, 2002.

DOL has demonstrated a sustained commitment to implementing the faith-based initiative. DOL is providing technical assistance and has initiated pilot projects totaling \$17.5 million to link faith-based and grassroots community organizations to the nation's One-Stop Career system. DOL also took action to eliminate significant regulatory barriers to the participation of these organizations in DOL grant programs, which had been identified as a problem.

Department of Labor
(In millions of dollars)

	2002 Actual	Estimate	
		2003	2004
Spending:			
Discretionary Budget Authority:			
Training and Employment Services	5,484	5,036	5,749
Unemployment Administration ¹	2,729	2,739	2,651
Employment Service/One-Stop Career Centers	987	959	200
Community Service Employment for Older Americans	445	440	440
Bureau of Labor Statistics	474	498	512
Occupational Safety and Health Administration	444	437	450
Mine Safety and Health Administration	253	254	267
Employment Standards Administration	370	294	310
Employee Benefits Security Administration ²	110	117	129
Pension Benefit Guaranty Corporation (PBGC) ³	12	13	17
Veterans' Employment and Training ⁴	213	211	220
Bureau of International Labor Affairs.....	147	55	12
Information Technology	50	74	49
Office of Disability Employment Policy	38	47	47
Office of the Inspector General	57	62	67
Management Crosscut	—	7	24
Working Capital Fund.....	—	—	20
All other programs	522	352	371
Total, Discretionary budget authority ⁵	12,335	11,595	11,535
Mandatory Outlays:			
Unemployment Insurance	50,841	53,172	39,830
Re-employment Accounts	—	1,600	2,000
Trade Adjustment Assistance	391	802	1,312
Black Lung Benefits Program	1,484	1,475	3,293
Federal Employees' Compensation Act	171	171	206
PBGC ³	−977	−219	−116
Energy Employees Occupational Illness Program	381	810	531
Welfare-to-work	500	187	114
H-1B Training and Administration	50	203	129
All other programs	390	267	357
Total, Mandatory outlays	52,451	57,934	46,942

¹ 2002 and 2003 entries include the use of workload contingency funds triggered on during economic slowdown.

² Formerly the Pension and Welfare Benefits Administration.

³ The 2004 Budget proposes mandatory financing for all PBGC administrative expenses by dropping the past discretionary limitation on administrative expenditures. The 2004 discretionary figure reflects the scoring of this change. Net mandatory outlays are negative because offsetting collections (e.g., premiums) exceed gross outlays.

⁴ The 2003 Budget proposed to transfer and consolidate three veterans' employment programs (\$197 million) from DOL to the Department of Veterans Affairs. Because this proposal has not been adopted, and the Administration is not re-proposing it in 2004, for comparability the table shows this funding in DOL.

⁵ 2002 includes rescissions and \$0.2 billion in supplemental funding.

DEPARTMENT OF STATE AND INTERNATIONAL ASSISTANCE PROGRAMS

The President's Proposal:

- Targets security and economic assistance to sustain key countries supporting the United States in the war on terrorism;
- Reinforces the U.S. commitment to fighting AIDS and alleviating humanitarian hardships;
- Launches the Millennium Challenge Account, a new partnership to support countries that rule justly, invest in their people, and encourage economic freedom;
- Builds a world-class diplomatic corps, focusing on the people, places, and tools needed to promote the Administration's foreign policies worldwide; and
- Funds embassy and consulate security to protect American officials assigned abroad to represent their country.

The Major Challenges:

- Strengthening the global coalition against terrorism;
- Increasing effectiveness and accountability of foreign assistance; and
- Making substantial progress on the management agenda, including fixing financial management systems, effectively managing a worldwide workforce, and integrating performance information into the budget.

Department of State

Colin Powell, Secretary

www.state.gov 202-647-4000

Number of Foreign Service Officers: 11,062

Number of Civil Service Employees: 7,656

Number of Foreign Service Nationals: 9,526

2003 Spending: \$11.0 billion

Major Assets: Operates a total of 261 embassies, consulates, and posts in 180 countries.

The Department of State advances American foreign policy in diplomatic relations with the world. The State Department represents the United States in 180 foreign countries and 43 international organizations, operating a total of 261 embassies, consulates and other posts. The Department supports more than 90,000 Foreign Service and civil service employees, dependents, and local hires overseas.

The Department is America's chief communicator on every foreign policy issue from strengthening alliances like the North Atlantic Treaty Organization (NATO) and preventing conflict in South Asia, to combating terrorism and the proliferation of weapons of mass destruction. It also addresses refugee crises and promotes environmentally sound growth.

For many Americans, the State Department is both a gateway to the world and a safe haven abroad. The Department's core programs include issuing passports and providing essential services to American citizens abroad. The Department of State stands on the front line in America's border security efforts, scrutinizing prospective visitors to the country so that those who would pose a threat are denied access while maintaining our openness to legitimate travel and commerce through prudent management of the visa process. Every year, the State Department issues more than seven million passports to U.S. citizens so they can travel abroad, and it processes an average of six million visa applications for visitors.

U.S. Agency for International Development

Andrew Natsios, Administrator

www.usaid.gov 202-712-0000

Number of Foreign Service Officers: 1,082

Number of Civil Service Employees: 1,079

Number of Foreign Service Nationals: 4,749

2003 Spending: \$3.6 billion

Major Assets: Owns offices in eight of 75 countries where USAID operates.

The U.S. Agency for International Development (USAID) advances U.S. foreign policy through development and humanitarian assistance programs. USAID works abroad in 75 countries, implementing programs that promote economic growth, education, sound environmental policies, agriculture, trade, and global health. Its work also includes treating and preventing Human Immuno-deficiency Virus/Acquired Immune Deficiency Syndrome (HIV/AIDS), promoting democracy, providing conflict management and humanitarian assistance. Many of

USAID's programs are designed in the field and carried out by private-sector firms or non-profit, non-governmental organizations.

The U.S. foreign affairs team also involves other U.S. agencies. The Department of the Treasury does technical training, formulates international financial policy, and makes U.S. contributions to the Multilateral Development Banks (MDBs). Other agencies involved directly in U.S. foreign affairs include the Broadcasting Board of Governors, which expands the availability of information through radio and television broadcasts, the Peace Corps, the Export-Import Bank, the Overseas Private Investment Corporation, the Trade and Development Agency, the Inter-American and African Development Foundations, the U.S. Institute of Peace and the office of the U.S. Trade Representative.

Overview

The 2004 Budget proposes several initiatives to further America's leadership in the world. Funding requested for 2004 for the Department of State, USAID, and other international agencies is \$27.4 billion, an 11.6-percent increase over the \$24.5 billion requested for 2003.

The number one priority in the proposed budget is the advancement of the global fight against terrorism. The budget furthers this goal by providing economic, military, and democracy assistance to key foreign partners and allies, including \$2.3 billion to vulnerable states on the front lines of the war against terrorism like Afghanistan and Turkey.

The budget also promotes international peace and prosperity by launching the most innovative approach to U.S. foreign assistance in more than 40 years. The new Millennium Challenge Account

(MCA), a government corporation funded at \$1.3 billion, will redefine aid by focusing new assistance on countries where governments rule justly, invest in their people, and encourage economic freedom. Further, the budget offers hope and a helping hand to countries facing health catastrophes and humanitarian disasters. It provides \$2 billion to combat the global HIV/AIDS epidemic and more than \$1 billion to meet the needs of refugees and internally displaced peoples. Finally, the 2004 Budget will give American diplomats the tools they need to perform these complex tasks, by ensuring adequate training, institutional support, and information technology for U.S. officials overseas.

This chapter describes the recent accomplishments, initiatives, and challenges that the Department of State and international assistance agencies face, while linking the resources proposed for 2004 policy reforms to anticipated performance. It documents the ways that business as usual is being changed to achieve better results.

Prosecuting the War on Terrorism

The United States will provide extensive assistance to states on the front lines of the anti-terror struggle, both in terms of financial assistance and training and support for allied governments. Working one-on-one with countries and through multilateral organizations, we have frozen more than \$110 million in terrorist assets, launched new initiatives to secure global networks of commerce and communication, and significantly increased the cooperation of our law enforcement and intelligence communities with other countries. Afghanistan is no longer a haven for al Qaeda. The United States and allied nations are working with the Afghan Authority to build roads, schools, deliver health services, and rebuild the economy.



A new kindergarten in Afghanistan supported by USAID.

Assistance to Frontline States—Standing with our Friends

The 2004 Budget for International Affairs provides approximately \$2.3 billion for assistance to countries around the world that have joined us in the war on terrorism. These include Afghanistan, Colombia, Jordan, Pakistan, and Turkey. This funding will provide economic and military support to enable these countries to strengthen their economies, internal counter-terrorism capabilities, and border controls.

The President's Budget proposes \$800 million in the Economic Support Fund (ESF) for the front-line states, including \$250 million for Jordan, \$200 million each for Pakistan and Turkey and \$150 million for Afghanistan. In Afghanistan, \$70 million will be used to fulfill our commitment to rebuild the Kabul-Kandahar-Herat Highway, as well as provide for other infrastructure such as secondary roads, water and sewer projects, and electrification. The remaining amount will provide budget support and further democracy and governance programs. In Pakistan, ESF will be used to provide assistance to the government of Pakistan to fund social service projects.

The Foreign Military Financing program will provide equipment, training, and defense services to countries for programs that counter terrorism and develop institutions to prevent the emergence of terrorism. For example, the President is requesting \$150 million in Foreign Military Financing as well as \$20 million in the Peacekeeping Operations account as part of the ongoing efforts to train the Afghan National Army, to maintain internal security and prevent the country from again becoming a terrorist haven. This aid will be supplemented by donations of equipment and training from other countries allied in the effort to reconstruct a viable Afghan state.

The State Department's Anti-Terrorism Assistance (ATA) program will continue to provide frontline states a full complement of courses, such as training on how to conduct a post-terrorist attack investigation or how to respond to a weapons of mass destruction attack. The budget will also fund additional equipment grants to sustain the skills and capabilities acquired in the ATA courses. It will support in-country training programs in Afghanistan, Pakistan, and Indonesia as well. The 2004 Budget increases the ATA program to \$106 million, \$42 million over the 2003 requested level.

Central Asia and the New Independent States

In 2004, over \$171 million will go to assistance programs in the Central Asian states. The 2004 Budget continues to focus funds on programs in Uzbekistan, Kyrgyzstan, and Tajikistan in recognition that Central Asia is of strategic importance in fighting terrorism. Assistance to these countries has almost doubled from levels preceding September 11, 2001, and is 55 percent above levels proposed for 2003. These funds will support civil society development, small business promotion, conflict reduction, and economic reform efforts in the region. These efforts are designed to promote economic development and strengthen the rule of law in order to reduce the appeal of extremist movements and stem the flow of illegal drugs that finance terrorist activities.

Funding levels and country distributions reflect a shifting of priorities. For example, after more than 10 years of high levels of assistance, it is time to let some countries in this region graduate from economic assistance, as we have done with many in Eastern Europe. The U.S. economic assistance to Russia and Ukraine will begin phasing down in 2004, with a decrease of 32 percent from 2003. America will, however, continue providing assistance to democracy building and civil society programs.

Stemming Narco-terrorism

The President's request for the Andean Counterdrug Initiative includes \$463 million for Colombia. This funding will support the new Colombian government's unified campaign against terrorists and the drug trade that fuels their activities. The aim is to put up a backstop for democracy, extend security, and restore economic prosperity to Colombia while preventing the narco-terrorists from spreading instability to the broader Andean region. Critical components of this effort include resumption of the Airbridge Denial program to stop internal and cross-border aerial trafficking in drugs, stepped up eradication of crops coupled with alternative development efforts, and technical assistance for strengthening Colombia's police and judicial institutions.



USAID supports many reconstruction efforts in Afghanistan, like this major road from Kabul to Kandahar.

Countering the Threat from Weapons of Mass Destruction

On December 11, 2002, President Bush announced a new National Strategy to Combat Weapons of Mass Destruction (WMD). The strategy is based on three pillars:

- Pursue robust counterproliferation policies and capabilities to deter and defend against the use of these weapons;
- Strengthen nonproliferation measures to prevent states and terrorists from acquiring weapons of mass destruction; and
- Increase our preparations to respond effectively to any use of these weapons against us or our friends and allies.

The 2004 Budget proposes \$35 million for the Nonproliferation and Disarmament Fund (NDF), more than double the 2003 request. It also increases funding for overseas Export Controls and Border Security (EXBS) to \$40 million and supports strengthening the nuclear safeguard and security capabilities of the International Atomic Energy Agency.

The NDF and EXBS programs help prevent weapons of mass destruction from falling into the hands of terrorist groups or states by helping foreign governments establish and strengthen export and border control systems to prevent the proliferation of weapons of mass destruction, materials, technology, and expertise.

Explaining America Through a New Middle East TV Network

Public diplomacy and international broadcasting activities open communication channels and understanding worldwide. The President's Budget builds on the successful launch of the Middle East Radio Network in 2002 and provides \$30 million in 2004 to use television to engage people throughout the region. The Middle East Television Network, an American-style Arabic language news and information satellite network, will broadcast directly into the homes of up to 50 million viewers, providing them with a means to better understand America, its policies, and people.

War Against Poverty and Despair: American Leadership in Fighting AIDS and Alleviating Humanitarian Hardships

The HIV/AIDS pandemic has taken the lives of more than 20 million people and is projected to take millions more. On World AIDS Day, countries around the world are united to support the individuals, families, and communities affected by this disease, and to renew our commitment to preventing the spread of HIV/AIDS, developing and delivering more effective treatments, and finding a cure.

President George W. Bush
November 29, 2002

This budget reaffirms the United States' role as the leading donor nation confronting the greatest challenges faced by many developing countries today. The 2004 Budget proposes a number of foreign assistance initiatives managed by USAID and other federal agencies that provide crucial resources that prevent and ameliorate human suffering worldwide.

Fighting the Global AIDS Pandemic

The 2004 Budget continues the Administration's commitment to combat the spread of HIV/AIDS and to help bring care and treatment to infected people overseas. The HIV/AIDS pandemic has killed 23 million of the 63 million people it has infected to date, and left 14 million orphans worldwide. President Bush has made fighting this pandemic a priority of U.S. foreign policy. The United States was instrumental in launching the Global Fund to Fight HIV/AIDS, Malaria and Tuberculosis in 2001. The United States was the first country to make a contribution to the fund and leads the world in having committed \$500 million to it—23 percent of total pledges to date. In 2002, President Bush launched a \$500 million initiative to prevent mother-to-child-transmission of HIV/AIDS. This initiative is targeted at the 14 countries in Africa and the Caribbean hardest hit by the HIV/AIDS pandemic.

The President believes the global community can—and must—do more to halt the advance of the pandemic, and that the United States should lead by example. Thus, the President's 2004 Budget request signals a further, massive increase in resources to combat the HIV/AIDS pandemic. Specifically, the President is committing to provide a total of \$15 billion over the next five years to turn the tide in the war on HIV/AIDS. These funds will be targeted on the hardest hit countries in Africa and the Caribbean with the objective of achieving dramatic on-the-ground results. Implementation of this initiative will be based on the "network model" being successfully employed in a number of countries. This model is based on a layered network of central medical centers that support satellite centers and mobile units with descending levels of medical expertise as treatment moves from urban to rural communities. In an effort to capitalize on recent advances in therapy, this initiative will provide advanced antiretroviral treatment on a large scale, together with prevention and care.

The \$15 billion in funding for this initiative assumes baseline spending of \$5.2 billion. It also includes new funding for bilateral assistance totaling \$9 billion, and an additional \$1 billion for the Global Fund, conditioned on the Fund showing results. This new, dramatic commitment is reflected in the 2004 Budget, which includes \$450 million for the initiative. With this new commitment, U.S. international assistance to combat HIV/AIDS will have increased by 198 percent since President Bush took office.

In order to ensure accountability for results, the President proposes to establish at the Department of State a new Special Coordinator for International HIV/AIDS Assistance. The Special Coordinator will have the rank of ambassador and will be responsible for coordinating all international HIV/AIDS programs and the efforts of the agencies that implement them.

A New Approach to Hunger, Famine, and Other Emergencies

Food Aid. Historically the United States has been the largest donor of assistance for victims of protracted and emergency food crises. Droughts, earthquakes, and other natural disasters sometimes lay otherwise self-sufficient nations low. Early in the Administration, the President determined that preserving this U.S. leadership role was a high priority. He would not idly stand by while these crises occurred. However, improvements were needed in the management of our programs. In particular, since 1999, an increasing percentage of food assistance was dependent upon the unpredictable supply of surplus commodities. A Presidential Management Initiative directed reforms that would increase the amount of food going to hungry populations, and rationalize U.S. Department of Agriculture (USDA) and USAID program management.

In 2003, discretionary funding increased from \$864 million to \$1.185 billion. That level will be enhanced significantly in 2004 with two new initiatives: a Famine Fund and an emerging crises fund to address complex emergencies.

Famine Fund. The 2004 Budget includes a new \$200 million fund with flexible authorities to provide emergency food, grants or support to meet dire needs on a case-by-case basis. This commitment reflects more than a 15-percent increase in U.S. food assistance, one of the largest increases in programs in the budget.

Emerging Crises Fund. The budget also requests \$100 million for a new Presidential-level account and mechanism that will allow the Administration to respond swiftly and effectively to prevent or resolve unforeseen complex foreign crises. This account will provide a mechanism for the President to support actions to advance American interests, including to prevent or respond to foreign territorial disputes, armed ethnic and civil conflicts that pose threats to regional and international peace and acts of ethnic cleansing, mass killing and genocide.

Partnerships with Other Countries

The United States wants to help countries who help themselves. In March 2002, President Bush called for a new compact for development, emphasizing that increased assistance from donor countries be linked to sound policies in recipient countries.

Millennium Challenge Account

The 2004 Budget request of \$1.3 billion for a new Millennium Challenge Account (MCA) fulfills the President's March 2002 pledge to create a new bilateral assistance program along markedly different lines. The MCA breaks with the outdated models of economic development assistance. As the President stated in his speech before the Inter-American Development Bank, "When nations refuse to enact sound policies, progress against poverty is nearly impossible. In these situations, more aid money can actually be counterproductive, because it subsidizes bad policies, delays reform, and crowds out private investment." This new compact for global development ties increased assistance to performance.

This budget marks a first step towards the President's commitment of \$5 billion in annual funding for the MCA by 2006, a 50-percent increase in core development assistance. The MCA supplements U.S. commitments to humanitarian assistance and existing USAID development programs.

MCA funds will go only to selected developing countries that demonstrate a commitment to sound policies—based on transparent, concrete, and objective criteria. The selection process will use 16 indicators to assess national performance relative to governing justly, investing in people, and encouraging economic freedom.

MCA resources will be used in partnership with recipient countries, with a limited number of measurable goals, activities, and benchmarks and thorough financial accountability standards.



President Bush announces the Millennium Challenge Account at the Inter-American Development Bank in Washington, D.C. on March 14, 2002.

The MCA will be run by a new government corporation designed to ensure accountability for measurable results. The Secretary of State will preside over a board of directors supervising the corporation. MCA personnel will be drawn from a variety of government agencies and non-governmental organizations and serve limited-term appointments.

In 2004, the MCA will consider countries both eligible to borrow from the International Development Association (IDA) and which have per capita incomes below \$1,435 (the historical IDA cutoff for aid). In 2005, all countries with per capita incomes below \$1,435 will be considered. In 2006, all countries with per capita incomes up to \$2,975 (the current World Bank cutoff for lower middle income countries) will be eligible.

Strengthening American Assistance

While the MCA offers a new approach to a selected group of partners, the President is committed to preserving existing commitments to economic, development and humanitarian assistance. However, even within these accounts, business as usual is not acceptable. Improvements in management and implementation of aid programs must be accelerated to reach all communities to help them succeed.

As a first step, the Administration will focus on developing plans for a small group of countries ready to graduate from U.S. assistance. With the view that these graduations will free resources for countries with sustained greater needs, the Administration will work in partnership to develop plans to generate growth, jobs and access to private capital.

Clearly not all countries are ready to graduate from assistance programs. Many, if not most, of the current recipients of aid will continue to receive some form of U.S. support. However, specific and sustained levels of funding to support a results-driven plan for action offers a concrete promise of stability and prosperity for many transitioning countries.

In 2002–2003, the U.S. Embassy in Sofia, Bulgaria, has developed such a plan. Consistent with its NATO aspirations and ambition to integrate into the European economy, a three-year U.S. pledge for \$28 million annually will fund a transition plan to secure stronger good governance and broader economic opportunity.

The U.S. assistance to Bulgaria has been substantially modified with a much stronger focus on anti-crime and anti-corruption assistance to the police, prosecutors and court systems that are demonstrably committed to democratic standards of rule of law. With a successful model in place, these programs will be used more broadly over the next three years, until Bulgaria graduates from all such assistance in 2007.

The United States reaches out to serve and support those in real need. Especially those who live in poverty should have hope that our aid programs will contribute to building better, safer communities with expanded opportunities to learn and work. Non-Government Organizations (NGOs), the Congress and the American public have long been critical of U.S. assistance as slow to arrive, indifferent to local concerns and unlikely to show signs of success in any meaningful time period. For a nation that continues to rank as the single largest donor to countries in need, a new agenda with clear goals is essential. The graduation program represents a first step to change the way we work.

African Education Initiative

The Administration's financial commitment to the African Education Initiative doubles this year. Begun in 2001, the initiative focuses on increasing access to quality education in Africa. Over its five-year life the African Education Initiative will achieve: 160,000 new teachers trained; 4.5 million textbooks distributed; an increase in the number of girls attending school through more than a quarter million scholarships and mentoring; and an increase in African Education Ministries'

capacity to address the impact of HIV/AIDS. The 2004 Budget requests \$142 million for African education assistance.

Pushing for Results from Multilateral Development Banks

The MDBs provide over \$40 billion in financing annually to foster economic growth and poverty reduction around the world. The U.S. share of MDB funding is over 22 percent. The Administration is promoting reform in all the MDBs to ensure that their assistance increases the productivity of people and countries receiving aid. The 2004 Budget provides \$1.55 billion for the MDBs, which includes \$1.36 billion for scheduled payments to the MDBs and \$195.5 million to clear existing overdue debt. The budget provides \$950 million for IDA, \$100 million of which is contingent on IDA establishing a results measurement system. By spring 2003, IDA is to have completed an outline of approach to results measurement, presented baseline data and identified outcome indicators in health, education, and private sector development and expected progress targets. By that same time, IDA is due to complete specified numbers of reviews and assessments in financial accountability, procurement, public expenditure, investment climate, and poverty.

Forgiving Debt—Helping Heavily Indebted Poor Countries

The Administration requests an additional \$75 million for the Trust Fund for Heavily Indebted Poor Countries (HIPC). These funds will go towards fulfilling the President's commitment at the G-8 Summit in Canada to contribute to the projected HIPC Trust Fund financing shortfall. The HIPC Trust Fund finances debt forgiveness of heavily indebted poor countries that have committed to economic reforms and pledged to increase domestic funding of health and education programs. The President's request also provides \$300 million to fund debt reduction for the Democratic Republic of the Congo under the HIPC Initiative. In addition, \$20 million will fund the cost of debt reduction under the Tropical Forest Conservation Act, allowing benefiting countries to use forgone debt payments to fund forest preserves and other activities to protect tropical forests and the species that inhabit them.

Debt Reduction

For the designated 26 Heavily Indebted Poor Countries (HIPC) that have begun to receive debt reduction thus far, spending on health, education and other social investments as a share of gross domestic product has increased from six percent in 1999 to a projected nine percent in 2002. Uganda, which completed its HIPC debt reduction in 2000, increased its spending on health and education from five percent in 1999 to a projected nine percent in 2002. Uganda is using HIPC debt relief to eliminate grade school fees, which had been a major impediment to enrollment, and to expand the country's successful HIV/AIDS awareness program.

The Administration believes that offering indebted poor countries new loans and debt forgiveness at the same time risks their return to crushing indebtedness—the very condition debt forgiveness seeks to resolve.

In order to address this situation, the Administration recently proposed a one-year moratorium on new federal loans or loan guarantees to countries that receive debt forgiveness. Should countries demonstrate serious economic gains before the moratorium ends, agencies may resume new lending. Loans to the private sectors in these countries are not affected by this policy. The Administration hopes that this policy will bring an end to the historically vicious cycle of indebted poor countries.

World Summit on Sustainable Development

The World Summit on Sustainable Development in August 2002 engaged more than 100 countries and representatives of businesses and NGOs in developing and implementing results-focused partnerships in the areas of water, energy, and hunger. At the end of the Summit, new relationships and partnerships were forged, and a global commitment was reached to halve the proportion of people who lack access to clean water or proper sanitation by 2005. The 2004 Budget supports these partnerships with \$337 million in international assistance funding.

Middle East Partnership Initiative

The President's Budget includes \$145 million for the Middle East Partnership Initiative. This framework will permit the United States to work with other donors, academic institutions, the private sector, non-governmental organizations, and governments in the Arab world to expand economic, political, and educational opportunities for all. Potential programs include literacy training and scholarships for girls and women, technical assistance to Arab members of the World Trade Organization, and assistance to NGOs working for political reform. Existing U.S. assistance programs in the Middle East will be reviewed to ensure that aid is reaching as many people across the region as possible, with an emphasis on women and children.

Assistance to Refugees and Disaster Victims

Refugee Admissions

Since 1975, the State Department's Refugee Admissions program has resettled nearly 2.5 million refugees from all over the world. A refugee is defined as a person outside of his or her country of nationality who is unable or unwilling to return because of persecution or a well-founded fear of persecution on account of race, religion, nationality, membership in a particular social group, or political opinion.

The President's Budget includes over \$1 billion to provide humanitarian assistance to refugees, internally displaced persons, and other vulnerable persons worldwide. These funds will allow international and non-governmental organizations to provide shelter, safe water, and health care, among other services to people fleeing persecution, or natural disaster,

such as those living near the volcano eruption in Goma, Democratic Republic of Congo. These humanitarian assistance funds also support the admission of refugees to the United States.

Supporting International Environmental Programs

The Administration actively participates in the development of bilateral and multilateral agreements to better manage the world's most valuable natural assets. The 2004 Budget includes \$286 million in development assistance funding for environmental programs. USAID proposes about \$155 million for global climate change programs. The United States continues to be the largest donor to the Global Environment Facility (GEF), a multilateral fund that helps developing countries mitigate environmental problems with potential global impact. The Administration has pledged \$500 million over the next four years for the GEF.

Rejoining the United Nations Educational, Scientific, and Cultural Organization

The President's Budget provides \$71.4 million to support renewed U.S. membership in the United Nations Educational, Scientific, and Cultural Organization (UNESCO). In September 2002, President Bush announced that the United States would return to UNESCO and that, "This organization has been reformed and America will participate fully in its mission to advance human rights, tolerance, and learning."

Increasing the Number of Peace Corps Volunteers

The first American many people around the world meet is a Peace Corps volunteer. The President wants more such volunteer “ambassadors” in the field contributing their skills and initiative to foreign communities. The budget provides \$359 million to support 10,000 volunteers by the end of 2004. This increase will keep the Peace Corps on track to reach the President’s goal of 14,000 volunteers by 2007. The added funds will open new programs and be targeted to assist host countries and local communities through such activities as business development and prevention of HIV/AIDS. In 2002, Peace Corps began working in East Timor, Peru, Botswana, and Swaziland. In 2003, Peace Corps will set up new programs in Chad, Albania, Azerbaijan, and Fiji.



An outdoor school at the Dadaab Somali refugee camp in Kenya.

Carrying Out the President’s Management Agenda and Building a World Class Diplomatic Corps

Over 60,000 employees from more than 40 federal agencies work at 261 posts overseas. The embassy bombing murders of 12 Americans and over 200 foreign nationals in Kenya and Tanzania demonstrated that many existing embassies do not meet current security standards. The 2004 Budget provides \$1.5 billion for embassy security, construction, and maintenance, an increase of \$208 million over 2003. This level of funding will enable the State Department to address major rehabilitation needs of embassies and consulates around the world, as well as fund major security-related construction projects.

Proposed funding for 2004 will enable the construction of secure embassies in eight countries including Ghana and Panama. In addition, annex buildings for USAID will be constructed with State Department funds in several countries including Ghana and Nigeria.

The State Department and USAID are working to implement the President’s Management Agenda (PMA) and build a world class diplomatic corps. As the PMA scorecard shows, the Department of State and USAID face stiff management challenges. Over the last year, both agencies have made progress in addressing these problems. The State Department for example, is on schedule to implement its Regional Financial Management System. USAID has made considerable progress on a model allocating resources based on objective performance criteria. The Secretary of State may need more personnel management flexibility to accomplish our objectives.

The Department and USAID are working together to identify information technology (IT) systems where collaboration would be beneficial, beginning with financial management systems.

Completing the Diplomatic Readiness Initiative

This budget completes the Diplomatic Readiness Initiative by funding 399 additional foreign and civil service officers to help the Department effectively implement the President’s foreign policy goals. The initiative will fill critical staffing gaps, properly train staff and better respond to crises and emerging priorities. This is the third year of funding for this major initiative. In total, the Administration has requested 1,158 new staff for the Department of State. The Administration expects the Department’s recruiting efforts to show reduced time in getting new officers to posts

abroad with the proper language, economics, and management skills needed to carry out American foreign policy.

USAID is also undertaking a major effort to increase its ability to effectively implement programs. As a step toward strengthening the workforce, the budget proposes hiring up to 50 additional foreign and civil service staff in key areas, such as HIV/AIDS.

Visa and Consular Services

Since September 11, 2001, the Department of State has increased resources for visa application reviews, doubled the number of names on the Lookout System, improved collaboration with law enforcement agencies using new legal authorities to access relevant background information and strengthened clearance processes.

Beginning in 2003, the Department of Homeland Security will assume responsibility for the policy guidance and regulation governing visa issuance to refine visa processes further to meet security concerns.

Rightsizing the U.S. Government Presence Overseas

The President's "Right-Sized" Overseas Presence Initiative, a part of the PMA, is intended to define who will work for the federal government overseas, determine how much each United States employee overseas costs and evaluate if these people are fulfilling a need where they are located.

There are several key initiatives underway within the rightsizing agenda. Within the next two years, all of the initiatives will fundamentally change how federal agencies think about their plans for staffing overseas through fostering better monitoring, evaluation and management of U.S. staff overseas and more closely linking performance and management to the budget.

The first step within the right-sizing initiative was to develop a profile of the current U.S. government staff overseas, including part-time and foreign workers. The U.S. government is responsible for more than 90,000 people (including dependents) overseas. Costs per person range from \$90,000 to \$665,000 per year. Overseas staffing and cost data collection have been systematized in the formal annual agency budget submission process.

The four right-sizing initiatives currently underway include:

- The development of a better way for posts to link budgets to performance and staffing to mission goals through the Mission Performance Planning and Bureau Performance Planning processes;
- A review of the staffing patterns, costs, security issues and missions at posts in one region of the world. OMB chose Europe and Eurasia and has been collaborating with the State Department and the General Accounting Office to develop a framework to right-size existing embassies worldwide;
- Regionalization of functions and developing existing or new U.S. regional centers on each continent; and
- The development of a cost-sharing mechanism to distribute the costs of constructing and maintaining new embassies worldwide in order to make sure that all agencies with staff overseas fully recognize and take into consideration all costs associated with sending staff overseas. The initial year of this cost-sharing mechanism is included in the 2004 Budget proposal.

The goal is to assure that the United States has the staff it needs to carry out the specific functions required in each overseas post and that decisions as to whether existing or new staff are needed are based on true cost and justified in terms of performance and impact.

Information Technology

The State Department is forging ahead to improve Information Technology (IT) management and provide staff the IT backbone needed to successfully carry out the President's foreign policy mission. IT investments are funded at \$939 million in 2004, an increase of five percent from the 2003 request. The State Department began a comprehensive modernization of its IT infrastructure in 1997. Before then, many key systems were obsolete. Even in 2001, most employees did not have direct Internet access. The priorities of the Department's strategic plan are an increasingly transparent and interconnected diplomacy. In fall 2002, the Department created the E-Diplomacy Office to put these priorities into effect. The Department intends to further upgrade systems including cables, messaging, knowledge management, and document archiving. These functions will be replaced by a new, fully integrated, state-of-the-art system called SMART. SMART is funded at \$10 million in 2003 and \$15 million in 2004. The new system is being designed with the cooperation of its users and will embody the multi-agency operating environment of U.S. staff.

USAID is moving ahead with increasing the agency's IT planning and project management capacity to ensure successful implementation of the worldwide automated accounting and procurement systems. The agency is working with the State Department to improve its telecommunications capacity and infrastructure security. IT investments are funded in 2004 at \$20 million, an increase of \$7 million from 2003. USAID continues to actively support the E-Government Initiative by participating actively on E-Travel, Integrated Acquisition, and E-Training working groups, and by using E-Government technologies to enhance agency business functions. USAID and the Department of State intend to work together to develop a joint enterprise architecture to guide IT investments and outline where joint IT systems are feasible.











Performance Evaluation of Select Programs











Ten State Department programs and seven International Assistance Programs were reviewed for performance effectiveness. Some of the programs evaluated are highlighted in the accompanying table. For further details refer to the Department of State and International Assistance Programs chapter in the *Performance and Management Assessments* volume.

Program	Rating	Explanation	Recommendation
International Development Association (IDA)	Adequate	IDA is well-managed, but lacks a system to measure, monitor, and evaluate overall results. The latest resource replenishment agreement calls for the establishment of such a system.	Provide \$1.0 billion for IDA, \$100 million of which is contingent on IDA meeting specific benchmarks by spring 2003 in establishing the results measurement system.
Overseas Private Investment Corporation (OPIC)—Finance	Results Not Demonstrated	The program generally manages its resources well, but it cannot adequately show what results it achieves due to the lack of long-term goals and insufficient annual performance measures.	Establish specific and appropriate long-term goals and annual performance measures that capture the range of developmental impact that OPIC's programs have on foreign countries, including private sector growth, job creation, transfer of skills and technology, improvements in corporate citizenship, and infrastructure enhancements.





Program	Rating	Explanation	Recommendation
Security Assistance to Sub-Saharan Africa	Results Not Demonstrated	It is difficult to evaluate the performance of these programs, because performance plans do not contain annual goals and program evaluations are not geared to measure achievement of performance goals.	Restructure performance plans to include separate annual and long-term goals, targets and baseline information. Collect performance information in a standardized manner and include in performance reports that evaluate progress related to key performance goals.
Capital Security Construction Program	Moderately Effective	In recent years the embassy construction program has undergone a reorganization of its strategic planning and its management team. These steps, including the development of standardized embassy design, should result in increased performance in future years.	Increase funding for capital security construction, including additional funds for a new overseas capital security cost sharing initiative that will ensure that all agencies with staff overseas pay their fair share of the cost to keep those employees safe and that agencies think carefully before posting additional personnel overseas.
Anti-Terrorism Assistance (ATA) Program	Moderately Effective	The ATA program builds the capacity of key countries abroad to fight terrorism by training foreign officials in anti-terrorism techniques and building working relationships that enhance cooperative efforts. The program meets annual performance goals for number of courses taught and course content and effectively teaches anti-terrorism skills.	Increase funding to continue all training programs currently underway and to expand to new areas that respond to the evolving terrorist threat. Improve long-term performance measurement to enable a quantifiable assessment of increased anti-terrorism capabilities of key countries.
USAID Development Assistance—Population	Moderately Effective	The program has been effective in increasing contraceptive use in assisted countries and has improved its measurement of results, but does not allocate resources across countries to respond to greatest needs.	Fully fund the program at the 2003 level of \$425 million. Better align resource allocation with country needs through improved USAID performance budgeting model.

Update on the President's Management Agenda

	Human Capital	Competitive Sourcing	Financial Performance	E-Government	Budget and Performance Integration
Status					
Progress					
<p>The Department of State is making progress but continues to face challenges in meeting the PMA goals. The Department has improved in the first quarter of 2003 in four of five PMA areas. Continued senior management commitment will be required throughout 2003 to maintain momentum and address red status conditions. That commitment includes aggressively addressing financial performance standards, successful implementation of the OPM Human Capital Assessment and Accountability Framework, improved execution of competitive sourcing, completing an Enterprise Architecture and security certification, and linking performance to budgeting decisions. The Department remains at yellow for progress in E-Government initiatives because of improving, but still insufficient, implementation of enterprise architecture and security remediation plans.</p>					

	Human Capital	Competitive Sourcing	Financial Performance	E-Government	Budget and Performance Integration
Status					
Progress					
<p>USAID has made little progress over the past year and continues to face serious challenges in improving management given the low starting point and complexity of programs. However, for the first time the USAID Inspector General was able to provide at least qualified opinions on three of the agency's financial statements and the reporting capacity of the accounting system was expanded. The agency developed a model for allocating resources based on objective criteria and began implementing full-cost accounting. The agency does not have a comprehensive workforce planning model for its multiple personnel systems, nor does it have a plan to compete any of the nearly 600 commercial positions on the FAIR Act inventory. Senior USAID staff are well aware of these problems and continue to refine their approach to improving management at the agency.</p>					

Over the past year, the Administration has developed and implemented two new Presidential Management Initiatives in the international affairs arena: Reform of Food Aid Programs and a "Right-Sized" Overseas Presence. Each of these initiatives challenged existing policies and was designed to improve program management and outcomes. The following table provides the status of these two initiatives.

Initiative	Status	Progress
Reform of Food Aid Programs		
A "Right-Sized" Overseas Presence		
<p><i>Arrow indicates change in status since baseline evaluation on June 30, 2002.</i></p> <p>Reform of Food Aid Programs. The Administration has successfully reformed federal food aid policy to provide greater certainty of funding, target funding to feeding hungry people and to increase consistency in USDA and USAID management of food aid programs. Based on these successes, this initiative will no longer be monitored as part of the President's Management Agenda.</p> <p>A Right-Sized Overseas Presence. Over the past year, OMB and the State Department have worked with agencies to develop a capital surcharge proposal to cover agency costs for housing their employees at facilities paid for by the State Department. The Administration will continue to advance this initiative.</p>		

Department of State and International Assistance Programs

(In millions of dollars)

	2002 Actual	Estimate	
		2003	2004
Spending			
Discretionary Budget Authority:			
Department of State:			
Diplomatic and Consular Programs.....	3,673	3,937	4,164
Embassy Security, Construction, and Maintenance	1,474	1,305	1,514
International Organizations and Conferences	1,724	1,617	1,561
Andean Counterdrug Initiative.....	645	731	731
All other programs.....	1,869	1,551	1,793
Subtotal, Department of State	9,385	9,141	9,761
International Assistance Programs:			
Foreign Military Financing.....	4,007	4,107	4,414
Nonproliferation, Anti-Terrorism, Demining and Related Programs	398	372	385
Economic Support Fund	2,670	2,490	2,535
Development Assistance.....	1,150	1,366	1,345
Child Survival and Disease Programs	1,338	1,474	1,495
Multilateral Development Banks.....	1,026	1,437	1,555
Millennium Challenge Account.....	—	—	1,300
Peace Corps	275	317	359
Global AIDS Initiative	—	—	450
Famine Fund.....	—	—	200
All other programs.....	2,785	2,669	3,001
Subtotal, International Assistance Programs	13,649	14,232	17,039
Other International Affairs Activities:			
Export-Import Bank.....	738	596	–37
<i>USDA International Food Aid (non-add)</i>	850	1,185	1,185
All other programs.....	613	609	674
Subtotal, Other International Affairs Activities.....	1,351	1,205	637
Total, Discretionary Budget Authority ¹	24,385	24,579	27,438
Mandatory Outlays:			
Department of State	470	369	452
International Assistance Programs.....	–1,801	–1,628	–908
Other International Affairs Activities	–941	–3,957	–346
Total, Mandatory outlays	–2,272	–5,216	–802
Credit activity			
Direct Loan Disbursements:			
Department of State	1	1	1
International Assistance Programs.....	438	142	47
Export-Import Bank	920	813	395
Total, Direct loan disbursements	1,359	956	443
Guaranteed Loans:			
International Assistance Programs.....	562	704	676
Export-Import Bank	7,859	7,543	8,662
Total, Guaranteed loans.....	8,421	8,247	9,338

¹ Includes \$1.3 billion in 2002 supplemental funding.

DEPARTMENT OF TRANSPORTATION

The President's Proposal:

- Funds initiatives to continue the long-term trend of lowering highway-related fatality rates;
- Provides for new motor carrier safety initiatives regarding carriage of hazardous materials, commercial driver's license enforcement, and standards for new truck drivers;
- Adds more Federal Aviation Administration air traffic controllers and safety inspectors and continues funding for airspace modernization projects to sustain aviation capacity and to ensure the safety of the national airspace;
- Funds federal highway programs at a level that continues to link spending to revenues and emphasizes highway safety and program management; and
- Supplies increased federal assistance for passenger rail service, conditioned on cost-saving reforms, including modernizing Amtrak's route structure and offering buyouts to any affected employees.

The Department's Major Challenges:

- Increasing safety and addressing congestion in all modes of transportation;
- Strengthening the economic effectiveness of the nation's transportation infrastructure; and
- Completing reauthorization of major departmental programs.

Department of Transportation

Norman Y. Mineta, Secretary

www.dot.gov 202-366-4000

Number of Employees: 59,189

2003 Spending: \$52.3 million

Major Assets: 10 operating administrations, including the Federal Aviation Administration, the Federal Highway Administration, and the Federal Motor Carrier Safety Administration.

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. Late in 2002, the Congress passed and the President signed a bill transferring the Coast

Guard and the Transportation Security Administration (TSA) to the new Department of Homeland Security. It will be a major task for DOT to complete this transfer in 2003. The President's Budget proposals concerning those organizations are discussed in the Department of Homeland Security chapter.

Overview

DOT's five key performance goals—improve safety, increase mobility in support of the nation's economy, protect the human and natural environment, achieve organizational excellence, and support the national security strategy—form the basis for the 2004 Budget request.

Transportation safety is the Department's top priority. To support this effort, the budget proposes increases for the Federal Motor Carrier Safety Administration (FMCSA) and the National Highway Traffic Safety Administration (NHTSA). In addition, the Federal Aviation Administration (FAA), Federal Railroad Administration (FRA), and the Federal Highway Administration (FHWA) will increase their focus on their safety goals. To increase mobility, the budget continues support for programs that improve the condition of the federal highway system, enhance the condition of the nation's transit system, and increase air space capacity. The Department also is undertaking several initiatives aimed at protecting the environment, including a FHWA partnership with the Environmental Protection Agency (EPA) to reduce air pollution. To achieve organizational excellence, the Department is redoubling its efforts to enhance program effectiveness and improve responsiveness to its customers.

Improving Transportation Safety

Because the human toll and economic cost of transportation accidents are massive, promoting public health and transportation safety is the first objective of all DOT agencies. To achieve this objective, the Department works with communities to educate the public about safety requirements and establishes safety standards for transportation industries. The budget proposes \$12.7 billion for transportation safety programs to meet the Department's safety mission.

In addition, as a "stretch goal," the Secretary has established an overall Departmental benchmark to reduce highway deaths from 1.5 to 1.0 fatalities for every 100 million vehicle miles traveled by 2008.

Increase Seatbelt Use

To increase seatbelt and child safety seats use, NHTSA's Safety Grant Program provides funds for safety awareness campaigns. For example, the District of Columbia (D.C.) has used NHTSA funds for its Project Safe Child program, which has nine child safety seat fitting stations geographically convenient to D.C. residents. At the sites, seats are available at a low cost, and technicians help correctly install the newly-purchased seats and provide educational information to parents and caregivers.

Air Safety

Commercial aviation is the form of transportation with the fewest human lives lost per mile traveled, according to National Transportation Safety Board data. The nation's airspace system includes 15,238 air traffic controllers, 3,364 significant airports, and 393 air traffic control facilities. The 2004 Budget supports FAA's efforts to provide the safest possible system through additional investments in personnel and airspace safety technology to prevent runway incursions. The budget seeks \$14 million for 328 additional controllers and safety inspectors. Since 1993, 37 runway safety systems have been installed at busy airports. These investments will contribute to FAA's goal of reducing the air carrier fatal accident rate by 80 percent between 1996 and 2007.

Surface Transportation Safety

In 2002, 42,116 lives were lost in traffic accidents. The economic cost of motor vehicle crashes is estimated to be more than \$230 billion annually. Since 1992, the rate of traffic fatalities has fallen as the number of fatalities has remained relatively flat and the number of vehicle miles traveled on the nation's roads has increased. This reflects the successes of federal, state, and local safety and enforcement programs and the greater public awareness of safety issues.

Within DOT, FMCSA and NHTSA are the two agencies focused primarily on surface transportation safety. Created in 2000, FMCSA regulates the safety of the large truck industry and seeks to cut the number of highway deaths attributable to truck crashes. The agency is committed to helping reduce fatalities per 100 million vehicle miles traveled from 2.8 in 1996 to 1.6 in 2008. FMCSA will concentrate on increasing the number of inspections at road-sides and other locations, improving the Commercial Driver Licensing program, and implementing a hazardous materials (HAZMAT) security program. In 2004, \$223 million is proposed to help states implement highway safety programs, and \$224 million will support oversight of HAZMAT transportation, federal safety enforcement programs, and border safety inspections.

The Department will continue to concentrate its truck safety program on the southern border as the nation fulfills its commitment under the North American Free Trade Agreement to allow Mexican trucks to travel on U. S. highways. In addition, the Department will begin to implement a New Entrant Program, in which every new commercial motor carrier company—Canadian, Mexican, or American—that applies to operate within the United States will be subjected to a safety audit in the first 18 months of operation before it receives a permanent safety decal. Studies show that new entrants are less likely to comply with safety regulations and are more likely to be involved in crashes than well-established motor carriers. Consequently, conducting new entrant safety inspections is an important step toward reducing truck-related accident fatalities and increasing highway safety.

To help reduce highway fatalities and injuries, NHTSA is striving to increase seat belt usage from 69 percent in 1997 to 79 percent in 2004 and to lower the alcohol-related highway fatality rate from .63 per 100 million vehicle miles traveled to .51 per 100 million vehicle miles traveled in 2004. In support of these goals, the budget supplies \$218 million for safety operations and research programs, including \$10 million for a crash causation study. It provides another \$447 million for grants to states for targeted highway safety programs to counter drugged and drunk driving and to enforce safety belt use.

FHWA works to improve highway safety by promoting increased use of road-side safety



Starting in 2004, DOT inspectors will use decals to ensure that only safe new entrant trucking companies may operate in the United States.



Crash dummies and vehicle testing—NHTSA putting safety first.

features and conducting research into improved road design. Likewise, FRA focuses on safety and security of the national rail system, primarily through inspectors who check the condition of the rail infrastructure. In light of potential new risks, the budget recommends funds for new staff to inspect railways associated with the transportation of hazardous materials.

Currently, a network of two million miles of pipelines transports natural gas to nearly 60 million residential and commercial customers in the United States. The Research and Special Programs Administration (RSPA) operates the Department's national regulatory program to assure the safe transportation of natural gas, petroleum, and other hazardous materials by pipeline. In 2004, RSPA will study ways to improve the performance of controllers who monitor pipeline operations.

Improving Transportation Mobility

DOT strives to improve mobility within the United States, recognizing that a safe, efficient transportation infrastructure is a key national asset crucial to the nation's economy and defense.

Over the last 20 years, travel and congestion have increased for all modes of transportation. In response, the Department has targeted alleviating congestion on the roads and in the air. To address congestion—as well as enhance infrastructure conditions—the Department is focusing on smart technology and system improvements. Initiatives supported in this budget include expanding “intelligent” highway system technology and modernization of the airspace control system. Total requested spending on this goal is \$37.7 billion in 2004.

Air Mobility

After the terrorist attacks of September 11th, demand for air travel dropped significantly, but FAA is forecasting a gradual recovery. FAA is working on airspace system improvements to mitigate the effects of flying in bad weather and use the air space more efficiently, thus helping speed planes to their destinations. The budget requests \$1,952 million for investments in air traffic modernization equipment that will allow air traffic controllers to steer planes onto the quickest flight paths and allow faster landings in poor weather. Past FAA investments in new equipment have successfully increased air space capacity.

FAA also looks to speed aircraft takeoff and landings by building additional runways with funding from the Grants-In-Aid program. In 2003, new runways will become operational at Denver, Miami, Houston, and Orlando. The aim is to increase daily arrival capacity at the nation's airports to 47,000 landings per day by the end of 2004.

Essential Air Service—Is it Worth the Cost?

The Essential Air Service (EAS) program pays airlines to provide service to small communities that may otherwise lack such service. The events of September 11th had a dramatic impact on aviation. They resulted in reductions in air travelers and service—especially in rural locations—while increasing the resources needed to maintain subsidized service. The cost of EAS has more than doubled in the past year. As of July 2002, EAS provided subsidies to air carriers in 114 communities—including 35 in Alaska, Hawaii, and Puerto Rico. Of the 79 communities in the continental United States, 14 have subsidies that exceed \$200 dollars per passenger. DOT has begun to implement reforms and control costs. For example, until 2002, Utica, New York, which had average daily enplanements of only 3.7 persons and received an annual subsidy of \$1,133,415, had a per passenger subsidy of \$495. In contrast, one could rent a car for a week at \$190 and drive 50 miles to Syracuse's Hancock airport, which is served by eight carriers. Clearly this was not the intent of the program. The President's Budget is proposing significant changes to EAS to target subsidies where they are most needed. EAS will now provide subsidies to the most isolated communities and will require local support through matching funds.

The Grants-In-Aid for Airports program currently provides funding to airports for infrastructure projects. Additional runways, improved technology and a decline in air traffic activity have reduced flight delays. In 2002, the annual on-time arrival rate was 82 percent—compared to 75 percent in recent years. These improvements, coupled with the findings of a Program

Assessment Rating Tool (PART) analysis, leads to a recommendation that infrastructure funding be focused on major capacity, safety and noise mitigation projects that provide the greatest benefits to the national system, while targeting airports with significant needs.



Rush Hour: Congestion remains a major problem at the nation's busiest airports during peak times—overall on-time arrivals have increased from 75 to 82 percent in 2002.

Essential Air Service—Growth in Average Subsidy Per Passenger

	Actual		2002 Estimate	Percent Change 1995–2002
	1995	1999		
Continental United States	\$79	\$133	\$229	+190%
Alaska, Hawaii, Puerto Rico ..	\$13	\$42	\$99	+662%

Surface Mobility

Improving the condition of highways and bridges is critical to transportation mobility. The federally supported National Highway System (NHS) comprises the most important national routes for trade and commerce. The system includes all interstates and over 84 percent of other principal arterials. While it accounts for only 4.1 percent of total road mileage in the United States, it handles 44.3 percent of total vehicle miles traveled. Consequently, the condition of the NHS significantly impacts congestion, wear-and-tear on vehicles, the comfort of travelers, and fuel consumption. In the past decade, highway and bridge conditions have steadily improved. Of all vehicle miles traveled on the NHS, 92 percent in 2002 were on pavements with acceptable ride quality.

Intelligent Highways

Vehicle crashes are one of the primary causes of highway congestion. DOT's Intelligent Transportation Systems (ITS) program funds research and development projects that speed delivery of emergency services, which saves lives and reduces congestion. Systems with sensors embedded in roads, closed circuit television cameras, and variable message signs allow local governments to detect slowdowns caused by accidents and initiate responses within seconds of an incident occurring. For example, an ITS pilot project in San Antonio, Texas, is estimated to have achieved:

- 20-percent reduction in emergency response time;
- 30-percent reduction in secondary crashes;
- 41-percent reduction in crash rates;
- 255,500 annual reduction in hours lost; and
- 2,600 gallons of fuel saved.

To continue improving the condition of highways and bridges, the 2004 Budget requests resources to allow greater use of innovative pavement technologies and high performance bridge materials. The budget also requests funding for increased use of Transportation Asset Management (TAM) concept-and practices. TAM is a strategic approach to managing and investing in transportation infrastructure that bases spending decisions on performance goals and economic and engineering considerations.



Intelligent Transportation Systems—Command and control of real time traffic condition information speeds accident response teams and eases congestion.

To limit the growth rate of congestion, the budget proposes funding for a variety of measures that will address traffic congestion in critical areas, including carpool projects, operational enhancements on highways and bridges, improved incident management, and implementation of smart work zone technologies, such as traffic monitoring. In addition, the budget requests funding for traffic analysis and modeling and long-term research in operations and intelligent transportation systems. The budget also targets funds to begin building a more efficient freight transportation system.

Communities are increasingly incorporating transit—rapid bus, commuter rail and intercity-bus—into their transportation plans in an effort to reduce congestion. Overall transit passenger miles traveled increased by 32 percent since 1980. The 2004 Budget supports transit programs that target resources to the most cost-effective and innovative projects for meeting communities' needs. The Federal Transit Administration (FTA) is also instituting a series of improvements in its oversight and management of transit projects.

New Freedom Initiative

The President's New Freedom Initiative embraces the goal of improving mobility by providing additional tools to persons with disabilities seeking integration into the workforce and full participation in society. The Rhode Island Public Transit Authority's (RIPTA) Flex Service exemplifies the type of innovative service the President's initiative hopes to expand. A statewide survey revealed that 81 percent of individuals with disabilities living in the outer suburbs and rural communities cited a lack of reliable transportation as an obstacle to accepting a job. In response, RIPTA has implemented five flexible service demonstration programs in Rhode Island's low-density suburban and rural communities that provide people with a reliable transit alternative.

The 2004 Budget includes \$145 million to support the transit component of the New Freedom Initiative and to expand transportation mobility options available to individuals with disabilities beyond the standards set in the Americans with Disabilities Act.

Reordering Intercity Passenger Rail Service

The Congress created the National Rail Passenger Corporation (Amtrak) in 1971 as a for-profit corporation providing a national rail passenger system. In 1997, the Congress reaffirmed its intent that Amtrak become self-supporting with enactment of the Amtrak Reform and Accountability Act, which required Amtrak to operate without federal subsidy by 2003. Nevertheless, it has never broken even

financially and has grown increasingly dependent on government aid. Since 1971, American taxpayers have given Amtrak more than \$24 billion. Without fundamental reform, Amtrak will not function without continued substantial subsidies.

In the past year, after the loss of access to private credit, Amtrak was nearly forced to suspend operations as it ran out of cash. Only a special loan from the federal government and a supplemental appropriation averted a shutdown.

Despite Amtrak's financial difficulties, in a few areas of the country Amtrak is a significant factor in intercity travel. In June 2002, Secretary Mineta set out the Administration's principles for reforming Amtrak, including:

- Create a system driven by sound economics;
- Require that Amtrak transition to a pure operating company;
- Introduce competition to provide higher quality rail service at reasonable prices;
- Establish a long-term partnership between states and the federal government to support intercity passenger rail service; and
- Create an effective public-private partnership, after a reasonable transition, to manage the capital assets of the Northeast Corridor.

Amtrak reform can wait no longer. The 2004 Budget follows through on these ideas by proposing to eliminate underused and inefficient long-distance train routes and reducing overhead operations where other options could perform them more efficiently. To facilitate these changes, the budget proposes \$900 million to support operations, expand Amtrak's capital and infrastructure maintenance programs, and begin to address structural reform through measures the Administration believes will improve Amtrak's future viability. In an effort to ensure that states play a major role in determining the route structure of a national passenger rail system, the Administration will encourage states to contribute to those routes they believe are critical to their transportation needs.

Protecting the Human and Natural Environment

Transportation contributes ozone, carbon monoxide, and particulate matter to the atmosphere. 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 64 million tons in 1999, which marks a 28-percent improvement in a little more than a decade. To further curb emissions, the 2004 Budget seeks resources to implement air quality standards and to offer technical assistance to communities working with EPA. The budget also proposes funding to continue the success of the Congestion Mitigation and Air Quality program, which promotes transportation projects that help reduce emissions.

Train or Plane?

One of the reasons behind Amtrak's fiscal difficulties is its continued operation of several routes that regularly lose hundreds of dollars each time a passenger steps aboard. Below are the routes with the largest losses per passenger in 2001:

- Sunset Limited: −\$347 (Los Angeles to Orlando)
- Pennsylvanian: −\$292 (Philadelphia to Chicago)
- Texas Eagle: −\$258 (San Antonio to Chicago)
- Three Rivers: −\$245 (New York to Chicago)
- Southwest Chief: −\$237 (Chicago to Los Angeles)
- Kentucky Cardinal: −\$212 (Louisville to Chicago)

For several of these trains, it would literally be cheaper for Amtrak to buy each passenger a plane ticket to the next destination. For example, a round trip ticket for direct flights between San Antonio and Chicago (the Texas Eagle route) can be purchased for as little as \$216.

Achieving Organizational Excellence

With more than 59,000 employees and hundreds of programs, DOT faces significant challenges regarding customer satisfaction, employee effectiveness, and organizational performance and productivity. The Department plans to focus on improving its oversight of highway projects funded with federal-aid highway resources. Until now, FHWA staff have primarily provided technical assistance to states, rather than ensuring states have well-managed highway programs and cost-effective and justified projects. Over the last six years, combined federal, state, and local investment in highways and transit systems has exceeded \$500 billion, meaning a one-percent increase in efficiency could have saved \$5 billion. FHWA will provide more direct oversight of those projects over \$1 billion and hold states more accountable for delivering highway projects on time and within budget.



The Springfield Interchange in suburban Washington, D.C. has become one of the most costly highway projects in the country.

High-Dollar Mixing Bowl

The Springfield Interchange overhaul in suburban Washington, D.C., a.k.a. the Mixing Bowl, has grown into one of the most expensive highway construction projects in the country. Cost estimates have increased by 180 percent from 1994. Because of lax project oversight, the project is now expected to cost \$677 million instead of the \$241 million first projected. To prevent more situations like the Springfield Interchange in the future, the Administration is seeking to strengthen FHWA's oversight role and improve financial and project management.

Performance Evaluation of Select Programs

For further details on these programs, please see the DOT chapter in the *Performance and Management Assessments* volume.

Program	Rating	Explanation	Recommendation
FAA: Grants-in-aid for Airports (Airport Improvement Program)	Moderately Effective	The Grants-in-Aid for Airports program has adequately met its goals, such as keeping at least 93 percent of active airfield pavement in fair or better condition.	The budget request continues to support major capacity, safety and noise mitigation projects that provide the greatest benefits to the national system, while targeting airports with significant needs.

Program	Rating	Explanation	Recommendation
FMCSA: Federal Motor Carrier Safety Administration	Adequate	The number of fatalities and injuries involving large trucks has not been reduced in recent years. Though the agency has made progress, actual performance is below the annual safety stretch targets.	The budget provides increased funding for motor carrier safety grants to support FMCSA's safety goals. Through strategic planning, FMCSA is reviewing its long-term and annual performance goals and will adopt a more realistic plan for achieving long-term outcomes.
NHTSA: National Highway Traffic Safety Administration Grant Program	Moderately Effective	NHTSA has shown measurable progress toward achieving its performance goals. The rate of highway fatalities has been declining steadily since the inception of the state and community safety grant program in the mid-1960s.	The budget provides increased funding for traffic safety grants to improve performance. Continued success depends in large part on the progress of the agency's partners—states, local jurisdictions, the private sector, and safety organizations.
FHWA: Highway Infrastructure	Moderately Effective	The highway infrastructure program has a clearly defined purpose and has made adequate progress in achieving its goals. In recent years, FHWA has made efforts to strengthen its program management and oversight activities.	The budget provides a funding level consistent with the Administration's reauthorization proposal. It also recommends improved program and project oversight of states, and directs program resources to more comprehensive evaluation activities, particularly on the state level.

Program Reauthorization

Both the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (AIR-21) and Transportation Equity Act for the 21st Century (TEA-21) expire at the end of 2003. These laws authorize most of DOT's major program activities, including highway system funding, FTA, and FAA. The proposals contained in the 2004 Budget form the foundation of the Administration's principles and priorities for reauthorizing these programs. The Administration expects to provide full recommendations for reauthorization of highway, transit, and aviation programs early in 2003, which will build on the progress achieved in the expiring laws.

The President's Budget proposals will extend the funding approach of TEA-21 that links highway spending to Highway Account Trust Fund receipts. The budget also directs all revenue from gasohol taxes to the Highway Trust Fund (previously, 2.5 cents per gallon in gasohol taxes were diverted to general revenues). This proposal adds approximately \$600 million annually to Trust Fund receipts available for highway spending. In addition to these sums, the Administration proposes a new highway infrastructure performance and maintenance initiative funded at \$1 billion per year for six years. This initiative would be based on the Surface Transportation Program funding formula and











targeted to “ready-to-go” highway projects that address traffic congestion and improve infrastructure condition. States would be required to commit funds in the first half of each fiscal year. Failure to obligate funds quickly would trigger a reallocation of these funds among states.

Other highlights of the highway reauthorization proposal include:

- Preserving broad state and local funding flexibility that allows grantees to target funds to specific areas of concern;
- Continuing efforts to streamline project approval and implementation, including a more efficient environmental review process;
- Expanding the capacity and efficiency of the freight transportation system through improved intermodal linkages and expanded innovative finance tools;
- Improving federal oversight by requiring financial and project management plans for major highway projects with a total estimated cost over \$1 billion; and
- Streamlining grant requirements to reduce the paperwork burden and increase state and local flexibility.

Update on the President’s Management Agenda

More details on DOT’s implementation of the President’s Management Agenda can be found in the *Performance and Management Assessments* volume.

	Human Capital	Competitive Sourcing	Financial Performance	E-Government	Budget and Performance Integration
Status					
Progress					
DOT has shown substantial, sustained progress in each management agenda area. Since last year, DOT adopted a comprehensive human capital plan. It developed a competitive sourcing plan and began a major competition study for a portion of the FAA workforce. DOT progressed significantly in deploying a compliant financial management system, issued department-wide capital planning and investment control guidance; and, submitted performance-based budget justifications for 2004. DOT’s status ratings, however, remain unchanged. While DOT reached major milestones, much of the subsequent implementation is pending.					

Department of Transportation

(In millions of dollars)

	2002 Actual	Estimate	
		2003	2004
Spending			
Discretionary Budgetary Resources:			
Office of the Secretary	137	121	178
Federal Aviation Administration	13,803	13,582	14,007
Federal Highway Administration	31,767	27,574	29,294
NYC: repairs to highways and ferry service after September 11 th	342	—	—
Federal Motor Carrier Safety Administration	354	367	447
National Highway Traffic Safety Administration	422	425	665
Federal Rail Administration	944	710	1,089
NYC: repairs to Amtrak tunnels after September 11 th	100	—	—
Federal Transit Administration	6,768	7,226	7,226
NYC: repairs to transit after September 11 th	1,900	—	—
Highway "flex" funding transferred to transit	1,177	—	—
Research and Special Programs Administration	98	107	118
Maritime Administration	216	207	218
All other programs	71	81	92
User fees	-52	-122	-49
Total, Discretionary budgetary resources ^{1, 2}	58,047	50,278	53,285
Mandatory Outlays:			
Federal Highway Administration	1,272	1,301	1,302
Office of the Secretary	2,240	468	32
<i>(Airline recovery after September 11th) [non-add]</i>	2,222	50	—
All other programs			
Existing law	80	-169	-294
Legislative proposal, Federal-aid Highways Emergency Relief Program	—	—	27
Total, Mandatory outlays	3,592	1,600	1,067
Credit activity			
Direct Loan Disbursements:			
Transportation Infrastructure Finance and Innovation Program	51	500	953
Railroad Rehabilitation and Improvement Program	101	205	198
All other programs	3	7	7
Total, Direct loan disbursements	155	712	1,158
Guaranteed Loans:			
Transportation Infrastructure Finance and Innovation Program	—	120	160
Maritime Guaranteed Loans (Title XI)	225	338	—
Minority Business Resource Center	5	18	18
Total, Guaranteed loans	230	476	178

¹ Includes both discretionary budget authority and obligation limitations.

² Includes \$2.8 billion in 2002 supplemental funding, of which \$2.3 billion was for New York City.

DEPARTMENT OF THE TREASURY

The President's Proposal:

- Strengthens the integrity of the nation's tax system by deterring tax evasion (especially among high income taxpayers), reducing fraud and improper benefit payments in the Earned Income Tax Credit program, and utilizing the private sector to collect more efficiently legitimate tax debt owed to the government; and
- Supports the war on terrorism by vigorously pursuing terrorist financing activities and reinforcing the Department of the Treasury's capability to track and seize terrorist assets.

The Department's Major Challenges:

- Improving compliance with tax laws;
- Managing modernization at the Internal Revenue Service;
- Improving services to our taxpayers; and
- Shutting down sources of terrorist financing.

Department of the Treasury

Kenneth Dam, Acting Secretary

www.ustreas.gov 202-622-2000

Number of Employees: 116,675

2003 Spending: \$11.1 billion (debt financing and tax credits account for another \$357.7 billion)

Organization: Nine bureaus—Internal Revenue Service; Financial Management Service; Financial Crimes Enforcement Network; Alcohol and Tobacco Tax and Trade; Public Debt; Mint; Engraving and Printing; Comptroller of the Currency; and Office of Thrift Supervision.

The Department of the Treasury's core responsibilities are:

- managing our nation's finances;
- fighting the financial war on terrorism; and
- safeguarding our nation's currency.

2003 will be a year of great change for the Department of the Treasury. The Homeland Security Act of 2002 transferred the U.S. Customs Service, the U.S. Secret Service, and the Federal Law Enforcement Training Center to the Department of Homeland Security and transferred the firearms, arson, and explosives functions of the Bureau

of Alcohol, Tobacco, and Firearms (ATF) to the Department of Justice. Formerly part of ATF, Treasury's Alcohol and Tobacco Tax and Trade Bureau administers and enforces the alcohol and tobacco laws. (The President's Budget proposals concerning these bureaus are discussed in the Departments of Homeland Security and Justice chapters.) Treasury will have transferred almost a third of its resources as part of this reorganization, including most of its law enforcement functions.

Streamlining the department to its core financial responsibilities will better enable Treasury to meet its challenges.

Performance Evaluation of Select Programs

Treasury performance evaluations this year showed both effective and ineffective programs. The results and policy proposals for two critical programs are summarized in the following table. For further details on these and other Treasury programs, please see the Department of the Treasury chapter in the *Performance and Management Assessments* volume.

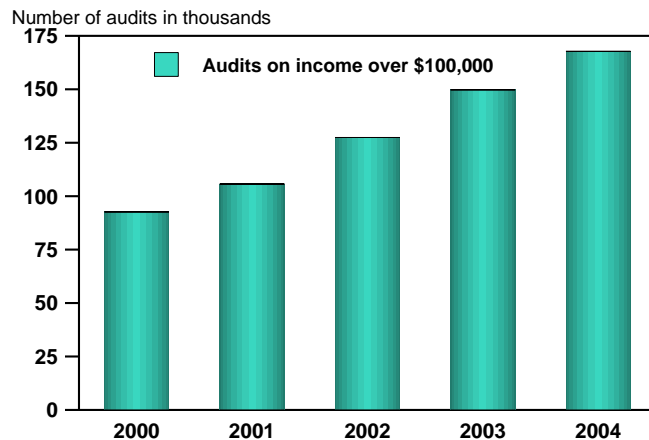
Program	Rating	Explanation	Recommendation
Internal Revenue Service (IRS) Tax Collection	Results Not Demonstrated	This program secures known delinquent tax debt. While it yields \$18 billion per year, it fails to collect far more, and does not effectively enforce fair tax compliance.	The budget includes an initiative to use private collection agents to help secure delinquent tax debt and includes an increase in IRS enforcement funding.
Office of Foreign Assets Control (OFAC)	Results Not Demonstrated	This program administers and enforces economic and trade sanctions against targeted foreign countries, terrorism sponsoring organizations, and international narcotics traffickers. Treasury's OFAC and our allies have frozen over \$124 million in terrorist assets since September 2001, but the program does not have strong annual and long-term performance goals.	OFAC is in the process of establishing annual and long-term performance goals that directly tie to their core missions. This will enable program partners and the public to evaluate more precisely OFAC's success in enforcing economic and trade sanctions.

Managing Our Nation's Finances

The IRS is the government's principal revenue collector. Although IRS has improved performance over the past few years, further improvement is needed: only 68 percent of taxpayer calls were answered in 2002, only 81 percent of tax law answers met IRS quality standards, and compliance efforts are too low. IRS needs to improve the way it does business and modernize its computer systems to achieve vital performance breakthroughs. To this end, the IRS is in the midst of a major effort to reengineer its work processes and modernize its technology. In 2003 and 2004, IRS will roll out the first two phases in a multiyear effort to replace the taxpayer database. This new database will allow accurate tax account answers on a real time basis. The new database also will allow the IRS to develop new approaches to improve tax collection and improve taxpayer assistance. The budget proposes \$10.4 billion for IRS and includes four major efforts to improve performance:

- The budget provides \$133 million to expand efforts to enforce fair tax compliance among high income taxpayers and businesses. (See accompanying chart.)

More High Income Earners Will be Audited



- The budget includes legislation to allow IRS to employ private collection agents (PCAs) to help collect known tax debts and to pay PCA fees from receipts. Many states and other federal agencies already use private collectors, with encouraging results. For example, Treasury's Financial Management Service (FMS) used PCAs to collect \$43 million in non-tax debts in 2002. This legislation includes strong protections for taxpayer's rights.
- In support of the President's initiative to reduce erroneous payments, the budget includes an increase of \$100 million to lower erroneous earned income tax credit payments.

- The budget includes \$429 million to support the IRS modernization effort.

Ensuring Earned Income Credits go to the Right People

The Earned Income Tax Credit (EITC) provides \$32 billion each year to 20 million hard-working, lower-income Americans. It rewards work and lifts families out of poverty. Unfortunately, it is also far too complex and is prone to error and fraud. Its 54-page instruction book confuses even tax professionals. More than one dollar in four is paid in error. EITC reforms effective in 2002 simplify eligibility rules and the computation of benefits. This should reduce errors. In addition, the budget includes a \$100 million increase to help ensure only eligible taxpayers receive payments and to clarify EITC rules.

IRS is expanding its use of web applications to improve service to taxpayers. Private industry partnered with IRS in 2002 to provide free Internet filing of federal tax forms starting in early 2003. Additionally, taxpayers are able to check the status of their refund on the web. IRS also is partnering with the Social Security Administration to provide online employer identification numbers.

Treasury manages the government's payments through the FMS. Each year FMS issues nearly 950 million non-Defense payments, with a dollar value of more than \$1.2 trillion, to a wide variety of recipients, such as those who receive Social Security, IRS tax refunds, and veterans' benefits. In 2002, FMS issued 666 million

Web Applications Improve Service to Taxpayers

- *Free Tax Filing on the Internet.* More than six out of every 10 taxpayers are now able to prepare and file their tax returns for free on the Internet. Electronic filing is quick, easy, and far less prone to error than traditional paper returns. This service is provided by the Free File Alliance, a consortium of private sector companies, under a public service agreement with IRS.
- *Internet Tax Filing Confirmation and Refund Status.* 130 million taxpayers who file Form 1040 tax returns are able to confirm that the IRS has received and processed their return. 97 million taxpayers expecting a refund are able to check the date the refund will be mailed or deposited directly to their bank account.

For more information about these two services, visit www.firstgov.gov or www.irs.gov.

payments (73 percent) by electronic funds transfer and 253 million paper checks. FMS also collected \$2.3 trillion in federal receipts, of which \$1.8 trillion (79 percent) was received electronically.

The budget also proposes to repeal a Treasury-administered provision in the 2001 Agriculture Appropriations Act, the Continued Dumping and Subsidy Offset Act of 2000, that annually pays approximately \$230 million to complainants in antidumping/countervailing-duty cases. These corporate subsidies effectively provide a significant “double-dip” benefit to industries that already gain protection from the increased import prices provided by countervailing tariffs. While the Administration does not believe that these payments are inconsistent with U. S. treaty obligations, repeal of the provision would allow the funds to be directed to higher priority uses.

Treasury manages the nation’s debt through the Bureau of Public Debt (BPD). BPD oversees the \$6.3 trillion federal debt, including the \$3.6 trillion held by the public. Last year, BPD issued approximately \$3.7 trillion of debt by auctioning marketable Treasury securities and selling savings bonds, and paid off \$3.5 trillion in securities. BPD introduced its new TreasuryDirect system in 2002, by offering the first ever all electronic Series I inflation-indexed savings bond (www.treasurydirect.gov). This is the first step of an E-Government initiative to offer retail investors a direct all-electronic means to buy and hold Treasury securities. A key factor in achieving this important goal is the multiyear effort to convert all savings bond holdings to paperless form.



The Bureau of Public Debt is phasing out paper bonds in favor of web-based electronic bonds.

Fighting the Financial War on Terrorism

Treasury combats terrorist financing through the Internal Revenue Service-Criminal Investigation Division, the Financial Crimes Enforcement Network (FinCEN), and Office of Foreign Assets Control (OFAC). These organizations are invaluable in detecting, disrupting, dismantling, and blocking terrorist financing operations. Since September 2001, OFAC and our allies have blocked terrorist-related assets totaling \$124 million worldwide.

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 violations. They apply their training, skills, and expertise to support the national effort to combat terrorism, including participation in the Joint Terrorism Task Forces and similar joint efforts focused on disrupting and dismantling terrorist financing.

The most visible and immediately effective tactic of our comprehensive terrorist financing strategy has been designating and blocking the accounts of terrorists and those associated with financing terrorist activity.











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 proposal provides FinCEN with significant budgetary increases to improve information sharing between the financial services and law enforcement communities. FinCEN will use these resources to expand the Patriot Act Communications System, a highly secure network that allows financial institutions to electronically file Bank Secrecy Act forms.

Safeguarding Our Nation's Currency

The United States Mint and the Bureau of Engraving and Printing (BEP) are responsible for assuring that our nation retains its status as producing the world's most accepted currency. According to the U.S. Secret Service, \$47.5 million in counterfeit money was discovered in circulation in 2002. Of this amount, 39 percent was computer generated, compared with only 0.5 percent of the counterfeit currency seized in 1995. The rapid growth of desktop publishing and other computer technologies have contributed to this increase in counterfeiting.

BEP is in the process of redesigning our nation's currency to counter this trend. The new design, known as NexGen, will affect the \$100, \$50, and \$20 notes. Introduction of the NexGen \$20 bill could begin as early as fall 2003, with introduction of the other notes 12 to 18 months later. The NexGen notes will remain the same size and use similar portraits and images to maintain their unique and accepted appearance. The NexGen design will build on past security features with the addition of subtle background colors and other new security features that are designed to deter counterfeiting. The redesign effort will be introduced with an extensive public education campaign to inform the public and business sector about the NexGen currency and also how to detect counterfeit currency.

Update on the President's Management Agenda

	Human Capital	Competitive Sourcing	Financial Performance	E-Government	Budget and Performance Integration
Status					
Progress					
Treasury is exploring competition of more than 5,000 commercial positions to determine the best means of delivering services such as IRS tax form distribution centers (500 positions), IRS building maintenance (100 positions), and Mint customer service (48 positions). These competitions should begin to yield savings in 2003 and 2004. Treasury can now produce accurate financial reports three days after the end of each month. In 2001, Treasury met the goal to produce audited financial statements by November 15 th , two years ahead of the Administration's goal to require agency financial statements 45 days after the end of the year. However, the Department will not be able to correct significant weaknesses in IRS's tax accounting systems until late 2006. In addition, the Department must improve its ability to manage its critical technology investment programs. Finally, IRS is developing outcome measures and working to rationalize its budget structure. These efforts, and other improvements in performance measures, will make it easier to manage Treasury's programs to yield maximum results.					

Department of the Treasury
(In millions of dollars)

	2002 Actual	Estimate	
		2003	2004
Spending			
Discretionary Budget Authority:			
Internal Revenue Service	9,485	9,917	10,437
Financial Management Service	199	221	229
Financial Crimes Enforcement Network	48	51	58
Alcohol and Tobacco Tax and Trade Bureau	73	80	80
Public Debt	188	191	174
Mint.....	13	—	—
Interagency Law Enforcement.....	108	108	—
Departmental Offices	431	443	419
Total, Discretionary budget authority	10,545	11,011	11,397
Mandatory Outlays:			
Internal Revenue Service	32,966	36,551	37,523
Internal Revenue Service - Legislative Proposal	—	300	1,289
Financial Management Service	2,316	1,590	1,443
Financial Management Service - Legislative Proposal	—	—	386
Alcohol and Tobacco Tax and Trade Bureau	341	355	307
Alcohol and Tobacco Tax and Trade Bureau - Legislative Proposal	—	—	57
Public Debt	130	131	131
Comptroller of the Currency	–36	–21	–22
Office of Thrift Supervision	–10	—	—
Federal Financing Bank	51	50	58
Federal Financing Bank - Legislative Proposal.....	—	2	5
Departmental Offices	–136	231	–100
Departmental Offices - Legislative Proposal	—	—	–221
All other programs	–2,419	–2,534	–2,522
Other - Legislative Proposal	—	—	–1,851
Total, Mandatory outlays	33,203	36,655	36,483
Credit activity			
Direct Loan Disbursements:			
Community Development Financial Institutions Fund	18	10	10
Total, Direct loan disbursements	18	10	10
Guaranteed Loans:			
Air Transportation Stabilization Guaranteed Loan Financing	429	1,433	—
Total, Guaranteed loans	429	1,433	—

DEPARTMENT OF VETERANS AFFAIRS

The President's Proposal:

- Is the largest annual increase ever requested by a President;
- Refocuses medical care resources on treating veterans with military disabilities, low-income or special needs;
- Fulfills commitments to the nation's veterans by:
 - Guaranteeing that veterans' disability claims are processed accurately and quickly; and
 - Improving health care delivery by coordinating the medical care systems of the Departments of Defense and Veterans Affairs; and
- Funds a major expansion in cemeteries to prepare for increased burial demands, due to the aging of veterans.

The Department's Major Challenge:

- Managing the large increase in demand for health care services.

Department of Veterans Affairs

Anthony J. Principi, Secretary

www.va.gov 202-273-4800

Number of Employees: 211,764

2003 Spending: \$56.9 billion

Infrastructure: VA owns 30,217 acres of land and 5,558 buildings; VA operates 163 hospitals, 850 ambulatory care and community-based outpatient clinics, and 120 national cemeteries.

Organization: Veterans Health Administration, Veterans Benefits Administration, and National Cemetery Administration.

The Department of Veterans Affairs (VA) operates the largest direct health care delivery system in the country. VA also supports medical research; administers veterans' benefits including monthly disability payments, education assistance, life insurance, home loans, and vocational rehabilitation and employment services to veterans. In addition, VA runs veterans' cemeteries across the country. The President's 2004 request for VA represents more than a 30-percent increase over the 2001 level and is the largest annual increase ever requested by a President.

Overview

Today, there are 26 million veterans, but in the next 20 years this number will fall by one-third, to 17 million. Although all veterans are eligible for VA services, fewer than six million veterans

participate in its programs. A declining population eventually will mean that fewer veterans will seek medical care, monthly disability benefits, and burials at VA cemeteries. On the immediate horizon, however, veterans healthcare and other costs have continued to rise.

Refocusing Medical Care's Core Mission



VA benefits help veterans lead active lives.

for change is expected this fall. The budget provides \$225 million of needed construction funding.

In 1996, a law was passed allowing VA to treat all veterans in the most practical settings. This law permitted VA to deliver care similar to the private sector. As a result, most VA care is now provided in clinics and homes instead of hospitals. Patients have also benefited from new innovative safety and quality systems. Today, VA is recognized as a world leader in quality medical care, as described by an Institute of Medicine October 2002 report.

VA is working to ensure its facilities are located where most veterans live to support this new way of delivering services. Many veterans have moved to the South and Southwest resulting in increased waiting times for appointments. At the same time, VA maintains many underused hospitals throughout the North and East. VA needs to increase services where veterans with military disabilities or low-incomes live and convert many of its massive hospitals to more efficient clinics, where needed. To do this, in June 2001, the Department completed a review process in the first of 21 regions, the Chicago region, and is now implementing the recommendations. Work has begun in the remaining 20 regions, and a nationwide plan

The 1996 law also required VA to assign veterans receiving medical care to one of seven priority levels. An eighth priority level was later added. These levels are designed to prioritize the need for care among veterans, thus giving greatest preference to those with the most severe health problems and the least financial resources. Veterans with military disabilities, low incomes or special needs are given higher priority levels in line with VA's core mission. Veterans without these characteristics fall into the lowest levels (Priority Levels 7 and 8). Based on the level of funding provided by the Congress, the VA Secretary announces annually which priority levels of veterans are eligible to receive care. Each year since 1998, VA has announced that all veterans are eligible to receive care. Eligible veterans, regardless of income or the nature of their illness or injury, are entitled to receive the full basic benefits package of services. Prior to the 1996 law, veterans in the lowest two priority levels were only treated if space was available, and they were restricted as to the kind of care they could receive and where they could receive it. However, since the law passed, these veterans have grown from two percent to over 31 percent of VA enrollees in 2002. The rapidly escalating numbers of these veterans will require a growing portion of VA resources, reducing the resources available for veterans with disabilities or low incomes. As a result, 236,000 veterans now must wait six months or longer for an appointment.



The President's Budget includes a number of changes that refocus attention on VA's core medical care mission of providing needed services to veterans with military disabilities or low incomes as well as those with special needs. It assumes that, in early 2003, Priority Level 8 veterans will not be able to enroll if they are not yet using VA medical care. However, Priority Level 8 veterans currently enrolled will not lose that status. Priority Level 7 and Priority Level 8 veterans will pay an annual enrollment fee, and increased drug co-payments. Institutional long-term care will only be available

The VA Company Store

Congress created the Veterans Canteen Service in 1946 to furnish merchandise and services for the comfort of veterans in VA hospitals and nursing homes. In 57 years the Canteens have evolved from a collection of soda fountains and closet-sized hospital gift shops into a nationwide system of 148 commercial food courts and/or retail outlets—where one can even buy computers, large-screen televisions, tires, and refrigerators. The 3,000 employees that work in this “VA Company Store” provide services commonly found in local markets. Taxpayers pay since VA provides below-market rental space to more than half of the Canteens, and because purchases from the Canteen are tax-free. The Canteen Service should be open to private competition—on an equal basis with other bidders—to ensure the best use of taxpayer funds.

to veterans with disability ratings of 70 percent or greater. No veterans currently receiving care will be displaced.

Increasing Coordination between VA and the Department of Defense (DoD)

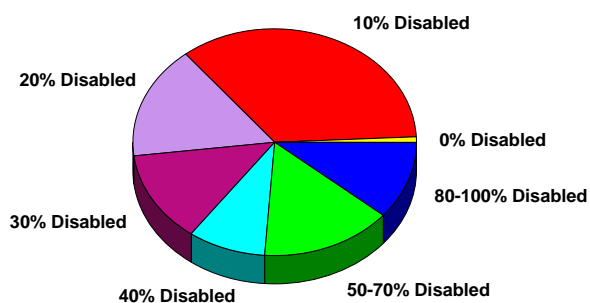
Initiative	Status	Progress
Coordination of VA and DoD Programs and Systems		
<p>Over 700,000 veterans each year use both VA and DoD for medical care services. However, neither Department can access the other's computerized enrollment information or patient records. This causes an increased burden on veterans, an inability to manage a patient's care safely, and duplication of effort and cost. In addition, there are scores of VA and DoD facilities in the same geographic areas that would benefit from sharing services and space.</p> <p>In the past year, top leadership at DoD and VA created a joint Executive Council that began to implement changes in five key areas:</p> <p><i>Information Technology:</i> VA has agreed to use DoD's eligibility and enrollment system—providing veterans with seamless services as they leave the military and apply for benefits at VA. The Departments also are working on computerized patient medical records that will allow instant exchange of patient information by the end of 2005. Both joint efforts will reduce costs, increase efficiency, and escalate the pace of coordination.</p> <p><i>Common Medical Business Practices:</i> The Departments recently agreed upon the costs of sharing specific services. In the future they will address common business processes for medical coding, billing and collection, financial management, and budget development.</p> <p><i>Shared Hospitals and Equipment:</i> Despite administering a combined 240 hospitals, DoD and VA operate only seven joint ventures. These existing ventures include a hospital that shares services and staff as well as sites where DoD and VA hospitals are co-located. This year, VA and DoD will test sharing arrangements that use the same business practices and medical supplies and drugs.</p> <p><i>Coordinated Human Resources:</i> Currently, staff coordination is limited to a few locations. The Departments have recently initiated coordinated staff training programs. As a first step, the Army is sending four cardiac surgeons to work in VA hospitals on a three-year training assignment for increasing skills, reducing costs, and providing VA with additional support.</p> <p><i>Other Cooperation:</i> High-level DoD and VA officials have made medical care coordination a high priority. It is also one of the 14 priorities in the President's Management Agenda. In the past year, the Departments increased VA's use of DoD's patient air transport system. Early results have generated savings for VA while providing DoD with more training opportunities. The two Departments have increased joint procurement activities for medical supplies, equipment, and pharmaceuticals, and are testing whether DoD should use VA's mail order pharmacy system.</p>		

Readying Veterans' Disability Compensation for the Future

Monthly veterans' disability compensation checks are a benefit to veterans who have a disability connected to their military service. It is the workers' compensation program for the armed forces. Like other federal and state workers' compensation programs, VA's benefits complement retired pay and disability annuities provided by DoD. Currently, 2.3 million veterans are receiving these tax-free benefits from VA. The amount awarded to a veteran depends on the severity or degree of the disability. For 2003, the basic monthly benefit, set in law, ranges from \$104 for a 10 percent disability rating to \$2,193 for a 100 percent disability rating. Many veterans receive additional amounts for having dependents, severe disabilities, or being housebound—as much as 70 percent above the basic benefit. As the accompanying chart indicates, 65 percent of veterans receiving compensation are rated at 30 percent disabled or less—with diseases such as arthritis, diabetes, and high blood pressure.

Improving the quality of life of veterans with disabilities is a national responsibility. To this end, veterans' disability claims should be quickly processed. The processing of disability claims has been especially challenging for VA, not only because of the sheer scope and size of the program, but also because new legislation and regulation further expanded benefits and, therefore, the number of claims needing review. As such, much of VA's focus in 2002 was on reducing the backlog of claims from 644,000 to 501,000.

Over Half of Veterans Receiving Benefits Are Less Than 30% Disabled



Source: Department of Veterans Affairs, 2001 data.

Is Yesterday's Disability Today's?

Disabled veterans are assumed to earn less after military service than non-disabled veterans. Yet no study to measure the income loss associated with each specific disability has been conducted since 1945. Over the years, new types of disabilities have been added continually, but old ones are rarely removed. Many of the covered disabilities are not commonly associated with a loss of earnings today—such as acne scars, hemorrhoids, arthritis and ulcers. As such, benefit payments are unlikely to reflect actual income loss; in fact, they may be too low or too high.

measures to ensure that its efforts are balanced. As a result of VA's focus, the number of days to process a claim will drop from 209 in 2002 to 100 in 2004. During this same timeframe accuracy will increase from 80 percent to 90 percent.

Having dealt effectively with a tidal wave of work, VA anticipates that both its workforce and workload will stabilize in 2004, and VA is poised to lay the groundwork for future challenges. For example, some automation has occurred at VA. The current process for reviewing claims looks very much the way it did in the 1940s, with voluminous paper files and examiners heavily dependent on retrieving

VA's aggressive management and hiring of new claims examiners accounts for the reduction in the backlog. Both claims examiners and their supervisors have been subject to increased accountability and held to performance standards with real consequences. Performing offices get more resources and more work. Non-performing offices are continually monitored and challenged to improve—risking the loss of resources, work, and ultimately, their top management. VA has both timeliness and accuracy performance

records from far-flung warehouses. Since veterans tend to apply for increased benefits decades after separation from the military, the location and quality of these records are often difficult to establish.

VA now has the opportunity to accelerate the development of a system where information is viewed on computers, thereby allowing people to work on a claim at the same time in different places around the country. This involves accepting all new claims electronically, making electronic copies of existing files, and sharing medical exams with DoD. In 2004, VA will conduct an evaluation of the disability compensation program, in part, to examine whether the program improves the quality of life of veterans with disabilities while truly replacing lost income. The evaluation will compare the income of veterans who are and those who are not receiving disability compensation payments.

Expanding the Cemetery System for Increased Burial Demands

In 2003, almost 110,000 veterans, service members, and eligible family members will be buried in 120 VA national cemeteries and 54 VA-funded state veteran's cemeteries. The veteran population continues to decline as veteran's mortality increases. VA's major challenge is determining the appropriate number, location, and mix of national and state cemeteries to address the increased need. VA seeks to ensure accessible and compassionate service, and it is succeeding. Over 90 percent of family members and funeral directors who have recently received services from a national cemetery rate the quality as excellent. For example, VA orders almost all headstones electronically to shorten the waiting times for families. And kiosks are placed in cemeteries to assist visitors in locating gravesites. VA will open four cemeteries in 2004.

The Burial Benefits program has earned a high rating using the Program Assessment Rating Tool (PART), due to the program's clear mission and effective management. Improvement, however, can be made in strategic planning. VA made great progress recently when it released an ultimate configuration of the cemetery system, which prioritized future construction efforts and defined the minimum number of veterans that national cemeteries should serve before construction is justified. Furthermore, to enhance the appearance of cemeteries to those befitting national shrines, VA has received \$25 million in additional funds over the last three years. However, it lacks a way to define needs and performance measures. The Department is addressing this weakness.

Common Measures

Health Care

The federal government is developing a set of common measures for five functions performed in different departments. Such measures will allow comparisons regarding the effectiveness and efficiency of similar programs. The 2004 Budget takes the first step toward assessing the performance of federal health care systems by displaying newly developed access, quality, and efficiency common measures for VA's and DoD's health systems, as well as the Department of Health and Human Services' Community Health Centers and Indian Health Service.

When looking at the results of common measures, it is important to understand key differences in programs for a proper context. The cost and efficiency measures below have not been adjusted for differences between VA and other agencies—including risk/health status, socioeconomic status, age, gender, and benefit package differences. For example, VA's benefits package includes services such as spinal cord and traumatic brain injury care, long-term care, and care to the seriously mentally ill, which are not prevalent in all other programs and which impact resource needs.

Overview of the Veteran's Affairs Health Care System

	2004 estimate
Number of individual patients	4,836,298
Annual appropriations request (in millions of dollars)	27,547,424
Medical workers	19,318
Average age of individual patients	60.3
Male and female individual patients (percent)	91% (Male) 9% (Female)
Cost directed to in-house services, excluding contract services (percent)	95%

Health Care Common Measures

2001 and 2002

Measure/Description	Goal	2001 Actual	2002 Estimate
Cost —Average cost per unique patient (total federal and other obligations)	Under Development	\$5,019	\$4,928
Efficiency —Annual number of outpatient visits per medical worker	Under Development	2,487	2,719
Quality —The percentage of diabetic patients taking the HbA1c blood test in the past year	Under Development	93%	93%

Note: Research funding is excluded. Medical workers include the equivalent number of full time physicians, dentists, nurse practitioners, physician assistants, and nurse mid-wife providers, but exclude appointments by off-site contractors medical residents/interns and trainees. However, patient visit numbers include visits to medical residents, contracted employees, and trainees. Cost information includes all direct costs of military health care in the DoD budget and in the trust funds.

Job Training Common Measures











The job training measures, which will be applied to VA's Vocational Rehabilitation and Employment program, gauge program results in four areas: entered employment, retention in employment, earnings increase, and efficiency. VA has begun collecting information on these measures and will begin reporting results in 2005.

Performance Evaluation of Select Programs

The following table rates the performance effectiveness of some of VA's most important programs. Sometimes these factors fall outside a department's control, but in most instances the burden for delivering results appropriately rests on an agency's management. For further details on these programs, please see the VA chapter in the *Performance and Management Assessments* volume.

Program	Rating	Explanation	Recommendation
Disability Compensation	Results Not Demonstrated	The program provides financial benefits for income loss due to service-related disabilities. The PART revealed that VA currently provides benefits for disabilities that are not considered a barrier to productive employment, as it is based on 1945 standards.	The 2004 scheduled program evaluation should examine if the program reflects medical technology and changes in workplace conditions since 1945, if benefit amounts reflect income loss experienced by disabled veterans, and how it complements or conflicts with other programs.
Medical Care	Results Not Demonstrated	The VA provides health care to an estimated 4.4 million veterans. While the quality of care for those veterans in the system is exceptional, results cannot be demonstrated because there is no clear consensus among Congress, the Administration, and the public on who should be offered care. While all veterans are currently offered care, waiting lists are growing and VA can not easily focus on poor and disabled veterans. VA's medical care mission, its goals, and how to achieve them need to be clarified.	VA should continue to realign the infrastructure crucial to caring for veterans' needs. Services and resources should be re-focused on veterans with service-connected disabilities, those with low incomes, and those with special needs.
Burial Benefits	Moderately Effective	This program provides high quality, courteous, and responsive service to veterans and their families. Of surveyed respondents, 92 percent rate the services as excellent. However, strategic planning improvements can be made.	Areas for improvement identified in the PART are: additional performance measures for the National Shrine Commitment and monetary benefit; a management accountability system; and a cost accounting system. VA is working on these items.

Update on the President's Management Agenda

	Human Capital	Competitive Sourcing	Financial Performance	E-Government	Budget and Performance Integration
Status					
Progress					
<p><i>Arrows indicate change in status since baseline evaluation on September 30, 2001.</i></p> <p>VA has made significant progress in these areas. The Department will compete 52,000 jobs over the next five years (such as laundry, food and sanitation services), with an estimated cost savings of approximately \$3 billion. VA initiated the first phase of its new electronic financial management system and is resolving most material weaknesses reported in its audit. The Department developed an overarching Enterprise Architecture for all its Information Technology (IT), successfully justified IT projects in the budget, and expanded its participation in E-Gov initiatives. VA not only submitted its 2004 budget on time, but also completed a comprehensive budget restructuring.</p>					

Department of Veterans Affairs

(In millions of dollars)

	2002 Actual	Estimate	
		2003	2004
Spending:			
Discretionary budget authority:			
Medical Programs	22,256	23,609	26,228
Medical Care	21,500	22,815	25,406
<i>[Medical Care Collections] (non-add)</i>	985	1,616	2,141
Research.....	756	794	822
Benefit Programs.....	1,378	1,422	1,483
Disability Compensation.....	603	610	621
Pension	156	155	152
Education	75	97	99
Vocational Rehabilitation and Employment	120	132	135
Housing	168	171	207
Insurance.....	4	4	4
Burial Benefits	252	253	265
Departmental Administration	306	327	346
General Administration	252	271	284
Inspector General.....	54	56	62
Total, discretionary budget authority	23,940	25,358	28,057
Mandatory outlays:			
Medical Programs	36	32	34
Benefits Programs and Receipts.....	27,070	31,860	34,042
Disability Compensation			
Existing Law.....	22,418	25,013	26,906
Legislative Proposal.....	—	—	— 124
Pension	3,166	3,290	3,384
Education	1,440	1,957	2,144
Vocational Rehabilitation and Employment	484	529	561
Housing	754	1,119	301
Insurance.....	1,198	1,236	1,248
Burial Benefits	134	157	162
Other receipts and transactions	—2,524	—1,441	—540
Departmental Administration	—214	—4	13
Total, mandatory outlays	26,892	31,888	34,089
Credit activity:			
Direct loan disbursements:			
Benefits Programs			
Vocational Rehabilitation Loans.....	3	3	4
Native American Veteran Housing Loans	6	13	13
Vendee and Acquired Loans.....	1,058	311	284
Total, direct loan disbursements.....	1,067	327	301
Guaranteed loans:			
Benefits Programs			
Veterans Home Loans	37,071	34,800	35,247
Loan Sales.....	967	471	—
Total, guaranteed loans	38,038	35,271	35,247

CORPS OF ENGINEERS—CIVIL WORKS

The President's Proposal:

- Focuses funding on projects that yield the most benefit for the least cost;
- Reduces the growing backlog of ongoing construction work; and
- Establishes principles to guide program improvement efforts.

The Agency's Major Challenges:

- Finishing the large backlog of ongoing construction work more quickly; and
- Targeting funding to priority projects.

Army Corps of Engineers—Civil Works

Thomas White, Secretary of the Army

www.hq.usace.army.mil/inet/functions/cw

703-695-3211

Number of Employees: 24,800

2003 Spending: \$4.1 billion

Field Offices: Eight Divisions; 38 Districts; and 15 laboratories and other offices.

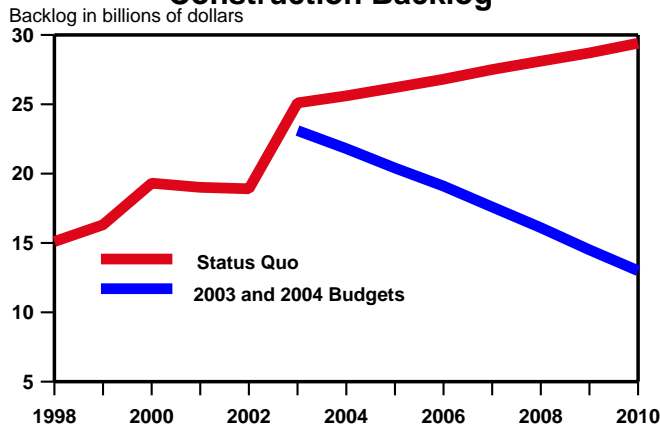
The civil works program of the Army Corps of Engineers (Corps) in the Department of Defense has three main missions: 1) reduce or prevent the expected damage caused by floods and storms; 2) facilitate commercial navigation; and 3) restore aquatic ecosystems. The Corps carries out this work in partnership with state and local governments and other non-federal entities. It also regulates development in navigable waters and wetlands, and is responsible for cleaning up about two dozen contaminated nuclear sites. For

2004, the budget proposes \$4.0 billion in discretionary budget authority for the civil works program.

Overview

The civil works program funds activities in every one of the 50 states. The Corps is responsible for the operation and maintenance of 926 harbors; navigation locks and dams at 230 locations; 383 major lakes and reservoirs; and 75 hydropower facilities. It also is building more than 160 authorized water resource projects across the nation, and faces an enormous backlog of ongoing construction work—\$23 billion in federal costs to complete the construction projects supported in the President's 2004 Budget. Unfortunately, despite a large increase in funding in recent years, the backlog of ongoing work—that is, projects started, but not completed—has been growing, not diminishing.

Two Possible Paths for the Construction Backlog



Construction funds are spread ever more thinly as new projects add to the Corps workload. As a result, citizens expecting flood protection have to wait longer; farmers and manufacturers who want to ship their products overseas more quickly or less expensively may have to wait yet another year; and the schedules for restoring streams and wetlands will, again, have to be stretched out. The budget proposes a comprehensive strategy to reduce these adverse impacts on the many Americans who rely on the completion of worthy projects already underway, while increasing the net return from the nation's investment in the civil works program.

The approach proposed in the budget reduces the construction backlog over time (see accompanying chart). Under the traditional path of adding projects with little or no restraint, the backlog continues to grow inexorably. While the level of funding can affect the rate at which the size of the backlog changes, the measures taken (or not taken) to limit the number of projects that become eligible for construction ultimately will determine whether we are making progress or are falling further behind.

Setting Construction Priorities

The construction program's goal is to produce as much value as possible from available funds. The budget achieves this key objective by proceeding with only five new high-priority studies and one construction start, and by limiting the number of projects not actively under construction that are funded for engineering and design.

The budget includes a high level of funding for eight projects that provide a very high net economic or environmental return to society relative to their cost. These investments will aid waterborne transportation at key locations, reduce the risk of flood damage in two urban areas, help restore the Everglades, and improve the prospects for recovery of endangered species in the Missouri River basin and the Pacific Northwest. These projects are the highest priorities now under construction.

The budget also provides the resources needed to complete 13 ongoing projects in 2004—removing them from the construction backlog. Seven will reduce flood damage, five will support commercial navigation, and one is designed to protect a commercial shipping channel from nuisance species.



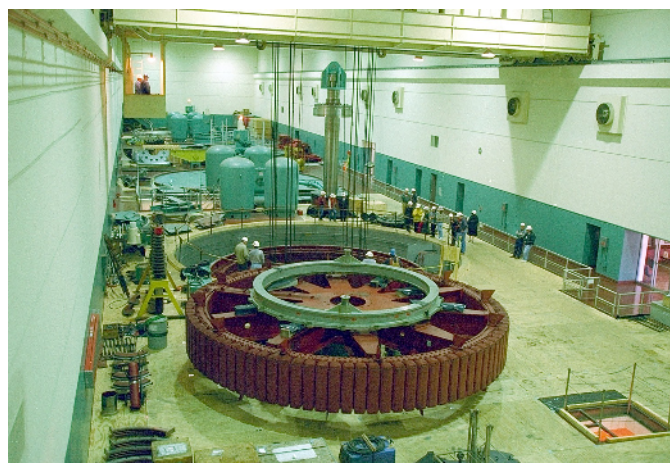
Navigation locks and dam under construction. The budget proposes to spend \$73 million in 2004 to rebuild Olmsted locks and dam to reduce delays on the Ohio River. Construction work began in 1991 and originally was scheduled to be finished by 2006. At this point, it may not be completed until 2010.

Priority Projects	2004 Budget Authority (in millions of dollars)	Project Purpose
Sims Bayou, Houston, TX	12	Flood Damage Reduction
West Bank, New Orleans, LA	35	Flood/Storm Damage Reduction
New York/New Jersey Harbor, NY, NJ	115	Navigation
Olmsted Locks and Dam, Ohio River, IL, KY	73	Navigation
Missouri River Fish and Wildlife Mitigation, IA, NE, KS, MO	22	Navigation/Endangered Species
Upper Mississippi River System Environmental Management Program, IL, IA, MN, MO, WI	33	Navigation/Environment
Columbia River Fish Recovery, OR, WA, ID	98	Hydropower/Endangered Species
Everglades, FL	145	Environment

To provide a basis for comparing all projects whose justification rests primarily on economic benefits, the Corps plans to make available information on each project annually. The Corps will rank these projects by the ratio of their remaining benefits to their remaining costs to complete, and will show for each of them the ratio of net benefits to total costs. Like the rest of the government, in calculating the effects of capital investments the Corps plans to present these data using a seven percent discount rate. This discount rate approximates the average real rate of return on private capital in the United States.

Benefit and cost information is only as useful as the analyses that produce it. The Corps will focus on developing options that are highly cost-effective. It plans to design and recommend projects that provide higher net benefits

for each dollar invested, by excluding potential features and increments that do not significantly



A hydroelectric generator at a Corps dam: A major increase in spending for maintenance of Corps hydropower facilities has been requested. The budget proposes to pay for operation and maintenance by "direct funding" through payments from the revenue that federal Power Marketing Administrations earn when they sell the power that these generators produce.

Flood Control in Tucson

Between 1920 and 1954, the city of Tucson placed more than one mile of a local stream, the Tucson Arroyo, in covered culverts. Flood damages have occurred primarily because the city has grown considerably since 1954. Urban development prevents rainfall from seeping into the ground, and the limited capacity of these culverts caused water to back up and flood some areas. To reduce flood damage, the Corps proposed building two series of detention basins to hold back water upstream of the bottleneck. The first group of detention basins, located in the Randolph Park area, would cost about \$14 million and provide an estimated net return of 36 cents per dollar at a cost of \$12.6 million (a 1.36 to 1 benefit-cost ratio). The second group of detention basins, located in the Park Avenue area, would cost about \$17 million but would provide only a marginal net return on investment—about nine cents per dollar (a 1.09 to 1 benefit-cost ratio). Under the new policy, which aims to maximize the net benefits of the program and takes into account limitations on investment funds, the second group of detention basins would not be recommended for construction.

increase total net benefits relative to the costs. The objective is to ensure that any proposed new construction start is highly justified. Through the elimination of marginal features and incremental upgrades, additional funds can be made available to accelerate the completion of projects already under construction.

Problems With Some Projects

The Corps has played an important role in developing the nation's water resources, but it often faces difficult decisions. Some projects have strong local support, yet may not ultimately be in the national interest. In a number of cases, people have pointed to potential weaknesses in the Corps planning process. For example:

- The Corps justified dredging about 85 miles of the main channel of the Delaware River in a 1992 report, based largely on savings related to a predicted growth in ship traffic. Ten years later, as the Corps was preparing to begin construction, the General Accounting Office noted that the increase in traffic had not materialized. Net benefit estimates should be updated periodically along with project cost estimates.
- A probe by the Army Inspector General concluded that an economic analysis inappropriately favored construction of a proposed navigation project on the Upper Mississippi and Illinois Rivers.



Should the Corps expand its locks? The Corps is studying whether or not it makes economic sense to replace some 600-foot locks on the Upper Mississippi and Illinois Rivers with 1,200-foot locks. Under current conditions, the typical 1,200-foot barge passes through a 600-foot lock in two stages.

Estimating Navigation Benefits Properly

In estimating the benefits of some inland waterways navigation projects, the Corps historically has used an economic model called the tow-cost model. For the inland waterways of the Upper Midwest, the tow-cost model predicts that a growth in barge traffic could back up barges for increasingly long periods as the barges wait to use the locks—because more barges will enter the system and just sit there until it becomes cheaper to ship bulk commodities by land all the way to New Orleans. However, a recent report by the National Academy of Sciences (NAS) concluded that the Corps needs a new model to form the foundation for evaluating benefits in its feasibility study of this river system. The old model does not predict human behavior very well. Congestion increases shipping costs. According to the NAS report, as costs begin to increase, and barge traffic sits and waits, the people who buy and sell bulk commodities will begin to seek out new markets. For example, they may decide to ship the same commodities by land to a different destination or to process the goods in the Upper Midwest first. The Corps recognizes that its tow-cost model does not capture this common sense response, and is developing a new economic model so that it will be able to estimate properly the economic benefits of a range of possible improvements on these waterways.

Principles for Improving Program Performance

The Administration proposes five broad principles to guide future Corps authorization and funding legislation.

- The Corps should evaluate proposed water resources investments using analytically sound, modern methods, current data and, where appropriate, external review. The Corps should only pursue authorized federal water projects that meet current economic and environmental standards and that address contemporary needs.
- Until the federal government has reduced the construction backlog substantially, the federal government should only proceed with those new projects that provide a very high net economic or environmental return to society relative to their cost.
- In each of its three main missions (flood and storm damage reduction, commercial navigation, and aquatic ecosystem restoration), the Corps should establish priorities across and within watersheds based on the comparative net economic or environmental return that a given level of further investment would bring to the nation.
- In order to focus on the backlog of projects actively under construction in the three main mission areas, the Congress should adopt legislation to de-authorize or disallow funding for: 1) inactive projects automatically; 2) navigation projects for harbors and river segments that have extremely low commercial use; and 3) projects whose main purpose does not fall within the three main mission areas.
- The non-federal cost-share should reflect the extent to which a water resources project economically benefits commercial interests, property owners, or other identifiable private parties.

Common Measures

Wetlands. There are many different types of wetlands. They can serve multiple purposes such as fish and wildlife habitat, replenishment of groundwater, flood protection, and enhanced water quality. Wetlands still occur naturally across the nation—along the banks of our major rivers and our local streams; in the salt marshes behind the barrier islands of the Atlantic coast; the non-tidal forested backwater areas of the lower Mississippi River alluvial valley; the low-lying prairie potholes of the Dakotas; and the highest meadows of the eastern Sierra. There is no easy way to compare their quality and no way to quantify their value.

Using a rough common performance measure—the acres of wetlands improved or protected per \$1 million in total costs—OMB has been working with federal agencies that play crucial roles in wetlands conservation, improvement, and management to compare the cost-effectiveness of their efforts. These agencies are the Corps, the Environmental Protection Agency, the Department of the Interior's Fish and Wildlife and National Park Services, the Department of Agriculture's Natural Resources Conservation Service (NRCS), and the Department of Commerce's National Oceanic and Atmospheric Administration.

The costs of wetlands projects can be affected significantly by land values, the availability of water, vegetation type, soil and substrate conditions, and other factors. To facilitate a comparison across agencies and projects, the agencies have gathered data on their activities in four specific watersheds over a five-year period.



Restoring aquatic ecosystems is one of the missions of the Corps. For example, the Corps is helping to preserve the Atchafalaya Swamp in Louisiana.

On a per-acre basis, the Fish and Wildlife Service programs appear to be far more cost-effective than those of the other agencies, and the Corps construction program appears to be the least cost-effective. However, the data are preliminary and do not address possible differences in wetlands quality or other factors that may affect the cost of projects. OMB and the agencies will work together in 2003 to determine whether these data provide a reasonable basis for comparison of their overall wetlands efforts.

Flood Damage Reduction. OMB also compared the cost-effectiveness of the Corps, NRCS, and Federal Emergency Management Agency (FEMA) flood damage reduction programs. Corps projects generally involve structures such as dams or levees that redirect the impact of flood waters. NRCS projects usually feature a combination of dams, other structural modifications to a streambed, and payments to owners whose property will remain susceptible to flooding (to purchase easements). FEMA uses a variety of strategies to reduce flood damage, including non-structural measures such as buying buildings and relocating residents away from floodplains.

OMB asked these agencies to evaluate projects that they completed over a five-year period where flood damage reduction was the primary purpose. Because the projects within each agency's program vary greatly in cost-effectiveness, the following table uses the median project as a basis for comparison:

Flood Damage Reduction: Net Benefits Per Dollar Invested	
Corps of Engineers	65 cents
FEMA	39 cents
NRCS	19 cents

As the table shows, each agency's median project will result in estimated net flood damage reduction benefits. While the three projects depicted in the table are all cost-effective, the Corps project is the most cost-effective. However, several Corps projects resulted in a low economic return on investment. Over the five-year period, the two most cost-effective projects were funded by FEMA. The three projects with the least cost-effective flood damage reduction features (which resulted in a negative net economic return) were funded by NRCS.

OMB also asked the agencies for information on the federal share of the costs for their flood damage reduction projects. On average, the Corps and FEMA paid about 74 percent, while NRCS paid 82 percent. NRCS paid a much higher share of the costs of several projects. On its median project, NRCS paid 91 percent.











Performance Evaluation of Select Programs

Program	Rating	Explanation	Recommendation
Inland Waterways Navigation	Results Not Demonstrated	The Corps gives priority to maintaining high-use segments, but there is congestion at some locks. At present, the Corps is not able to estimate properly the benefits of major new investments.	The Corps should make greater efforts to reduce traffic congestion through scheduling and other demand-management approaches. It also should develop a new economic model to estimate properly the benefits of major new investments.
Non-regulatory Wetlands Activities	Results Not Demonstrated	The Corps has not evaluated the long-term ecological success of these efforts. On a per-acre basis, the average cost of wetlands restoration appears to be higher for Corps projects than for other federal agencies.	The Corps should develop ecological and cost criteria for proposed wetlands investments. The budget provides a high level of funding for three Corps efforts that are particularly significant for the nation: restoring the Everglades, revitalizing the side channels of the Upper Mississippi, and re-creating a string of natural areas along the lower Missouri River.
Flood Damage Reduction	Results Not Demonstrated	The Corps primarily reduces flood damages through structural means. Corps-owned flood control infrastructure typically functions properly. However, despite major investments by the Corps, flood damages nationwide have been rising.	The Corps should work more closely with other agencies, particularly with the Emergency Preparedness and Response Directorate of the Department of Homeland Security, (formerly the Federal Emergency Management Agency), to develop a coordinated federal approach to flood damage reduction. The Corps also should give equal weight to non-structural approaches when evaluating the best way to address flooding problems.

Update on the President's Management Agenda

The Corps recently reinstituted a formal in-house training program and a separate, graduate-level education program to strengthen the capabilities of its project planning staff. The Corps also is reviewing its current organization and management in an effort to improve the quality and objectivity of project planning work. The Corps will make changes to strengthen oversight of project studies,

without causing unwarranted delays. As a first step, it will establish one or more centers of expertise that will be responsible for studies of projects that are likely to be costly, complex, or controversial.

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

The Corps retains a red status for all five initiatives, but has started to make some progress over the past year. It has developed a human capital management plan that includes target dates for completion for each of the initiatives identified in Office of Personnel Management guidance. On financial performance, the Corps is working actively with the Inspector General for the Department of Defense to address concerns over its inventory and valuation of property, plant, and equipment, with the goal of achieving a clean balance sheet opinion for 2003, which will lead to a clean audit. The Corps has developed business cases for some of its major information technology investments, and has improved its enterprise architecture. On budget performance and integration, the Corps is working to identify suitable performance measures, as a first step toward collecting the outcome-based data that it needs to improve its management and inform budget decisions. The Corps has made the least progress on competitive sourcing. It has proposed to compete 37 percent of its Federal Activities Inventory Reform Act (FAIR Act) inventory positions by 2008, but more work is needed to determine which positions should be subject to competition.

Corps of Engineers—Civil Works

(In millions of dollars)

	2002 Actual	Estimate	
		2003	2004
Spending			
Discretionary Budget Authority:			
Construction	1,711	1,408	1,350
Operation and Maintenance	2,043	1,914	1,939
Mississippi River and Tributaries	346	281	280
General Investigations	154	103	100
Regulatory Program	127	144	144
Flood Control and Costal Emergencies	-25	20	70
General Expenses	153	155	171
Formerly Utilized Sites Restoration	140	140	140
Subtotal, Discretionary budget authority ¹	4,649	4,165	4,194
Legislative Proposal, Operation and Maintenance	—	-149	-145
Total, Discretionary budget authority	4,649	4,016	4,049
Total, Mandatory outlays	-116	49	27

¹ Includes \$0.2 billion in supplemental funding.

ENVIRONMENTAL PROTECTION AGENCY

The President's Proposal:

- Provides the highest funding levels ever to implement core environmental programs, including the operating program and state grants;
- Provides funding to implement the Clear Skies legislation that, when enacted, will cut air pollution from power plants by approximately 70 percent—the most aggressive Presidential initiative of its kind in American history;
- Provides additional funds for the Brownfields Initiative, bringing new life to abandoned sites in our cities and towns;
- Increases the federal commitment for capitalization of the Clean Water State Revolving Fund, expanding the amount available for loans from the current level of \$42 billion to over \$63 billion, and enabling states to finance an additional 15,000 new projects over the next 20 years;
- Increases the federal commitment for capitalization of the Drinking Water State Revolving Fund; and
- Significantly increases Superfund cleanup resources to address the remaining more complex and expensive cleanups.

The Agency's Major Challenges:

- Improving its capability for unbiased, sound science in its decision-making; and
- Tracking and demonstrating programs' effectiveness in achieving public health and ecosystem protection goals.

Environmental Protection Agency

Christine Todd Whitman, Administrator

www.epa.gov 202-564-4700

Number of Employees: 17,648

2003 Spending: \$8.0 billion

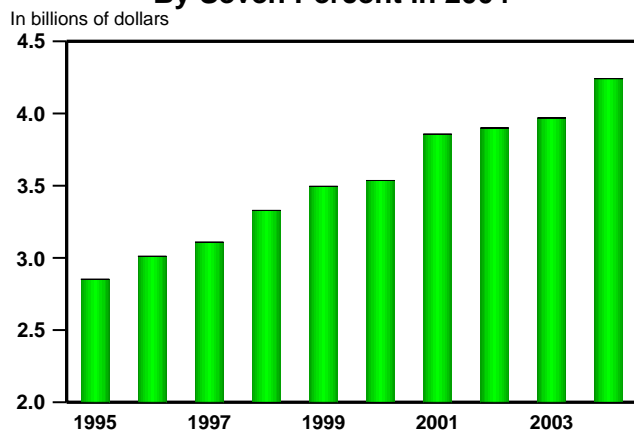
Major Assets: 31 laboratories, and 46 owned or leased buildings.

The Environmental Protection Agency (EPA), in conjunction with its state partners, provides public health protection from air, water, solid waste, and chemical pollution. Over 40 percent of EPA's budget provides grants to states to build water infrastructure such as sewage treatment plants and drinking water facilities, and oversee delegated programs for air, water, hazardous waste, and leaking underground storage tanks. EPA runs the Superfund program and regulates vehicle emissions and fuels.

Overview

Our nation has a solid record of environmental accomplishment over the past 30 years. We have experienced historic economic growth while improving the health of our air, water, and land resources. Public health protection has also improved, as exposure to contaminants in drinking water has declined significantly, and average air pollution concentration levels have dropped. Challenges remain, and through the work of EPA and other agencies, this Administration intends to continue progress toward making America's air cleaner, its water purer, and its land better protected.

EPA's Operating Program Grows By Seven Percent in 2004



EPA carries out a significant portion of its mission through the Operating Program, which includes its core responsibilities for regulatory development, enforcement, research, and program grants to states. The 2004 Budget increases the Operating Program by seven percent over 2003 levels, providing additional resources for critical environmental activities.

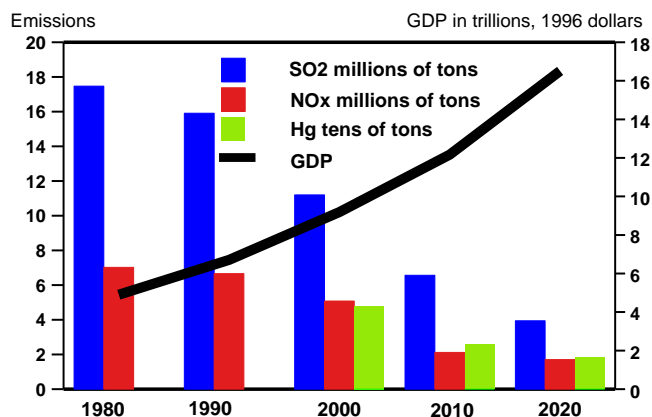
In July 2002, the President proposed legislation to dramatically cut air pollutants from power plants. His Clear Skies initiative would mandate greater reductions than called for by the current Clean Air Act. Sulfur dioxide, nitrogen oxides, and mercury emissions would each be cut by approximately 70 percent

under Clear Skies, resulting in 35 million fewer tons of pollutants released over the next decade alone. By relying on a market-based trading mechanism, the Clear Skies initiative provides necessary flexibility and cost-effective compliance. The results are guaranteed by caps instituted over a period of time, and avoid the need for more expensive, more resource-intensive, and more complicated approaches that currently apply. Clear Skies would also significantly expand the Clean Air Act's market-based Acid Rain program, which reduced pollution faster and at far less cost than any other Clean Air Act program. The program guarantees results, eliminating costly regulation, litigation, inspection, and enforcement actions. As a result, industry compliance has been nearly 100 percent. The market-based Acid Rain program has proven that flexible, economically efficient alternatives can protect the environment better, faster, and at less cost than command and control approaches.

In October 2002, the President declared the beginning of the Year of Clean Water to renew the nation's commitment to building on successes of the Clean Water Act and to developing new approaches and partnerships. Through collaboration with private organizations, landowners, and all levels of government, new technologies and innovative approaches to protecting our water will be developed that appreciate regional differences, employ market forces, and empower individual stewardship.

In January 2002, the President signed a landmark brownfields bill into law to further address contaminated, abandoned industrial

Emission Levels of SO₂, NO_x and Mercury under the Clear Skies Initiative



Source: EPA.

sites. Through this program, EPA provides grants to return these sites to productive use, arresting urban sprawl and revitalizing neighborhoods.

EPA's success in these and other programs depends on collaboration with states, consistent with the principles of federalism. States measure air and water quality, carry out the majority of enforcement actions, and ensure compliance. EPA assists the states in their environmental efforts by providing grants for this work—\$1.2 billion in 2004. EPA believes that working closely with the states while giving them flexibility in administering the programs presents the opportunity for the best environmental results.

Performance Evaluation of Select Programs

To help improve program and funding decisions, 11 EPA programs, accounting for 20 percent of EPA's budget, were evaluated using the new Program Assessment Rating Tool (PART). EPA and OMB found that the programs generally have well-defined purposes and are well-managed. However, tracking performance of environmental programs can be complex, and many of the evaluated programs face difficulties in linking their activities to actual improvements in health or ecosystem quality and in assessing the actual costs to the economy of the programs.

EPA's challenge in the next few years is to improve the linkage between its program results and budget resources, which includes developing program measures to better assess results and inform budget decisions. The absence of outcome-based performance data, and in some cases, any data, has hindered the agency in evaluating the impacts of its programs on the environment and public health. For more detail on these and other EPA programs rated by the PART, please see the EPA chapter in the *Performance and Management Assessments* volume.

Program	Rating	Explanation	Recommendation
Civil Enforcement	Results Not Demonstrated	The program enforces federal environmental laws. It lacks adequate outcome-based performance measures, affecting program planning and results. Outside evaluators have identified data quality as a barrier to determining compliance.	Establish performance measures focused on measuring outcomes and efficiencies. Fund an improved compliance data system.
Leaking Underground Storage Tanks	Results Not Demonstrated	The program oversees cleanup of leaking underground petroleum tanks, and is well-managed and has achieved its statutory goals. However, the program is unable to demonstrate its impact on public health and the environment because it lacks outcome-based performance measures.	Establish performance measures focused on measuring outcomes and efficiencies. Maintain the rapid pace of cleanups at storage tank sites.

EPA's Programs

Improving Air Quality

As a result of the Clean Air Act's focus on the six major air pollutants (carbon monoxide, sulfur dioxide, ozone, nitrogen dioxide, particulate matter, and lead), emissions of these pollutants have decreased by 25 percent, even as the economy has grown over 160 percent since 1970. In particular, lead emissions levels in particular have dramatically fallen by 98 percent—from 219 thousand tons in 1970 to approximately four thousand tons today. Since 1991, there has been a dramatic improvement in children's blood lead levels—recent data from the Centers for Disease Control and Prevention shows that children's blood lead levels have fallen by a remarkable 25 percent over the past decade.

Annual emissions of toxic air pollutants also have dropped by 1.5 million tons since 1993. EPA's long term goal is to reduce the unacceptable risk of cancer from toxic air pollutants by 95 percent. Compared with the six major air pollutants, little is known about exposure to most toxic air pollutants. An assessment of the air toxics program using the PART found EPA lacked data that can demonstrate health-based results. Accordingly, the budget provides a \$7 million increase in state grants for monitoring actual toxic exposure levels. This funding proposal also supports an air toxics recommendation by the National Academy of Sciences that EPA use actual exposure information provided by well-placed and well-designed air monitors.

In 2001, EPA Administrator Whitman affirmed a rule that will reduce air pollution from large trucks and buses, and will reduce sulfur levels in diesel fuel. This will have significant health benefits, particularly for people with impaired respiratory systems. EPA has also finalized new, stringent penalties for any companies that produce heavy duty diesel engines that violate the new emission standards.

EPA also recently issued a final rule that will establish emissions standards for hydrocarbons, carbon monoxide, nitrogen oxides and particulates for several categories of off-road engines, including large spark ignition (SI) gasoline engines used to power a variety of equipment (e.g., fork lifts, welding equipment, pumps), recreational marine diesel engines, off-road motorcycles, snowmobiles and all-terrain vehicles. Overall the rule will achieve substantial emissions reductions from this group of previously unregulated engines. The standards will ultimately require emissions reductions ranging from 50 percent (snowmobiles) to over 95 percent (large SI engines) from current levels.

Protecting Watersheds and Drinking Water

Since enactment of the Clean Water Act (CWA) 30 years ago, government, citizens, and the private sector have worked together to make dramatic improvements in the quality of our water. As a result, pollution from industrial sources and municipal sewage treatment plants has plummeted. By any measure—pounds of pollution prevented, stream segments improved, fisheries restored—tremendous reductions of pollution from point sources have occurred, resulting in substantial improvements in water quality from coast to coast. In 1968, secondary or advanced wastewater treatment facilities served only 86 million people. Today, of the 190 million people served by wastewater treatment facilities,



Networking in Maryland Watershed: EPA Deputy Administrator Linda Fisher releases native fish to a Maryland stream in the Patapsco River Basin. The stream was restored with an EPA nonpoint source grant.

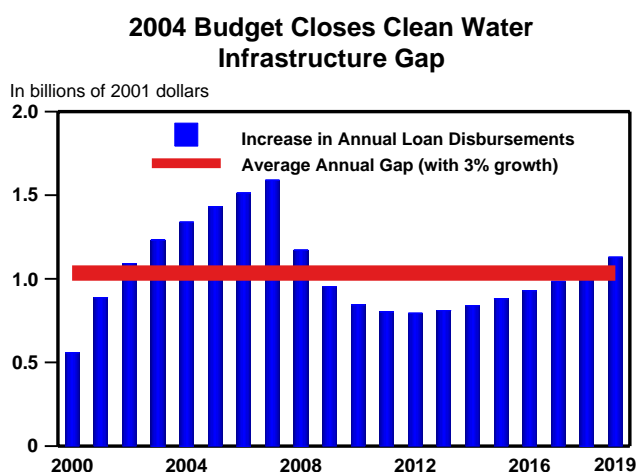
more than 87 percent—about 165 million people—are served by secondary or better wastewater treatment. Cleaner water has led to a rebirth of recreational, ecological, and economic values in communities across the United States.

The Clean Water State Revolving Fund (SRF) plays an integral role in improving water quality. Congress created the Clean Water SRF, and later the Drinking Water SRF, to provide a stable water infrastructure funding resource. Through these programs, EPA distributes grants to capitalize each state's revolving fund. States then make loans to finance water infrastructure projects, such as new sewage treatment plants or drinking water facilities. Loan repayments, leveraging, and bond issuances help each state replenish and maintain its SRFs, allowing them to “revolve” without further federal funding. Because of the revolving nature of the program, funds invested in the SRFs generate about four times the purchasing power of grants over 20 years.

Both the Clean Water and Drinking Water SRF programs have met the revolving level goals established during the Clinton Administration. This would dictate the termination of further capitalization grants. Nevertheless, the President's 2004 Budget extends the federal commitment to capitalize the Clean Water and Drinking Water SRF programs with annual grants to each of \$850 million through 2011 and 2018, respectively. For the Clean Water SRF, this extended federal capitalization will provide an additional \$21 billion in loans over the next 20 years, enough to fund over 15,000 additional projects. For the Drinking Water SRF, it will cover the projected compliance costs for federally mandated drinking water regulations. Through both SRFs, EPA will be able to close the gap between current funding levels and the future water infrastructure needs. Most importantly, the long-term annual revolving levels for each fund will increase by more than \$500 million over current levels—to \$2.8 billion for the Clean Water SRF and to \$1.2 billion for the Drinking Water SRF.

Using the PART, this year EPA and OMB evaluated the Drinking Water SRF, widely considered a successful program. The program was found to have a clear purpose, an effective design, and strong management practices. However, EPA is not able to demonstrate the degree to which the program's drinking water infrastructure investments actually protect public health, a primary purpose of the program. The challenge facing the Drinking Water SRF is to develop performance measures that capture the impact of water treatment improvements on public health. The PART results support the Administration's decision to extend federal capitalization of the Drinking Water SRF to address documented drinking water needs, while strengthening its accountability.

In addition to increasing the federal commitment to the SRFs, the President's Budget also increases resources available for other water quality programs. The 2004 Budget increases funds for states' water pollution control programs by \$20 million. It also provides EPA with additional funding for Total Maximum Daily Loads (TMDLs), a planning tool which considers all sources of water pollution in a watershed and develops pollution “budgets” to help lakes, rivers, or streams meet water quality standards. These funds will help EPA provide states with better TMDL guidance and training, ultimately improving water quality. The President's Budget also provides an additional \$5 million for states to protect wetlands and isolated waters not covered by the Clean Water Act, and continues the Administration's commitment to help restore 20 watersheds per year.



Following the Clean Water Act, the Safe Drinking Water Act of 1974 and its subsequent amendments helped the United States develop one of the cleanest drinking water supplies in the world. EPA's goal is that by 2005, 95 percent of the population served by community water systems will receive drinking water that meets all health-based standards. As of 2002, 91 percent of the population served by community water systems received drinking water that met all health-based standards, up from 83 percent in 1994. The President's 2004 Budget provides \$4.5 million so that EPA can provide enhanced guidance, training, and technical assistance to states and tribes working to comply with drinking water regulations, which will help EPA get closer to achieving this goal.

The President's 2004 Budget also provides \$8 million to begin upgrades to the public water system in Puerto Rico, which has long been out of compliance. Most of the customers served by the system live in poverty and cannot afford the required improvements. When all upgrades are complete, EPA estimates that about 1.4 million people will benefit from safer, cleaner drinking water. EPA expects that over the life of the project there will be 200 to 300 fewer cancer cases among the population served by the system, and that incidences of gastroenteritis and other waterborne diseases will significantly decline.

Cleaning Contaminated Sites and Revitalizing Neighborhoods

Twenty-five years ago, the infamy of Love Canal, a long-abandoned landfill seeping chemicals into homes and yards, inspired the creation of EPA's Superfund program to clean up old, hazardous waste sites. Since then, EPA's Superfund program has identified nearly 1,500 waste sites around the country and put them on the National Priorities List for cleanup. Most have been addressed—protective action has taken place at nine of every 10 of these sites, and cleanup has been completed at nearly six of every 10 of these sites. Some have been returned to productive use, including Love Canal.

About 70 percent of cleanups are done by the companies who are responsible for the contamination. EPA only pays for cleanup of those sites where no entity can be found to take responsibility. These "orphan" sites are sometimes over 100 years old and often created by companies long out of business. These and the other remaining sites will be more challenging and expensive to clean up than those already completed. Recognizing this, the Administration proposes a \$150 million increase for long-term cleanup, almost 75 percent more than the amount budgeted in 2002.

In 2003 OMB and EPA evaluated Superfund's removal program using the PART. The removal program focuses on short-term cleanups of hazardous substances that pose an immediate threat to the public or the environment. Unfortunately, while the program has been successful in cleaning up hazardous materials, it has not been able to demonstrate how its activities affect human health and the environment. Over the next year, the program will work to put this link into place.

The President's Brownfields Initiative



Before: In Salt Lake City, these rail yards remained abandoned for decades as potential purchasers feared toxic cleanup liability. Brownfields assessments found little contamination.

no contamination, St. Louis County then transferred the 12 lots to Habitat for Humanity, which constructed 15 houses for low-income families.

In May 2002, EPA issued \$14.6 million in grants to help 80 communities across the country to assess and clean up brownfields. EPA also awarded \$21.5 million in grants under EPA's Brownfields Cleanup Revolving Loan Fund program. These grants provide funding to communities to support the cleanup and redevelopment of brownfields by enabling states, cities, and regional government entities to facilitate loans for cleanup of brownfields. EPA also awarded \$20 million to states for their state-run voluntary cleanup programs. Last year, the President proposed doubling the brownfields program and this year proposes a further increase of \$10 million.

Promoting Safer Chemicals and Pesticides

Congress created the Toxic Substances Control Act (TSCA) to protect the public and environment from possible harm from chemicals. EPA administers TSCA primarily through two programs: the New Chemicals and Existing Chemicals programs. The New Chemicals program reviews chemicals being manufactured or imported in order to prevent unreasonable risk to human health and the environment. Since its inception, approximately 17,000 new chemicals reviewed by this program have entered U.S. commerce. The New Chemicals program also encourages the development of safer, or "green," chemicals as substitutes for more dangerous ones. Through green chemistry technologies, the use and generation of 38 million pounds and approximately three million gallons of hazardous chemicals have been eliminated, and 275 million gallons of water have been saved. A PART evaluation of the New Chemicals program showed that it has very strong purpose and management and collaborates with other federal agencies. In addition, the Existing Chemicals program continues its review of the original 62,000 TSCA chemicals for health impacts.

Another type of orphan site known as brownfields also dots the American landscape. These sites are lightly contaminated, but similar enough to the costly Superfund sites to discourage investors. As a result, they sit fenced and unused, year after year. The brownfields program determines the extent of a site's contamination, if any, and makes money available for cleanup. Sometimes EPA invests less than \$1,000 to turn around a property and put it back to use. After sites are evaluated, investments have followed, turning barren lots into productive properties. For example, in St. Louis County 12 sites were assessed by EPA for only \$275 apiece. Because EPA found



After: With the stigma of liability removed, the city and federal government built a park and a roadway to access the property. So far, private investment of \$375 million has built shops, offices, and housing on 40 acres.

Under other federal laws EPA has been charged with evaluating pesticides to ensure that when used according to label directions or widespread and commonly recognized practices, they do not pose unreasonable risks to human health or the environment. To meet this charge, EPA’s Registration program ensures that proposed new pesticides meet science-based safety standards. The agency then registers those for use in strict accordance with EPA-established label directions. Older, already-registered pesticides are reviewed through a separate Reregistration program to ensure they meet today’s stricter safety standards. Through this year’s PART analysis, it was apparent that both programs have clear missions and are structured to address statutory requirements. The assessment also showed that the programs have annual goals that reflect program activities. However, revised long-term goals clearly linked to human health are needed, as well as quantified starting points and targets and information on social and economic costs of the programs

Common Measures—Nonpoint Source Programs











To compare the performance of similar programs, the Administration completed a common measures exercise. The nonpoint source common measures exercise compared EPA’s Nonpoint Source (Section 319) Grants, the Department of Agriculture’s (USDA’s) Conservation Reserve Program, and its Environmental Quality Incentives Program.

	Agency dollars spent ¹	Reduction in P concentration (µg/L) ^{2, 3}	Agency dollars spent per reduction in P concentration
EPA: Nonpoint Source Grants:			
Big Birch Lake (MN)	100,000	30	3,333
Otter Creek (WI)	400,000	50	8,000
Long Creek (NC)	1,100,000	140	7,857
USDA: Farm Service Agency (FSA), Conservation Reserve Program (CRP)	FSA recently began collecting similar project-level data for all CRP projects. This will eventually allow FSA to estimate the program’s nationwide impact on water quality.		
USDA: Natural Resources Conservation Service (NRCS), Environmental Quality Incentives Program	NRCS lacks similar data. The agency plans to improve its performance tracking and accountability over the next year.		

¹ EPA Nonpoint Source Grant funds only; does not include state/local matching funds.
² P stands for phosphorus, a nutrient and common water pollutant from both point and nonpoint sources. The table compares P concentrations only, since it was a common pollutant for all three projects, but each project likely affected multiple pollutants.
³ Water volumes and flows significantly affect a project’s impact on water quality.

All three programs provide financial and technical assistance for the implementation of best management practices, such as streamside buffers, which can help reduce the amount of polluted runoff entering waterbodies. However, no data are available that would allow comparisons between the programs. EPA has collected project-level data for some, but not all, of its nonpoint source grants (see table for examples), but this data cannot be used to assess the nationwide results of the program. As of 2002, EPA began systematically collecting project-specific performance data, which will eventually allow the agency to estimate the program’s nationwide impact on water quality.

Update on the President's Management Agenda

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

Arrow indicates change in status since baseline evaluation on September 30, 2001.

EPA is green on progress for all five management agenda initiatives. The agency continues to make progress on its human capital strategy, and has made its innovative Senior Executive Service mobility program part of its standard operations. This program rotates senior managers throughout the agency, expanding their program knowledge and skill sets. EPA exceeded its 2002 competitive sourcing goal by 20 percent, and is on track to meet its 2003 goal. The agency improved its financial management score by correcting all material weaknesses and completing an erroneous payments review, which found minimal problems. EPA also implemented a grants competition policy and will complete a preliminary evaluation of its effectiveness in early 2004. By 2004, the agency will have a revised strategic plan. The new strategic plan will help clarify and strengthen the links between the budget and performance, and will include improved performance measures.

Environmental Protection Agency

(In millions of dollars)

	2002 Actual	Estimate	
		2003	2004
Spending			
Discretionary Budget Authority:			
Operating program	4,038	3,970	4,250
Clean water state revolving funds	1,350	1,212	850
Drinking water state revolving fund	850	850	850
Brownfields cleanup funding ¹	—	121	121
Targeted water infrastructure funding:	459	123	98
Requested	(115)	(123)	(98)
Unrequested	(344)	(+)	(+)
Superfund	1,310	1,273	1,390
Other	73	68	68
Total, Discretionary budget authority ²	8,080	7,617	7,627
Mandatory Outlays:			
Environmental services	—12	—10	—19
Superfund recoveries	—248	—175	—175
Reregistration and expedited processing	—	—44	—
Total, Mandatory outlays	—260	—229	—194

¹ An additional \$89 million in brownfields funding for personnel costs and state program grants is included in the 2004 operating program.

² Total includes \$0.2 billion in 2002 supplemental funding, of which \$0.1 billion is in the Operating program.

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

The President's Proposal:

- Aligns all programs with a new agency vision and mission that emphasize research that is most appropriate for NASA to do, including reducing or terminating programs that are lower priority or not central to the agency's mission;
- Invests in key power, propulsion, and communications technologies, and human research to improve the efficiency and scientific return of exploration in space;
- Directs funding to research to better understand the environmental forces affecting the Earth's climate and improve the safety and security of the nation's air system;
- Maintains budget reserves for the Space Station consistent with the recommendations of independent cost reviews; and
- Invests in space launch improvements to extend the Space Shuttle's life, to develop technologies for next generation launch systems, and to design a crew transport backup to the Space Shuttle, which would provide an emergency crew return from the Space Station and improve astronaut flight safety.

The Agency's Major Challenges:

- Focusing research and technology on activities most appropriate for NASA; and
- Controlling costs of its launch vehicles, space platforms, ground facilities, and workforce to maximize resources for research, including completing construction of the U.S. core Space Station on time and on budget.

National Aeronautics and Space Administration

Sean O'Keefe, Administrator

www.nasa.gov 202-358-0000

Number of Employees: 19,050

2003 Spending: \$14.6 billion

Major Assets: Approximately 40 operational spacecraft, one Space Station orbital laboratory, four Space Shuttle orbiters, and nine field centers.

The National Aeronautics and Space Administration (NASA) conducts research in four areas: 1) Space Science inquires into the origins, evolution, and nature of life and our universe; 2) Earth Science seeks to understand the forces affecting our planet's environment; 3) Biological and Physical Research uses the space environment to gain insight into how the laws of nature work; and 4) Aeronautics Technology develops new technologies to improve the nation's air transportation system.

NASA's research would not be possible without many enabling capabilities, including launches of the Space Shuttle and other launch vehicles, orbiting platforms like the Space Station, space communications systems, new spacecraft and launch technology, and research facilities.

Setting Priorities and Bringing Costs Under Control

NASA is a science and technology agency pursuing research in fields as diverse as astronomy and astrophysics, global climate change, human physiology, and aeronautical engineering. Because the agency conducts so many types of research, it must prioritize its resources to accomplish its most important research goals.

NASA's New Mission

To understand and protect our home planet
To explore the universe and search for life
To inspire the next generation of explorers
.as only NASA can.

This year, the agency revised its mission to place a higher priority on research that is most appropriate for NASA to pursue. The President's Budget focuses on those areas that are unique to NASA by investing in new technologies that will improve scientific return and efficiency, by investing in environmental research and aviation

technology to improve life on Earth, and by reducing overlap with other government agencies or commercial industry.

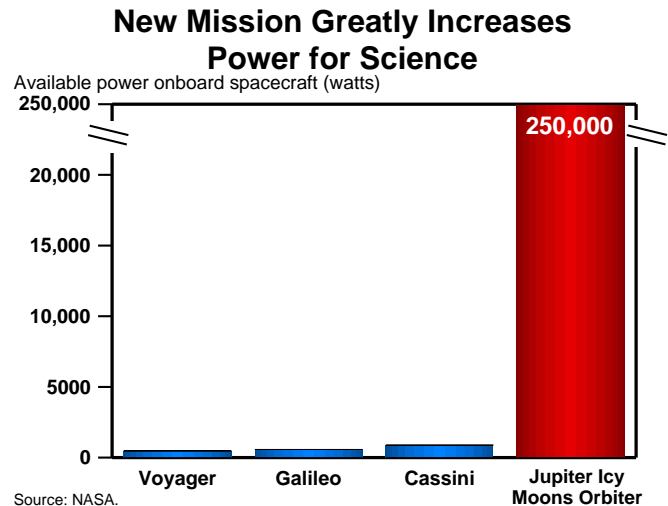
To focus its resources on research priorities, NASA must keep the cost of its enabling capabilities under control. This is a major management challenge for the agency. Much of NASA's research requires expensive launch vehicles and space platforms, extensive ground facilities, and a significant workforce. NASA must carefully manage the costs of these capabilities to maximize funding for research. In the past, research was cut back rather than reducing unneeded infrastructure, or containing costs on large programs like the Space Station and the Shuttle. To maintain robust research efforts, the President's Budget aggressively implements reforms to control Space Station costs and invests in activities to improve flight safety and extend the life of the Space Shuttle. NASA will also continue to reduce redundancy across its field centers.

Improving the Efficiency and Scientific Return of Space Missions

The President's Budget invests in three technology areas that hold significant promise in overcoming the limitations of robotic- and human-led research in space. These technologies are critical to improving the efficiency and scientific return of space missions.

Better Science at Distant Planets. NASA's new mission places a high priority on the search for life beyond Earth. Recent discoveries at Mars and the moons around Jupiter indicate that there may be or have been habitable environments on these worlds that supported the development of life in the past and may support primitive lifeforms today. Understanding the evolution of our solar system lends new insight to developments on our planet.

Increasing the scientific return from missions to these planets requires new power and propulsion technologies. For example, using existing propulsion technology, it can take half a decade or more for spacecraft to travel to Jupiter and other planets in the outer solar system. Once there, it is difficult and sometimes impossible for spacecraft to enter orbit around one or more of a planet's moons. In addition, power on a spacecraft is a scarce resource. Science instruments on these spacecraft often run on the same amount of electricity as a light bulb. High radiation and extreme temperatures in some of these worlds also limit the lifetime of spacecraft power sources to a few months or less.



To develop and demonstrate new power and propulsion technologies to overcome these limitations, the President's Budget proposes \$279 million; (\$3 billion over five years) for Project Prometheus, which builds on the Nuclear Systems Initiative started last year. Project Prometheus includes the development of the first nuclear-electric space mission, called the Jupiter Icy Moons Orbiter. This mission will conduct extensive, in-depth studies of the moons of Jupiter that may harbor subsurface oceans and thus have important implications in the search for life beyond Earth. In addition, it will prove new technologies for future NASA missions.

Where Are the Real Space Aliens?

Despite all the space aliens that appear in science fiction movies and books, we have yet to find conclusive evidence for life, even microbes, anywhere in the universe besides Earth.

Through the early 1990s, research showed that the universe, except for the Earth, was possibly inhospitable to life. However, in the past 10 years, a number of important discoveries indicate that habitable worlds may be much more prevalent than previously thought.

Researchers have found life in very harsh environments on Earth, which expands the possible kinds of places where life might exist. In our solar system, scientists have discovered evidence of currently or previously existing large bodies of water, a key ingredient of life, on Mars and the moons of Jupiter. Astronomers also have begun to find planets outside our solar system, identifying approximately 90 stars with at least one planet orbiting them.

Perhaps the notion that "there's something out there" is closer to reality than we have imagined.

Getting More Scientific Data Back. Like power and propulsion, today's communications technology also limits scientific research in space. Since the beginning of space exploration, radio waves have transmitted information to and from Earth. But radio signals weaken as they travel and carry limited scientific data. Optical communications, which rely on lasers, can carry much larger amounts of information than radio signals—enough to send video-like transmissions from deep space missions.

To take advantage of this emerging technology and greatly improve the scientific and educational return of future research missions, the President's Budget provides \$31 million to initiate development of the first operational deep space optical communications system. Spacecraft in the Mars Exploration Program will be the first

missions to use this technology in 2009, increasing the amount of data they can transmit back to Earth.

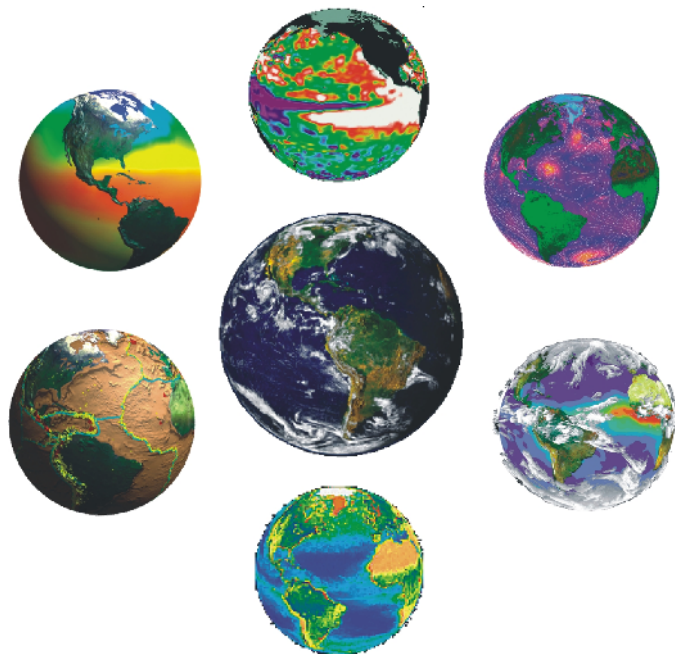
Improving the Efficiency and Safety of Human Research in Space. The space environment is hazardous to the human body. High radiation, the lack of gravity, and distance from resources make it difficult, and sometimes dangerous, for astronauts to pursue research in space. This is especially true for any future long-term missions beyond Earth's orbit that may require humans to conduct research that would not otherwise be possible. In these extreme and distant environments, astronauts would not be protected by Earth's magnetic field, could be exposed to harsh conditions for several months, and must carry large amounts of food, water, air, and other supplies.

To understand and address these health and logistical challenges, the President's Budget provides \$39 million to begin a Human Research Initiative. This initiative builds on three years of continuous human presence on board the Space Station to accelerate our understanding of what is required to safely send humans on long-term missions beyond Earth's orbit. This initiative will also help operate the Space Station more efficiently by reducing the amount of supplies that must be launched to the Station and enabling astronauts to safely spend more time in orbit.

The President's Budget directs funding to better understand the environmental forces affecting the Earth's climate and to improve the safety and security of the nation's air transportation system. This research uses capabilities that are unique to NASA in order to improve life on Earth.

Knowledge and Technology to Improve Life on Earth

Climate Change Research. NASA uses the unique vantage point of space to enhance scientific understanding of the Earth's environment. Research satellites explore the distribution and transportation of pollutants in the atmosphere, changes in oceans and land cover, and the motions of the Earth's landmasses and interior. NASA's efforts are a major contribution to the Administration's Climate Change Science Program, which includes the Climate Change Research Initiative (CCRI) to reduce scientific uncertainties about the Earth's changing climate and better inform environmental policy decisions. NASA research satellites test new instruments and techniques that can be used on satellites providing long-term data and observations necessary for understanding climate change. This budget includes \$79 million for CCRI investments at NASA, including key satellite instruments, research data, computer models, and decision support tools focused on climate prediction models.



NASA uses remote sensing satellites to view different environmental processes on the Earth, from severe weather to changes in ozone levels to volcanic eruptions.

Aviation Safety and Security. NASA develops aeronautics technologies to improve the nation's air transportation system in key areas like safety, airport congestion, and air and noise pollution from aircraft. New technologies can improve the visibility and awareness of pilots, allow more aircraft to land and take-off simultaneously from the same airport, and reduce chemical emissions from jet engines that can cause smog. In the wake of the terrorist attacks of September 11th, the President's Budget targets \$21 million of the agency's aeronautics activities for the development of technologies that can improve the security of aircraft and the nation's air system. NASA will work closely with the newly formed Department of Homeland Security and the Federal Aviation Administration to identify and develop technologies that exploit NASA's unique expertise and can be applied to making the nation's air system more secure.



NASA graphical cockpit weather displays provide real time information that can help aircrews avoid areas of hazardous weather.

Revise Commercial Programs

Consistent with NASA's new mission focus on research that only NASA can or will pursue, the budget reduces funding for two commercial programs, partly because they overlap with private sector activities.

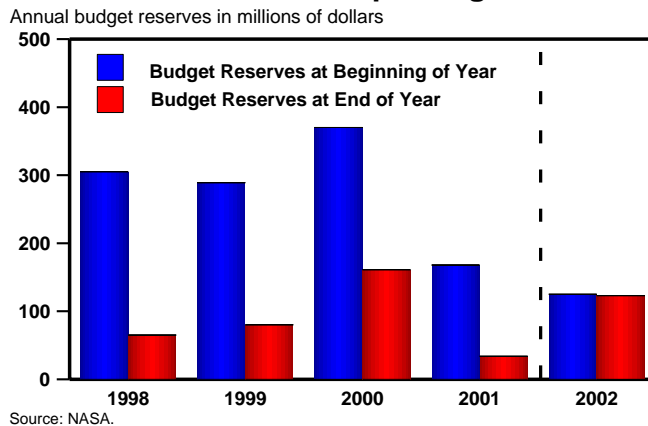
Commercial Technology. The budget terminates the Commercial Technology program, which markets NASA-developed technologies to potential private sector users. Although it is important to make NASA's technologies available to others, the government does not need to spend \$30 million to \$40 million per year just to make companies aware of these technologies. NASA believes a better approach is to make technology transfer a normal part of doing business whenever it is developing new technologies and to potentially leverage technology transfer capabilities at other agencies.

The budget provides \$5 million for a new approach, known as the Enterprise Engine, to partner with private firms on the development of commercial technologies that can directly contribute to the agency's core research activities, while benefiting private industry.

Commercial Space Product Development. The budget redirects the Commercial Space Product Development program, which develops commercial products in space. Although it is important to make the Space Station viable to commercial users, NASA has spent \$20 million to \$30 million per year since 1985 on commercial space product development efforts with limited success. The government is not in the best position to decide which commercial products should be developed. NASA plans to reduce funding for this promotional program through 2005 and redirect efforts to other important biological and physical research on the Space Station.

Space Station Reforms

Management of Space Station Budget Reserves Improving



In concert with its international partners, NASA is building the International Space Station to create a laboratory for scientific research in the unique environment of space. The program has suffered from a long history of cost overruns. Two years ago, NASA projected a \$5 billion (50 percent) overrun in the cost of completing the Space Station. To keep the Station within planned budgets, the Administration scaled it down to a core Space Station, and set management reform goals that must be met before considering any further additions to the core Station.

While not yet complete, NASA has demonstrated progress in its efforts to reform the program. The agency has strengthened cost and management controls and secured independent reviews of Space Station cost estimates. 2002 was the first year that the program did not need to tap its reserves. Independent cost reviews ranked the program cost estimates as credible and commended the program for improved cost analysis. However, these independent cost estimates also showed that the Space Station program will likely need additional budget reserves to manage risks associated with the transition from Station development to its operation. These additional reserves were requested in a 2003 budget amendment.

Most importantly, NASA has focused on research productivity as the goal for Station operations. To best improve Space Station research, NASA plans to create a Space Station Research Institute. This institute will improve access for researchers to the Space Station by streamlining the management of Space Station research and serving as a single point-of-contact for scientists, technologists, and commercial researchers who want to conduct research on the Space Station.

Challenges still remain. There is a year to go until construction of the U.S. core Space Station is complete. NASA must also transition from building to efficiently operating the Space Station. These challenges must be overcome before declaring with confidence that Space Station costs are under control. The Space Station's performance evaluation rating reflects that the Space Station is a program in transition.

Performance Evaluation of Select Programs

Three NASA programs have been reviewed for performance effectiveness, as summarized in the accompanying table. For further details on the performance assessments of the programs listed here, refer to the NASA chapter in the *Performance and Management Assessments* volume.

Program	Rating	Explanation	Recommendation
Space Station	Results Not Demonstrated	Space Station cost controls have improved since recent overruns, but it is too early to tell whether management reforms will continue to be successful.	NASA will continue building the U.S. core Space Station, and the Administration will monitor program performance to see if recent management reforms are successful.
Space Shuttle	Moderately Effective	Shuttle operations are well managed, but investments to improve the Shuttle suffer from inadequate planning and poor cost management.	NASA will develop tools to track the impact of investments on the Shuttle's operational life, flight safety, and facilities conditions. NASA also will strengthen capital investment cost controls.
Mars Exploration Program	Effective	Good planning and execution have led to important scientific discoveries. The program has recovered from the loss of two spacecraft in late 1990s.	NASA will carefully track development of the 2003 Mars rover missions which are a major program challenge. NASA also will use planning for potential missions next decade to drive technology investments this decade.

Space Launch Improvements

NASA transports humans and cargo to and from space using the Space Shuttle. NASA also launches many science spacecraft on commercial rockets. The agency coordinates its investments in the Space Shuttle and new space transportation capabilities through its Integrated Space Transportation Plan. The budget supports several improvements to this plan to improve flight safety and extend the life of the Space Shuttle.

Next Generation Launch Technology Investments. NASA had planned to develop a new Reusable Launch Vehicle to replace the Space Shuttle by early in the next decade. However, current cost estimates for the vehicle, which range as high as \$20 to \$40 billion, are significantly beyond the program goal of \$10 billion, and, thus, NASA is not ready to commit to the vehicle's development. The President's Budget continues to invest in next generation launch technologies for the potential development of a Reusable Launch Vehicle or other launch systems.











Orbital Space Plane Acceleration. The budget funds design, risk reduction activities, and development of the Orbital Space Plane, which would be launched on commercial rockets, to transport astronauts and some cargo to and from the Space Station. It would supply the first-ever crew transport backup for the Space Shuttle, flexible access to space, and also provide emergency crew-return from the Space Station. Due to its unique system characteristics, the Orbital Space Plane is expected to be safer and less expensive to fly than the Shuttle. Validating the performance requirements, development cost, and anticipated operational costs will be a major activity over the next year.

Space Shuttle Service Life Extension. With deferment of a Reusable Launch Vehicle to replace the Space Shuttle, NASA will need to operate the Space Shuttle longer. The budget provides additional funding to extend the Shuttle's service life. However, past management of Shuttle investments has

suffered from unclear planning and cost overruns. In the coming year, NASA will reform its approach to Shuttle investment planning and management.

Space Shuttle Competition. With the Space Shuttle flying longer, NASA is examining options for introducing greater competition for work that is currently performed directly by the federal government and federal contractors. A competition plan will be incorporated in next year's budget.

Update on the President's Management Agenda

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

Arrows indicate change in status since baseline evaluation on September 30, 2001.

NASA's status rating improved for both human capital and budget and performance integration efforts. For human capital, NASA has begun to implement its strategic human capital plan, including a tracking system to identify workforce deficiencies across the agency. In competitive sourcing, NASA has achieved the government-wide, 15 percent competitive sourcing goal for 2003, but is still working on a plan to achieve the long-term 50 percent goal. The status of financial performance fell due to a disclaimer of opinion on NASA's 2001 audit. The agency worked to resolve all issues from that audit, including accounting for contractor held property. Progress in E-Government has been slower due to information technology security reporting issues and problems with completing documentation to justify some information technology investments. In budget and performance integration, NASA is now budgeting for the full cost of its programs and has integrated its budget and performance reports starting with this budget.

National Aeronautics and Space Administration

(In millions of dollars)

	2002 Actual	Estimate	
		2003	2004
Spending			
Discretionary Budget Authority:			
Science, Aeronautics and Exploration (non-add)	(6,542)	(6,975)	(7,661)
Space Science	2,902	3,414	4,007
Earth Science	1,592	1,628	1,552
Biological and Physical Research	824	842	973
Aeronautics	997	947	959
Education Programs	227	144	170
Space Flight Capabilities (non-add)	(8,326)	(8,000)	(7,782)
Space Flight	6,773	6,131	6,110
Crosscutting Technology	1,553	1,869	1,672
Inspector General	24	25	26
Total, Discretionary budget authority	14,892	15,000	15,469

NATIONAL SCIENCE FOUNDATION

The President's Proposal:

- Provides a significant budget increase to further sustain and build U.S. world leadership in science, engineering, and technology;
- Invests in leading-edge discovery in science and engineering to provide breakthroughs in information technology, nanotechnology, climate change research, and fundamental research related to homeland security;
- Significantly strengthens National Science Foundation programs that emphasize the physical sciences, such as physics, chemistry, and astrophysics;
- Provides enhanced infrastructure to strengthen research capabilities in astronomy, physics, earthquake research, and the environment;
- Improves the quality of math and science education through the President's Math and Science Partnership program; and
- Attracts more of the most promising U.S. students into graduate level science and engineering by providing larger annual stipends.

The Agency's Major Challenges:

- Managing and overseeing adequately a growing portfolio of awards; and
- Ensuring the health and safety of participants in the U.S. Antarctic Program.

National Science Foundation

Dr. Rita Colwell, Director

www.nsf.gov 703-292-5111

Number of Employees: 1,300

2003 Spending: \$4.9 billion

Major Assets: U.S. Antarctic Program facilities and five federally funded research and development centers.

The National Science Foundation (NSF) invests in basic research that forms the backbone of many science and engineering disciplines and capabilities in the United States. The agency provides merit-based awards to individual researchers and groups at about 2,000 U.S. colleges, universities, and other institutions. Although NSF represents less than four percent of the total federal budget for research and development, it accounts for

approximately 13 percent of all federal support for basic research and 40 percent of non-life-science basic research at U.S. academic institutions. NSF's broad support for basic research, particularly at U.S. academic institutions, provides not only a central source for discovery in many fields, but also encourages and supports development of the next generation of scientists and engineers.

NSF evaluates proposals based on the merit of the proposed activity, including its prospective impact on society. NSF ensures quality in its programs by using competitive merit review of grant proposals, coupled with periodic external review of the research and education programs that fund those grants.

An Agency in the Fast Lane

In fulfilling its mission, NSF has used its funding efficiently and effectively. Of the federal funds it receives, 95 percent go to educational and research institutions and contractors; NSF's direct overhead amounts to only five percent. Funding for the agency has grown significantly in the past decade, while the agency's staffing level has remained flat. The agency has accommodated the increase in funding and responsibilities through effective use of information technology. For instance, its FastLane grants processing system electronically processes almost 100 percent of the 30,000 proposals NSF receives annually. Nearly 200,000 scientists, engineers, and researchers use this system to submit proposals, review proposals, and report project results. Thanks to the FastLane system, NSF reduced its proposal handling costs significantly, despite having a 19-percent increase in applications for graduate fellowships and a 10-percent increase in proposals processed. As an indication of the dramatic effect the system has had on reducing paper-based transactions, in 2002 alone, NSF slashed its paper and supply costs by 26 percent and its postage costs by 44 percent. The agency achieved \$500,000 in savings, not including administrative savings from staffing efficiencies.

NSF is also the only agency to receive the highest rating (green) for status in two of the government-wide President's Management Agenda initiatives. In the initial assessment period, NSF was the lone agency to receive the top rating for financial management. During 2002, NSF became the first federal agency to receive the top rating for the E-Government initiative. In addition, assessments using the Program Assessment Rating Tool (PART) reinforce the favorable conclusions of many external evaluations of these and other programs at NSF.

Nevertheless, there are major hurdles on the horizon. Members of the Congress and the NSF Inspector General have questioned whether the agency will be able to adequately manage its growing portfolio, particularly in providing adequate oversight of its awards. The agency also is vulnerable to a wave of retirements. Sixty-three percent of NSF's executives and 57 percent of its scientists and engineers are eligible to retire within the next four years. Another concern stems from NSF's responsibility for overseeing the U.S. Antarctic Program, which includes the ongoing \$133 million modernization of South Pole Station. Through contracts and agreements, the agency coordinates the provision of the planes, ships, buildings, and logistics to enable the research and education efforts of more than 2,000 scientists and support staff in Antarctica. NSF's Inspector General has identified the agency's safety and health program as a high-risk area because of the hazardous environmental conditions, isolation, and the difficulties of delivering medical services in Antarctica. The South Pole and other NSF Antarctic facilities are completely inaccessible to aircraft during the winter months. Good infrastructure is crucial for the health and safety of Antarctic participants, requiring improved planning and budgeting. In particular, the maintenance and upgrades of aging buildings and facilities in Antarctica will continue to be a management challenge.



The isolated South Pole Station, currently under construction in Antarctica.

Underwriting Cutting-Edge Discovery in Science and Engineering

The majority of NSF grant recipients' work is basic research. Basic research has yielded important scientific discoveries that have boosted economic growth and enhanced the quality of life through advances such as better weather forecasting, laser technology, and earlier detection of cancer. Basic research in emerging fields such as nanotechnology will provide new capabilities and generate more discoveries that will further improve the quality of life.

Although private industry has expanded its support for basic research over the past several years, most of its research focuses on short-term efforts that can bring new products to market. Federal investments in basic research lay a long-term foundation for breakthrough applications in areas not usually supported by private industry.

What's in the Fridge?

NSF-supported researchers have found Antifreeze Proteins (AFPs) in fish, insects, spiders, plants, and microorganisms. Because AFPs lower the freezing point of water inside these organisms, they are able to survive low temperatures without damage. The most active AFPs are in insects: researchers investigating freeze resistance and tolerance in beetles and other insects in Alaska have uncovered the property in 13 insects and two spiders. The study of AFPs may yield information that will advance preservation of food and of biomedical materials, making it possible to avoid the potentially damaging effects caused by the formation of ice crystals during freezing.

The Administration's overall aim 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 involves the building of small and large structures atom by atom, holds promise for the development of technologies that could range from higher-performance materials to advanced, microscopic biomedical instruments.

The President's Budget emphasizes research in several highly promising, multidisciplinary areas that address key science and engineering needs and opportunities. Besides nanotechnology,

the 2004 Budget provides significant NSF funding for fundamental research related to homeland security, information technology, and climate change. The requested investment will move research forward rapidly, while training the scientists and engineers who will spur innovation and transform these fields.

The President's Budget invests aggressively in the physical sciences. Modern health science uses sophisticated approaches that are increasingly reliant on the physical sciences and associated analytical tools. For instance, the development of magnetic resonance imaging (MRI), among the 20th Century's greatest advances in diagnostic technology, depended heavily on advanced concepts from physics. Only with renewed support of research and equipment for fields such as physics, chemistry, and materials science will the nation be able to take full advantage of recent major investments in the health sciences. Similarly, physical science investments will spur progress in other areas, such as energy, agriculture, and the environment.

The budget provides a 13-percent increase (or a \$100 million boost) for NSF programs that emphasize the physical sciences, such as awards for individual researchers and for centers in physics, chemistry, and astrophysics research. This represents a 36-percent increase (\$227 million) over investments of five years ago.

Sharpening Tools for Science and Engineering

NSF invests in widely accessible science and engineering tools, 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. Approximately 25 percent of NSF's funding is directed toward research equipment and the construction, upgrade, and operation of research facilities.

The PART analysis indicates the overall purpose of NSF's investment in research infrastructure (Tools) is clear and that the program is meeting most of its annual goals. However, NSF's process for prioritizing investments in large facilities is not readily apparent, allowing little insight into program priorities. The Administration will improve the transparency of the selection process for large facility projects. For the first time, NSF will provide the Congress a rank ordering of all approved large facility construction projects and a discussion of how these projects were selected, approved, and prioritized.

The President's Budget enhances science infrastructure capabilities in astronomy, earthquake research, and the environment. The budget continues construction of the international Atacama Large Millimeter Array telescope in Chile and the EarthScope projects across the United States. The Atacama Large Millimeter Array will be the world's most sensitive, highest resolution, millimeter-wavelength telescope. It will serve as a testing platform for theories of star birth and stellar evolution, galaxy formation and evolution, and the evolution of the universe itself. EarthScope will provide several research instruments, some portable, to investigate the structure and evolution of the North American continent and the physical processes controlling earthquakes and volcanic eruptions. These instruments will provide significant data to assess and mitigate national risks associated with earthquakes, volcanic eruptions, and landslides. The budget also initiates construction of IceCube, a South Pole facility to detect neutrinos. Neutrinos are one of the fundamental particles that make up the universe and are also one of the least understood.

Improving the Quality of Math and Science Education

Concerns persist over the state of mathematics and science education in the United States. The 1999 update of the Third International Math and Science Study compared American students with students in other countries in math and science. It found that U.S. fourth graders did relatively well in both subjects, but by the time they reached their senior year in high school, U.S. students ranked very low compared to students in other countries. In 2000, the National Assessment of Educational Progress showed no improvement since 1996 in U.S. student performance in science and limited improvement in math.

Math and science achievement directly depends on programs run through state and local educational systems. NSF supports and studies new models for teaching math and science that, if effective, can be adopted by state and local districts.

The 2004 Budget proposes to improve the quality of math and science in grades K-12 through the President's Math and Science

Math and Science Partnership Awards

In September 2002, NSF and the Department of Education announced the first awards under the new Math and Science Partnership program. NSF and Education made 24 awards worth an anticipated \$240 million over five years, which will affect at least two million students in 11 states. A key part of President Bush's No Child Left Behind education plan, these new awards aim to enhance the performance of U.S. students in mathematics and science.

Partnership program. The program builds on NSF's record of supporting models that enhance math and science curricula. For example, over the first six years of the NSF-funded Chicago Urban Systemic Initiative, the percentage of fourth grade students meeting Illinois state standards in science increased from 46 to 66. The Math and Science Partnership program provides funds for

states and local school districts to join with institutions of higher learning to improve students' skills in math and science.

Attracting U.S. Students into Science and Engineering

Fewer U.S. students are choosing to go into graduate science and engineering programs. Since 1993, enrollment of U.S. students in these programs has dropped nine percent. During the same period, enrollment of foreign students with temporary visas increased three percent. The President's Budget proposes to attract the most promising U.S. students into graduate-level science and engineering programs by providing more competitive stipends.

The 2004 Budget continues a multi-year effort to increase the annual stipends for NSF's fellowship and trainee programs, this year from \$25,000 to \$30,000. This new level marks a big leap from 2001, when annual stipends were \$18,000. Reducing the financial pressures students face significantly affects their choice of science or engineering as a career – thanks in part to the increase in stipends in 2002, there was a dramatic increase in applications for NSF fellowships and traineeships, up from 6,900 in 2001 to 8,200 in 2002. The Administration intends to examine more thoroughly how effective the stipend increases have been in attracting and retaining U.S. graduate students in science and engineering.

Performance Evaluation of Select Programs

For the 2004 Budget, the Administration reviewed two NSF programs using the PART: one for research infrastructure Tools and one for NSF's Geosciences Directorate. Identifying these two areas as "programs" was not useful for budget decisions – the Tools area comprises too many individual programs, and budget decisions do not tend to align with the Directorate structure. The Administration will consider different NSF program assessment categories for the 2005 Budget. The following table summarizes these two assessments. For further details on these assessments, see the NSF section in the *Performance and Management Assessments* volume.

Program	Rating	Explanation	Recommendation
Tools	Effective	The assessment indicates that the overall purpose of the program is clear and it is meeting the majority of its annual goals. However, the process for ranking investments in large facilities allows little insight into program priorities.	With this budget, NSF will rank all large facility construction projects and discuss how these projects were selected and prioritized.
Geosciences Directorate	Moderately Effective	The assessment indicates that the overall purpose of the program is clear, but NSF's annual goals, applied to Geosciences for this assessment, are too broad to be useful in tracking how the program will improve scientific understanding and its application.	The Administration will develop better annual goals for NSF programs as part of the agency's revision of its strategic plan by this spring and the development of the 2005 Budget.

Update on the President's Management Agenda

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

Arrow indicates change in status since baseline evaluation on September 30, 2001.

NSF achieved a green status rating in E-Government that joins its green status for financial performance. NSF did so by making significant progress in fixing identified information security problems. NSF also has made significant progress in the Human Capital initiative, including establishing the NSF Academy for ongoing staff training and issuing revised senior executive performance management objectives to better align with the agency's strategic plan. Progress in the Competitive Sourcing and Budget and Performance Integration initiatives, however, trails. Progress in Competitive Sourcing was downgraded because the agency has still not committed to competing any of its commercial positions, and has not developed a competitive sourcing plan. For Budget and Performance Integration, NSF has just finished a plan for getting to green in this initiative, but it first needs to revise its strategic plan to develop better annual goals and measures before its progress rating improves.

National Science Foundation

(In millions of dollars)

	2002 Actual	Estimate	
		2003	2004
Spending			
Discretionary Budget Authority:			
Research and Related Activities	3,613	3,783	4,106
Education and Human Resources.....	894	908	938
Major Research Equipment and Facility Construction	139	126	202
Salaries and Expenses	170	203	226
Inspector General.....	7	8	9
Total, Discretionary budget authority	4,823	5,028	5,481
Mandatory Outlays:			
H-1B Fee Programs	26	101	78
All other programs	31	41	27
Total, Mandatory outlays	57	142	105

SMALL BUSINESS ADMINISTRATION

The President's Proposal:

- Helps spur job creation by funding more than \$20 billion in small business lending and equity programs;
- Establishes an online single point of access to help small businesses comply with federal regulations;
- Provides average tax cuts of more than \$2,000 to 23 million small business owners;
- Helps small business owners finance new equipment by tripling the expensing deduction to \$75,000 per year; and
- Ensures that small businesses receive a fair share of the \$200 billion in annual federal purchases.

The Agency's Major Challenge:

- Providing capital to small businesses amid rapid changes in the financial markets.

Small Business Administration

Hector V. Barreto, Administrator

www.sba.gov 202-205-6605

Number of Employees: 3,927

2003 Spending: \$1.6 billion

The Small Business Administration (SBA) was created in 1953 to aid, counsel, and protect the interests of small businesses, as well as to help families and businesses recover from physical disasters.

Assistance for small businesses is not limited to SBA's technical assistance and credit programs. Additional support is provided under the President's

tax proposals enacted in 2002. Twenty-three million small business owners have benefited from lower marginal income tax rates, and the Administration is proposing to accelerate these rate reductions and to triple the expensing deduction for investment in capital equipment.

Capital Needs of Small Businesses

Through a variety of financing programs, SBA guarantees small-business loans, fixed asset loans, and microloans, and provides debt and equity capital to small businesses. These programs offer a wide spectrum of assistance ranging from an average \$12,000 for microloans to a maximum \$2 million for general small-business loans. Average venture capital financings are \$690,000. The budget requests \$226 million to support more than \$20 billion in guaranteed lending and equity investments.

To address the financing needs of small businesses, SBA looks to: 1) target and expand access to credit; 2) increase customer choice; and 3) assess the impact and effectiveness of its capital access programs.

Target and expand access to credit. SBA seeks to target assistance more effectively to credit-worthy borrowers who would not be well-served by 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 has been successful. Average loan size has decreased from \$258,000 in 2000 to \$236,000 in 2002, while the number of small businesses served has grown from 43,748 to 51,666. SBA hopes that through reduced fees and higher guarantee levels (85 percent for loans below \$150,000), banks will be more inclined to provide loans to smaller borrowers.

Increase customer choice. Based upon the findings of the Program Assessment Rating Tool (PART), SBA will propose regulations to increase customer access to services in the Section 504 Certified Development Company Loan program. This program, which includes a job creation requirement, offers long-term financing for fixed assets (land, buildings, and large equipment). One proposed change under consideration would increase the availability of loan intermediaries in this program so that borrowers would have more choices and would be able to determine which SBA loan program best meets their needs.

Assess program impact and effectiveness. The budget includes funds to identify and measure factors that affect both demand and performance in the Sections 7(a) and 504 loan programs. With respect to demand, the purpose of the evaluation will be to gather critical information regarding who seeks assistance, for what purpose, and under which economic conditions. In terms of performance, the evaluation seeks to define how those who receive assistance perform in terms of their businesses' sustainability and job creation.

Disaster 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 from physical damage. Working primarily with the Department of Homeland Security's Emergency Preparedness and Response Directorate, formerly known as the Federal Emergency Management Agency, SBA sets up temporary field offices in disaster areas to help the public apply for low interest construction and economic assistance loans. In 2002, the Administration sought, and the Congress provided, nearly \$1.4 billion in lending, including almost \$600 million to support businesses adversely affected by the September 11th attacks. For 2004, the budget requests funding to support SBA's activity level consistent with its five-year average of \$760 million.

Improve disaster response. To increase responsiveness to disasters and reduce administrative burdens, SBA's Disaster Loan program plans a paperless loan application processing system. By 2004, 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.

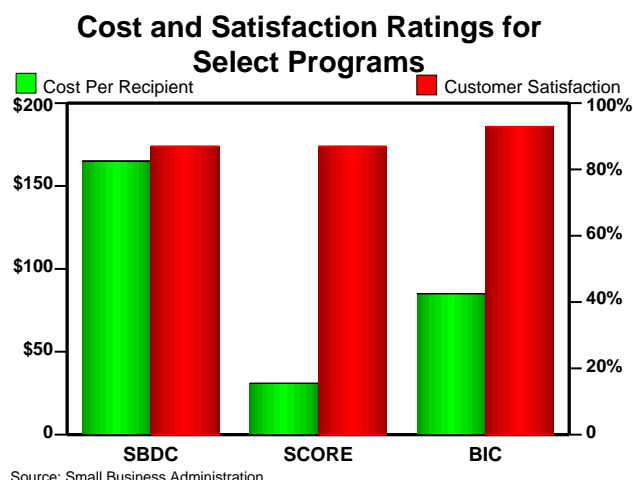
Technical Assistance

Annually, SBA and its partners provide technical assistance including training, counseling and mentoring to approximately two million existing and potential small business entrepreneurs. The

assistance is provided on-line as well as face-to-face and ranges from how to start a business to specific issues on exporting to certain countries. SBA provides grants to a network of over 1,100 Small Business Development Centers (SBDC), 389 Service Corps of Retired Executives (SCORE) chapters, 84 Women's Business Centers, and 80 Business Information Centers (BIC). In addition, the agency has a program that helps microloan lenders provide business assistance to start-up firms.

Measuring the performance of these programs has been difficult because numerous external factors can significantly affect small business sustainability, such as unemployment or the general state of the economy. In addition, SBA partners do not always provide reliable or consistent data for measuring progress. As a result, SBA is 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 proposes \$141 million for technical assistance programs in 2004.



Federal Procurement

The federal government annually buys over \$200 billion in goods and services, 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. The federal government came close to the 23-percent goal in 2000 (22.3 percent) and 2001 (22.8 percent).











Reducing the Regulatory Burden for America's 23 Million Businesses

Small businesses face a dizzying array of daunting legal and regulatory issues, from employment law to tax regulations to licensing and permitting. SBA's Office of Advocacy estimates that the regulatory burden on businesses cost nearly \$500 billion in 2000. This translates to roughly \$7,000 per employee in firms with less than 20 employees. Much of these costs result from small businesses' difficulty in finding and understanding the regulations. As a result, the SBA, in partnership with other federal, state, and industry or groups, is building a Business Compliance One Stop website (BCOS) to address this problem. By providing user friendly access to laws and regulations, compliance tools, and online transactions, the portal offers value to both businesses and government.

SBA's *BusinessLaw.gov* is the cornerstone of this effort. The website provides a single place where businesses can easily access information about laws and regulations, find compliance assistance digital guides, and carry out transactions. Once completed in summer 2004, businesses will save an estimated \$400 million annually, while federal agencies will reduce their costs by \$36 million per year.

Agencies in the 1990's 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 goal¹. The group proposed the following recommendations: 1) ensure timely and accurate reporting of contract bundling information through the President's Management Council; 2) require contract bundling reviews for task and delivery orders under multiple award contract vehicles; 3) require SBA or agency Offices of Small and Disadvantaged Business Utilization to review proposed acquisitions above certain individual agency-specific thresholds (between \$2 million and \$7 million); and 4) require identification of alternative acquisition strategies for the proposed bundling of contracts above certain individual agency-specific thresholds and written justification when alternatives involving less bundling are not used.

Update on the President's Management Agenda

	Human Capital	Competitive Sourcing	Financial Performance	E-Government	Budget and Performance Integration
Status					
Progress					
<p><i>Arrow indicates change in status since baseline evaluation on September 30, 2001.</i></p> <p>With the exception of setbacks in financial management, SBA has made solid progress in implementing the President's Management Agenda. In order to improve service to the public, the agency has undertaken an assessment of its staff's skills, contracted for training, and identified positions for competitive sourcing in 2003. As the leader of the BCOS initiative, SBA has launched the website <i>BusinessLaw.gov</i>, which helps small business owners easily find, understand, and comply with myriad regulations. In May 2002, the site won the prestigious Pioneer award from the E-Gov group. In addition, the agency is implementing an advanced cost accounting system. However, SBA's financial management status slipped in the past year due to inconsistencies in asset sale accounting and weak management of credit programs. The agency has made remediation of these deficiencies a top priority.</p>					

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 award to a small business (section 3(o) of the Small Business Act (15 U.S.C. Section 632 (o))).

Performance Evaluation of Select Programs

In developing the 2004 Budget, the Administration reviewed four programs with the PART. Overall, the PART revealed that SBA fails to document results due to a lack of outcome oriented long-term goals. SBA has committed to improving accountability by developing stronger indicators and goals. For further details on SBA's performance assessments refer to the SBA chapter in the *Performance and Management Assessment* volume.

Program	Rating	Explanation	Recommendation
504 Certified Development Company Guarantee Loan Program	Results Not Demonstrated	The agency lacks a strategic plan and has not articulated the long-term public policy objectives of the program.	SBA needs to 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.
Business Information Centers	Results Not Demonstrated	The program lacks a clear purpose and does not have long-term outcome goals from which to measure performance.	SBA needs to develop outcome-oriented annual and long-term goals, undertake an evaluation of the program's effectiveness, and reduce administrative costs associated with this program.
Service Corps of Retired Executives	Results Not Demonstrated	While the purpose of the program is clear and the cost per client is low compared to similar programs, SBA does not have goals and measurements to show that the program has long-term, positive results for citizens.	SBA needs to evaluate the program after establishing annual and long-term outcome oriented program goals.
Small Business Development Centers	Results Not Demonstrated	SBA lacks meaningful annual and long-term goals from which to measure performance.	SBA should evaluate the program and assess whether it duplicates other federal or non-federal programs. In addition, the agency should define outcome-oriented annual and long-term goals.

Small Business Administration

(In millions of dollars)

	2002 Actual	Estimate	
		2003	2004
Spending			
Discretionary Budget Authority:			
Salaries and Expenses	162	209	219
Non Credit Business Assistance	177	144	141
Business Programs	278	218	226
Disaster Program	284	194	198
Office of the Inspector General	11	14	14
Total, Discretionary budget authority ¹	912	779	798
Credit activity			
Direct Loan Disbursements:			
Disaster Loans	1,306	829	691
Microloans	32	29	29
Total, Direct loan disbursements	1,338	858	720
Guaranteed Loans:			
Section 7(a) business loans	9,140	6,911	7,948
504 Community Development Corp loans.....	2,056	2,100	1,826
SBIC Participating Securities	842	800	752
SBIC Debentures	304	300	215
Total, Guaranteed loans	12,342	10,111	10,741

¹ Includes \$0.2 billion in 2002 supplemental funding.

SOCIAL SECURITY ADMINISTRATION

The President's Proposal:

- Provides funding to maintain good service to the public in the face of growing workloads;
- Would increase the Social Security Administration's overall productivity by at least two percent in 2004; and
- Implements an electronic disability claims process.

The Agency's Major Challenges:

- Significantly improving the disability claims process; and
- Effectively handling the increasing workload as the baby boom generation nears retirement.

Social Security Administration

Jo Anne B. Barnhart, Commissioner

www.ssa.gov 800-SSA-1213

Number of Employees: 63,600

2003 Spending: \$509.9 billion

Field Offices: 1,336

The Social Security Administration (SSA) promotes the nation's economic security through administering America's major income support payments for older Americans, Americans with disabilities, and their dependents. SSA manages the Old-Age, Survivors, and Disability Insurance programs, universally known as Social Security. SSA also runs the Supplemental Security Income (SSI) program for

low-income aged and disabled persons. In addition, the agency provides services that support Medicare on behalf of the Centers for Medicare and Medicaid Services.

SSA is responsible for paying around \$42 billion monthly in benefits to more than 50 million people. SSA's responsibilities also include the following:

- process more than five million new claims for benefits each year;
- handle 55 million 800-number phone calls;
- host 40 million visits to SSA's website;
- issue 136 million Social Security statements; and
- manage activities that help individuals with disabilities enter or return to the workforce.

Overview

SSA at some point touches nearly everyone in America by issuing Social Security numbers, maintaining earnings records used later to calculate Social Security benefits, and administering the benefit programs. SSA provides good service to beneficiaries and at the same time protects the interests of taxpayers by making sure that only those who meet eligibility requirements receive benefits. For the disability programs in particular, determining initial or continuing eligibility for these benefits is often a complex task that requires gathering and analyzing detailed information. For example, disability claims examiners in the initial claims process and administrative law judges in the appeals process must examine a person's medical history, employment background, and current functional abilities to determine whether that particular individual is capable of working.

As the retirement of the baby boom generation draws near, SSA will face the challenge of serving record numbers of beneficiaries and maintaining program integrity at the same time that a large portion of SSA's own workforce will also be retiring. Meeting this challenge will require SSA to retool business processes and leverage technology to become more efficient than ever before.

The 2004 Budget includes resources to increase productivity in public service areas, detect and prevent erroneous payments, and effectively handle increasing workloads as the baby boom generation ages toward retirement. With this budget, SSA expects to achieve the performance targets outlined in the accompanying table.

Performance Measures

Goal	2002 Actual	Estimate	
		2003	2004
Productivity:			
SSA Hearing Decisions, Per Worker Per Year	95	101	104
Disability Decisions, Per Worker Per Year.....	265	264	268
Timeliness (in days):			
Average Processing Time for Initial Disability Claims	104	104	103
Average Processing Time for Hearing Decisions	336	352	336
Accuracy:			
Disability Determination Services Accuracy Rate.....	NA	97%	97%
Accuracy Rate for Hearings Decisions	NA	89%	89%

Citizen-Centered Service

Confronting Growing Workloads

SSA is experiencing a marked increase in applications for disability benefits. SSA projects that between 1999 and 2004, the number of individuals applying for disability will increase 22 percent. The disability programs are sensitive to economic and demographic trends. SSA actuaries project the volume of claims to remain high in future years due to baby boomers moving into their disability-prone years. To appropriately address this growing workload, the 2004 Budget provides nearly eight percent more administrative resources for SSA than in 2003. With this budget, in spite of growing workloads, SSA will be able to maintain stable levels of initial disability claims pending.

SSA is committed to annual productivity gains of at least two percent per year. As in the past, SSA will process more cases per worker through efficiencies gained from investments in technology and streamlining agency procedures. Technology improvements are crucial to improving service as well as productivity. While productivity is expected to improve through these efforts, further improvement will be slightly constrained due to training requirements for newly hired employees and managing pending disability claims.

In 2004, the paper-driven disability claims process will become more efficient as the agency performs more work electronically. While processing time is expected to improve slightly in 2004, this initiative is expected to substantially reduce processing time over the long term and reduce the costs of disability determinations and hearings. 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.

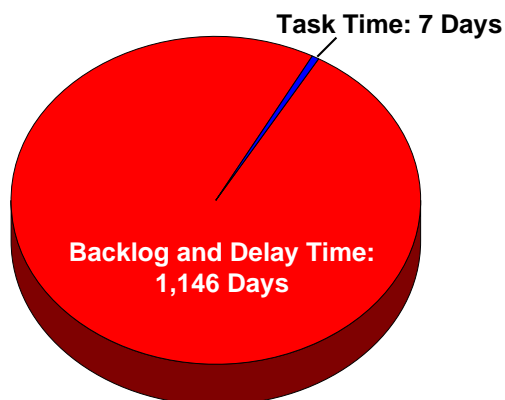


SSA spends significant resources locating, mailing, and storing paper files.

Disability Claims Process

A long-standing management challenge for SSA has been the time, complexity, and expense involved in processing claims for disability benefits, and, in particular, appeals of unfavorable initial decisions. Initial claims are processed by state employees at state disability determination service agencies, which are fully funded by SSA. In 2002, the average time to reach a decision on a new claim was 104 days, or about three and a half months. Individuals whose claims are initially denied can pursue their claim through three levels of administrative appeals. Although most claims are resolved at the initial step or the first level of appeals, individuals who exhaust all levels of administrative appeals can expect the process from initial contact with SSA to final decision to take about three years (see accompanying chart). Worse yet, the time spent actually working on the claim by federal and state workers, while spread over the three years, only totals up to seven days. The rest of the time, cases either sit waiting to be processed due to backlogs, or are delayed for various reasons such as the collection of medical evidence or giving claimants time to request the next step in due process. The vast majority of those who appeal spend substantial time waiting for a decision from either an administrative law judge or the SSA Appeals Council. In addition, the accuracy rate of hearing decisions is only 88 percent.

Average Disability Processing Time
From initial claim through all stages of administrative appeal



Source: Social Security Administration.

Since 1998, substantial backlogs of claims have accumulated as SSA has been unable to process all the claims received. The budget invests resources to process these pending claims and reduce the time that cases wait in backlog status.

While transforming the paper-driven disability claims process to an electronic process will help reduce delay time, SSA must develop the capacity to efficiently manage these growing workloads over the long term. SSA has undertaken an extensive review of the disability claims process to determine the changes required to better serve individuals with disabilities. Based on this experience,

SSA will recommend and implement strategies during the next two years to significantly improve the disability claims process. As part of this assessment, SSA is looking at ways to improve the accuracy rate of hearing decisions. Until these strategies are fully implemented, the accuracy of these decisions is expected to remain level.

Electronic Service Delivery

The budget includes \$795 million for information technology initiatives to make it easier for the public to conduct business with SSA over the Internet or through automated telephone service, allow SSA to provide more timely and efficient service, reduce erroneous payments, and maintain SSA's extensive technology systems.

SSA has established a new performance indicator to measure the percentage of transactions conducted electronically. For those with Internet access, most routine transactions could be handled at lower cost to the agency and greater convenience to the public. SSA also will continue its current service delivery options of face-to-face service along with telephone and mail service.

Performance Evaluation of Select Programs

Assessments of the SSI for the Aged and Disability Insurance (DI) programs indicate that SSA uses strong financial management and accountability practices. SSI Aged and DI have adequate long-term and annual performance measures. However, the SSI Aged assessment also highlighted the fact that SSA has not achieved its payment accuracy goals for the SSI program overall. For additional details on findings of the Program Assessment Rating Tool (PART) for SSI and DI, please see the SSA chapter in the *Performance and Management Assessments* volume.

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.	SSA will address payment accuracy issues and more closely match up resources with performance benchmarks.
Disability Insurance	Moderately Effective	The program has a clear purpose and addresses a specific need. While processing time goals have been met, SSA made insufficient progress toward improving accuracy of denied claims and the number of hearings decisions issued per worker.	SSA will significantly improve the claims process and bring resources more in line with performance benchmarks.

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 the correct amount in benefits. Reducing erroneous payments is a major objective of the President's Management Agenda. SSA undertakes a variety of activities to minimize erroneous payments through means such as verifying beneficiaries' eligibility status, collecting debt, and investigating and deterring fraud. While the SSI program in particular remains vulnerable to payment error, SSA is making real progress in this area.

SSA has two major tools for ensuring payment accuracy: Continuing Disability Reviews (CDRs) and SSI non-disability redeterminations. The first checks that only those who continue to have disabilities continue receiving benefits. Redeterminations are used to assess whether an SSI recipient continues to meet the financial eligibility requirements or has experienced a change of circumstances that would affect his or her monthly benefit amount. The budget supports activities undertaken by SSA to promote payment accuracy. The Administration proposes \$1.4 billion for conducting CDRs, redeterminations, and collecting overpayments in 2004. SSA's experience shows approximately \$9 in savings for each \$1 spent on CDRs and \$7 in savings from overpayments collected and prevented for each \$1 spent on redeterminations.

Besides investing in these existing tools, the budget proposes several changes to improve SSA's payment accuracy. In response to the President's initiative to reduce erroneous payments, SSA has developed an SSI Corrective Action plan with initiatives that should help prevent overpayment error caused by unreported wages and assets and help simplify the administration of the SSI program. One of these initiatives would review at least 50 percent of favorable SSI disability decisions before starting payments. This provision would generate more accurate payments of SSI benefits and make the disability determination process for SSI benefits consistent with the process for DI benefits.

The budget also proposes to increase Social Security payment accuracy by giving 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.

Misuse of Social Security Numbers

Unofficial 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 eliminate counterfeits, 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.

A Loophole Gets a Workout

Some retirees get thousands of dollars from Social Security while paying virtually nothing into the system—and it's all perfectly legal, thanks to a loophole in the law.

Generally, a retired government employee receiving a pension that substitutes for Social Security cannot also get full Social Security spouse or survivor benefits, because these benefits are intended for financially dependent spouses. However, if they spend even their last day of employment in a position covered by Social Security, they get full spousal or survivor benefits. Some school districts in at least two states have set up special programs for teachers to transfer to a covered job—such as a cafeteria worker—typically for one day. In school districts in Texas, one fourth of teachers retiring in 2002 (3,500 people) took advantage of the transfer arrangement. Only a handful of teachers in Georgia have used it, but officials there expect usage to increase as awareness spreads.

If this practice becomes widespread, the fairness of the Social Security system will be compromised, and the costs could run into hundreds of millions of dollars. The budget proposes to close this loophole for future retirees.

General Accounting Office, "Revision to the Government Pension Offset Exemption Should be Reconsidered."

August 2002

Update on the President's Management Agenda

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

Arrow indicates change in status since baseline evaluation on September 30, 2001.

SSA has made strong progress implementing the President's Management Agenda. In budget and performance integration, SSA improved to a yellow for current status. SSA is developing a new budget formulation system that will tie into its financial management systems and have modeling capabilities to estimate what level of performance to expect for different levels of funding. In financial management, SSA produced audited financial statements 45 days after the end of the fiscal year, meeting an accelerated annual deadline two years ahead of schedule. SSA also cleared its one remaining financial management material weakness. In addition, SSA revised its performance appraisal system for senior positions as part of its human capital efforts. SSA also has contributed expertise to several cross-agency E-Government initiatives aimed at improving public service and efficiency. While SSA has made progress in other areas of the President's Management Agenda, it has only taken initial steps in the competitive sourcing area, having only recently announced the specific positions that will participate in the competitive sourcing effort.

Social Security Administration

(In millions of dollars)

	2002 Actual	Estimate	
		2003	2004
Spending			
Discretionary Budget Authority:			
Limitation on Administrative Expenses (LAE) ¹	7,570	7,937	8,530
Office of the Inspector General	75	83	90
Research and Development	30	23	23
Total, Discretionary budget authority	7,675	8,043	8,643
Mandatory Outlays:			
Old-age, Survivors, and Disability Insurance	452,154	474,570	493,107
Supplemental Security Income	31,411	32,888	34,295
Special Benefits for Certain World War II Veterans	7	10	10
Offsetting Collections	-1,707	-4,532	-3,976
Undistributed Offsetting Receipts	-9,292	-9,493	-10,023
Total, Mandatory outlays	472,573	493,443	513,413

¹ The LAE account includes funding from the Hospital Insurance and Supplementary Medical Insurance trust funds for services that support the Medicare program.

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 complicated investor fraud schemes involving derivatives; and monitoring the markets in order to prevent illegal price manipulation efforts. In 2002, CFTC opened more than 100 investigations against suspected violators of commodity trading laws. The 2004 Budget proposes \$88 million for CFTC.

CONSUMER PRODUCT SAFETY COMMISSION

The Consumer Product Safety Commission (CPSC) was established as a federal regulatory agency in 1972 to protect the public against unreasonable risks of injuries and deaths associated with consumer products. As a consequence, CPSC has within its jurisdiction some 15,000 types of consumer products.

CPSC helps develop uniform safety standards for consumer products, and conducts and promotes research into preventing product-related deaths, injuries, or illness. CPSC works to develop voluntary standards with industry, issue and enforce mandatory standards, ban consumer products if no feasible standard would adequately protect the public, obtain the recall of products or arrange for their repair, and conduct research on potential product hazards. An important part of the Commission's task is to inform and educate the public about product hazards.

The 2004 Budget provides \$60 million for CPSC. The budget will enable the Commission to continue to fund, among other initiatives, the National Electronic Injury Surveillance System and various data collection activities.

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

The Corporation for National and Community Service (CNCS) provides service opportunities for more than 1.5 million Americans through programs such as AmeriCorps and the National Senior Service Corps, also known as Senior Corps. CNCS is a part of the USA Freedom Corps Coordinating Council—the President's initiative to engage Americans in domestic and international volunteer service. The 2004 Budget proposes \$962 million, a \$200 million, or 26 percent, increase above the level expected to be available when the Congress completes its work on the 2003 Budget. However, if the 2003 appropriation is higher than expected, the Administration will work with the Congress on the 2004 Budget to ensure additional resources are provided to support the President's call to service. The request would support a target enrollment of 75,000 AmeriCorps members, strengthen homeland security efforts that utilize volunteers, and provide service opportunities for 585,000 seniors. The budget also includes support for about 6,800 AmeriCorps Volunteers in Service to America members to provide outreach and technical assistance to community and faith-based organizations. In addition, the budget provides support for the Learn and Serve America programs.

National Service and Homeland Security. Since the terrorist attacks of September 11th, the President's call to service asking Americans to dedicate at least two years of their lives in service to their communities has generated unprecedented interest in AmeriCorps and other service programs. The budget includes \$118 million across all CNCS programs to support these efforts and place senior citizens and other volunteers in community activities geared toward strengthening homeland security. CNCS will award grants to support volunteers in public safety, public health, disaster relief, and preparedness.

Expanding Opportunities for Service. AmeriCorps enables Americans to serve in local communities through programs sponsored by nonprofit organizations. The budget includes \$313 million to support AmeriCorps service opportunities. CNCS's programs also will support community and faith-based organizations on a non-discretionary basis in meeting the needs of communities. In addition, the budget includes \$212 million to support service opportunities for older Americans to meet a wide range of community needs through the Senior Corps. Senior Corps programs help young people with special needs, help seniors live independently in their homes, and provide support services to youth ex-offenders. Finally, the budget proposes \$20 million for Special Volunteer Programs for 40,000 seniors to take part in homeland security activities.

DISTRICT OF COLUMBIA

The President's Budget provides \$58 million, including new federal support to help improve the Anacostia River for the District of Columbia's (D.C.'s) neighborhoods and visitors. The 2004 Budget proposes \$10 million to create an Anacostia riverwalk along the water's edge, from Hains Point to the Kenilworth Aquatic Gardens, and an additional \$15 million toward priority projects undertaken by the local water and sewer authority to reduce combined sewer overflows into the Anacostia River.

The budget also supports "budget autonomy" for D.C. This proposal would 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. This proposal reflects the dramatic improvement in the District's ability to manage its budget processes in the post-Control Board era.

The 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. The budget also continues to support the D.C. Resident Tuition Assistance program, with \$17 million. This program was started in 1999 and primarily allows District residents to attend public colleges nationwide at in-state tuition rates.

DISTRICT OF COLUMBIA COURTS

The District of Columbia (D.C.) Courts continue work to plan and implement the Family Court of the D.C. Superior Court. The President's Budget provides \$196 million to the D.C. Courts, which includes \$32 million to continue addressing the long-term needs associated with the expansion of the Family Court.

EQUAL EMPLOYMENT OPPORTUNITY COMMISSION

The Equal Employment Opportunity Commission (EEOC) enforces federal law that prohibits workplace discrimination on the basis of 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 the law.

The 2004 Budget provides \$335 million for EEOC. With this budget, EEOC will begin implementing a major restructuring that will streamline its decision-making layers and serve citizens more

efficiently. As part of this restructuring, EEOC will work to reduce its office space requirements by 35 percent over the next five years and will implement innovations to serve citizens better at lower cost. The budget includes \$19 million for information technology improvements and \$30 million for payments to state and local fair employment practices agencies for resolving charges and to tribal employment rights organizations for promoting equal employment opportunity.

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 2004 Budget, the Administration requests a two-part financial restructuring initiative, which would:

- Consolidate the annual appropriations for the White House Office (including the Office of Homeland Security), the Executive Office of the President, 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 the 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.

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 EOP and support of the executive functions of the Vice President in 2004 total \$342 million. These resources will support approximately 1,850 personnel, information technology, and other infrastructure needs to serve the President and the Vice President.

FEDERAL COMMUNICATIONS COMMISSION

The President's Budget proposes \$281 million for the Federal Communications Commission (FCC), \$252 million of which would be offset directly by regulatory fees. This funding will improve the FCC's testing facilities, strengthen its engineering expertise, and increase oversight by the Inspector General's office.

FCC's spectrum auctions have proven to be efficient and effective in assigning licenses for certain spectrum-based services. New companies have entered the market and innovative wireless technologies have been developed. Ninety-four percent of the U.S. population has access to at least three competing mobile phone services and 80 percent to at least five competing mobile phone services. 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 22,000 licenses and paid over \$14 billion into the Treasury. The Administration is proposing legislation to extend indefinitely the FCC's auction authority, which expires in 2007. Estimated additional receipts from this proposal are \$2.2 billion over the next 10 years.

To continue to promote efficient spectrum use, the Administration is proposing legislation permitting new authority for 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 \$1.9 billion in the first 10 years.

To encourage television broadcasters to vacate the analog spectrum after 2006, as required by law, the Administration is proposing legislation authorizing FCC to establish an annual lease fee totaling \$500 million for the use of analog spectrum by commercial broadcasters beginning in 2007. Upon return of their analog spectrum license to FCC, individual broadcasters will be exempt from the fee, and fee collections would decline.

As discussed in the Department of Commerce chapter, the Administration will again propose establishing a Spectrum Relocation Fund for federal agencies that must move from spectrum that has been auctioned.

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 insures almost \$4 trillion in deposits at almost 20,000 institutions through the FDIC and the NCUA. These agencies maintain insurance reserves to absorb losses in failed institutions. The FDIC and the NCUA add to reserves through assessments on insured institutions and interest credited to holdings of U.S. Treasury securities. The past year has seen an increase in the number of depository institution failures. In 2002, 23 commercial banks, thrifts, and credit unions failed, amounting to approximately \$2.5 billion in assets.

The Administration proposes to strengthen the deposit insurance system for banks and thrifts, drawing on the recommendations of FDIC and the testimony of Treasury Department officials.

- FDIC has been prohibited since 1996 from charging premiums to "well-capitalized" and well-run institutions as long as its insurance fund reserves equal at least 1.25 percent of insured deposits nationwide (the designated reserve ratio, or DRR). Only nine percent of banks and 10 percent of thrifts pay insurance premiums. As a result, financial institutions can rapidly increase their insured deposits without any contribution to the insurance fund. On the other hand, should increases in deposits cause the FDIC's reserve ratio to decline below 1.25 percent, all institutions would have to pay premiums to achieve the DRR. The Administration's approach would ensure that institutions with rapidly increasing insured deposits or greater risks appropriately compensate the insurance fund.
- Under the current system, when the reserve ratio falls below the 1.25 percent DRR, FDIC must either charge sufficient premiums to restore the reserve ratio to the DRR within one year, or no less than 23 basis points if the reserve ratio remains below 1.25 percent for more than one year. The Administration would give FDIC authority to adjust the DRR periodically within prescribed upper and lower bounds and some greater discretion in determining how quickly it reaches the DRR. This flexibility would help stabilize industry costs over time and avoid sharp premium increases when the economy may be under stress.

The President's Budget also supports merging the bank and thrift funds, which offer an identical product. A single merged fund would be stronger and better diversified than either fund alone. A merged fund would prevent the possibility that institutions posing similar risks would again pay significantly different premiums for the same product. A merger would also underscore the fact that the two funds are already hybrid funds: each one insures the deposits of commercial banks, savings

banks, and savings associations. Additionally, merging the funds would reduce administrative costs for the many institutions that currently hold deposits insured by both funds.

FEDERAL ELECTION COMMISSION

The Federal Election Commission (FEC) administers the federal laws governing financing of candidates for the Presidency, Vice Presidency, U.S. Senate, and the U.S. House of Representatives. FEC discloses campaign finance information, enforces financing and contribution limits, and oversees the public funding of Presidential elections.

FEC expects a 25-percent workload increase in its Reports Analysis Division's review of additional reports that will be required under the recently enacted Bipartisan Campaign Reform Act (BCRA). The Commission also expects a 33-percent to 50-percent increase in electronic data processing due to additional software programs necessary to accommodate filings mandated by the BCRA. The President's Budget proposes \$50.4 million to fund these and other activities in 2004.

FEDERAL TRADE COMMISSION

The Federal Trade Commission (FTC) enforces consumer protection and antitrust laws that prohibit business practices that are anticompetitive, deceptive, or unfair to consumers. FTC also works to promote consumer choice and public understanding of free markets.

In 2004, FTC will contribute to the Administration's consumer privacy agenda by helping the victims of identity theft, providing enforcement and outreach on children's on-line privacy, and enforcing against deceptive, mass e-mails ("spam"). The Commission also will keep rolling out a national "do-not-call" list that will protect consumers from intrusive telemarketing calls, and bring consistency to the current patchwork of "do-not-call" lists administered by the states and private sector. To carry out these aims, the 2004 Budget proposes \$191 million, which will be primarily offset by fee collections from businesses for merger filings and the do-not-call list.

GENERAL SERVICES ADMINISTRATION

In 2003, the General Services Administration (GSA) initiated steps to improve relationships with its agency customers. It announced a 25-percent reduction in fees that agencies pay for goods and services from GSA. GSA also began to integrate marketing activities across all its business lines to use resources more efficiently and provide better customer service. Completing these tasks successfully will be a major challenge.

GSA has expanded its role in helping federal agencies interact with citizens, businesses, and other levels of government. GSA's new Office of Citizen Services and Communications combined the operations of the award-winning FirstGov website with the Federal Consumer Information Center into a new Federal Citizen Information Center (FCIC). The FCIC serves as the official federal portal for providing citizens with one-stop access to federal services via the Internet or telephone. GSA's challenge in 2004 will be to expand FCIC's capability to help other agencies meet their citizen-oriented communications needs.

GSA is also involved in several other projects that are expected to produce significant results in 2004. These include E-Travel, Integrated Acquisition, E-Authentication, and E-Payroll. E-Authentication, for example, will eliminate the need for separate identity and electronic signature verification processes, thereby minimizing the burden on businesses, the public, and other government entities obtaining federal services online. By the end of 2004, 22 federal payroll providers will shrink to two. GSA will be a member of one of the partnerships that continue to provide payroll services to federal employees.

GSA's Public Building Service (PBS) owns nearly 1,700 buildings accounting for 182 million square feet of space. In 2002, PBS introduced a strategy to restructure the real estate portfolio so that it consists primarily of properties generating sufficient funds to meet their own capital reinvestment needs. In 2004, an added \$400 million is proposed for construction projects, most of which address homeland security needs.

INSTITUTE OF MUSEUM AND LIBRARY SERVICES

The Institute of Museum and Library Services (IMLS) provides state grants and competitive awards to assist the nation's museums and libraries in expanding their services to the public. The Administration continues its commitment to encourage libraries and museums to support learning in schools, families, and communities. The Administration supports the role of libraries and museums to enhance lifelong learning with a 2004 Budget proposal of \$242 million, a \$32 million increase over the 2003 request.

The budget proposes targeted investments in priority programs, such as a \$15 million increase for the Library State Grants program, which funds states' efforts to make library resources more accessible to the public and to improve libraries' technological capacity to share information with their communities. To recruit a new generation of library professionals, the Administration requests \$20 million, a \$10 million increase, for its 21st Century Librarian initiative. In addition, the budget proposes a \$5 million increase for IMLS museum programs to enhance educational and technological linkages 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 rights of American citizens and the actions of federal officials. In 2004, the budget proposes \$298 million for NARA. Of these resources, \$22 million will let NARA undertake the design phase of the Electronic Records Archives 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 2004, the budget requests \$117 million, a slight increase over 2003, for NEA to improve internal operations and interaction with the public. This effort will increase grant-making efficiency and help extend the reach of the arts through the support of works of artistic excellence, provide skills development in the arts for children and youth, and promote projects in geographically and economically isolated communities that traditionally have not had access to quality arts programming. The NEA will support these projects 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 2004, the agency will expand the We the People initiative to promote the 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. The budget requests \$25 million to support We the People as part of a \$152 million request for NEH programs and initiatives.

NATIONAL LABOR RELATIONS BOARD

The National Labor Relations Board (NLRB) regulates private sector employer and union relations to minimize interruptions to commerce caused by strikes and worker-management discord. 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 2004, 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 2002, the settlement rate was 94 percent. Through its performance goals, NLRB will continue to place a high priority on reducing its case backlog, especially on the oldest pending cases.

The 2004 Budget proposes \$243 million for NLRB's main activities, including \$185 million for pay and benefits, which make up 76 percent of the agency's budget, and \$14 million for ongoing information technology projects.

NATIONAL TRANSPORTATION SAFETY BOARD

The National Transportation Safety Board (NTSB) is charged with determining the causes of transportation accidents and promoting transportation safety. Besides investigating accidents, the Board conducts studies and issues recommendations on safety, and evaluates the effectiveness of other government agencies in preventing transportation accidents. NTSB also coordinates federal assistance to the families of victims of catastrophic domestic accidents. In 2004, NTSB expects to investigate more than 2,000 transportation accidents.

The 2004 Budget provides \$71 million for salaries and expenses for the NTSB to fulfill its role of enhancing the nation's transportation safety.

NUCLEAR REGULATORY COMMISSION

The Nuclear Regulatory Commission (NRC) regulates the commercial use of nuclear material in the United States. NRC's actions protect public health, safety, and the environment while promoting common defense and security.

NRC faces significant challenges and an expanding workload in 2004. One of the most important issues is the continued strengthening of the security of NRC-licensed facilities and the control of nuclear material in the aftermath of the September 11, 2001, terrorist attacks. The 2004 Budget will enable the NRC to conduct licensing and other regulatory oversight activities necessary to ensure the safe operation of the nation's 104 existing nuclear reactors. The budget also will support certification of new standard reactor designs, in preparation for potential license applications for constructing new nuclear power plants. In addition, the budget will enable the NRC to consider an increasing number of reactor license renewal applications to extend the useful lives of existing nuclear power plants and to begin its review of the Department of Energy's application to construct a high-level waste geologic repository at Yucca Mountain, Nevada.

To carry out these and other necessary activities, the budget proposes \$626 million in 2004 for the NRC.

OFFICE OF PERSONNEL MANAGEMENT

The Office of Personnel Management (OPM) is leading agencies in implementing the President's human capital initiative. This effort is designed to make the federal government more citizen-centered and to meet a standard of excellence by preparing the federal workforce to attain goals important to the nation. Specifically, OPM is working closely with federal agencies to ensure that they strategically use the broad range of existing human resources management tools to recruit, retain, and develop a high-performing workforce in line with organizational missions and objectives. In 2003, OPM and the Department of Defense (DoD) will propose legislation to transfer DoD's personnel security investigations function and associated personnel to OPM effective in 2004.

Total discretionary funding of \$771 million in 2004 will finance OPM's two major missions—managing and overseeing its government-wide human resources responsibilities and administering the federal employees' benefits trust funds (retirement, health insurance, and life insurance). Of this amount, the budget proposes \$500 million for a new Human Capital Performance Fund. OPM will administer the Fund for the purpose of allowing agencies to deliver additional pay to certain civilian employees based on individual performance or other human capital needs, in accordance with OPM-approved agency plans. This proposal is discussed in more detail in the Governing With Accountability chapter of this volume.

The request also includes \$8 million for a number of new information technology projects aimed at increasing efficiency and maximizing citizen service.

OPM leads several projects under the President's E-Government initiative, including E-Payroll, E-Clearance, and E-Training. These initiatives are reducing the number of government offices providing payroll services from 22 to four, saving at least \$1.2 billion over the next 10 years; cutting the time to complete security clearances by at least two to four weeks; and electronically delivering E-Training products and services to over 28,000 registered users in more than 100 departments and agencies. OPM is also leveraging technology to modernize its retirement system to make claims processing faster, cheaper, and more accurate. By the end of 2004, the average cost to process a claim will decrease by about 12 percent from \$100 to \$89 per claim, while increasing accuracy from 93 percent to 96 percent.

In addition, OPM will pay out about \$82.6 billion in benefits in 2004: \$53 billion to more than 2.4 million retired federal employees, their survivors, and other beneficiaries; \$27.6 billion in health insurance for nine million enrollees and dependents; and over \$2 billion in life insurance claims from policyholders.

Medicare and the Federal Employees Health Benefits Program jointly finance health insurance for about 2.1 million federal retirees and their dependents. The Administration will work with stakeholders to better coordinate these two programs and look to the practices of the private sector to ensure high quality, cost-conscious choices for retirees.

POSTAL SERVICE

On December 11, 2002, the President's Commission on the U.S. Postal Service (USPS) was established through Executive Order 13278. This nine-member, nonpartisan entity will identify the operational, structural, and financial challenges facing the USPS, and recommend to the President legislative and administrative reforms needed to ensure the long-term viability of postal service in the United States.

In addition, integrated into the budget is a legislative proposal that corrects an anticipated USPS over-funding of Civil Service Retirement System (CSRS) retirement benefits. This anticipated over-funding is due to a number of factors, including higher than expected past pension investment yields and overly prescriptive and inflexible statutory language. While the legislative proposal would reduce USPS payments to the Retirement Fund, it ensures that USPS meets its pension obligations so that no employee or retiree would lose any benefits. The proposal is consistent with the structure and financing of the Federal Employees' Retirement System as well as the Administration's legislative proposal to fully fund CSRS liabilities for non-USPS employees and retirees.

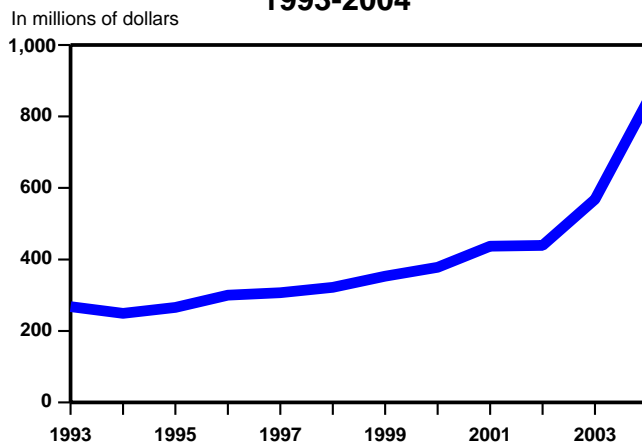
REGIONAL ECONOMIC DEVELOPMENT AGENCIES

The President's 2004 Budget proposes \$56 million for three regional economic development agencies: the Appalachian Regional Commission, the Denali Commission, and the Delta Regional Authority. The President's proposal refocuses these agencies from grant-makers to regional planners and investment coordinators. The goal is to decrease duplicative grant-making and increase efficient investment of federal, state, and local resources. The Administration also proposes to more tightly focus funding of the Department of Commerce's Economic Development Administration on distressed communities.

SECURITIES AND EXCHANGE COMMISSION

The Securities and Exchange Commission (SEC) protects investors and works to maintain fair, honest, and efficient markets. The assurance of integrity provided by SEC is critical to the health of the nation's financial markets, which are a vital part of the economy. In 2002, the dollar volume of shares traded on the New York Stock Exchange and the NASDAQ stock markets alone accounted for more than \$21 trillion. In addition, SEC oversaw approximately 8,000 regulated broker-dealers who held \$20 trillion in assets and 5,194 investment companies with approximately \$6.7 trillion in assets.

**SEC's Budget
1993-2004**



The 2004 President's Budget calls for \$842 million for the SEC, nearly double the 2002 level. With it, the SEC will be able to hire more accountants, attorneys, and examiners to protect investors, root out fraud, and instill corporate responsibility.

Protecting Investors. The SEC works to ensure that all investors have access to certain basic facts about investment opportunities prior to purchase and to prevent fraud and misrepresentation of those facts in securities markets. The SEC requires that public companies submit detailed financial information, which, in turn, is made available to the public through its EDGAR database and at

www.sec.gov. In 2002, the SEC brought a record 598 civil enforcement actions against individuals and companies accused of breaking the securities laws.

Encouraging Corporate Responsibility. Recent exposure of long-standing problems has raised serious questions in the minds of investors concerning the integrity of financial reporting. In response, the President has:

- Unveiled a 10-Point Plan to Improve Corporate Responsibility and Protect America's Shareholders. This initiative is based on three principles: information accuracy and accessibility, management accountability, and auditor independence.
- Issued an Executive Order to create a Corporate Fraud Task Force, in which U.S. Attorneys, the Federal Bureau of Investigation, and the SEC coordinate resources to bring "real-time enforcement" to corporate wrongdoers. The task force is able to leverage the abilities of the member agencies to bring cases to justice in a matter of months rather than years.
- Signed the Sarbanes-Oxley Act of 2002 which establishes the Public Company Accounting Oversight Board (PCAOB) under the guidance of the SEC. The PCAOB will regulate the practices of the accounting profession and has the authority to conduct investigations, bring charges, and levy sanctions for accounting misconduct.

SMITHSONIAN INSTITUTION

The Smithsonian Institution is an instrumentality of the United States that operates 15 museums and a half dozen research facilities to further its mission: "the increase and diffusion of knowledge." The Institution receives two-thirds of its funding from federal appropriations. The remainder comes from its endowment fund, business activities, such as retail shops, and private donations.

The 2004 Budget provides \$567 million in federal funding for the Smithsonian. That level supports the opening of the Smithsonian's newest museums—the National Museum of the American Indian in the Fall of 2004, and the National Air and Space Museum Steven F. Udvar-Hazy Center near Washington Dulles Airport in December 2003. The President's Budget also continues the extensive renovation of the Patent Office Building, which houses the National Portrait Gallery and the Smithsonian American Art Museum, and begins revitalization of the National Museum of American History.

To ensure that its funding is spent effectively, the Smithsonian will improve its management of financial resources and its workforce. The Institution is developing an Enterprise Resource Planning information technology system, which will improve Smithsonian's ability to produce timely and accurate financial information. Initial components of this system were installed in the Fall of 2002 and it has replaced the Institution's outdated financial management system.

The Smithsonian's progress in its financial systems is not matched by improvements in the management of its workforce. The cost of over 4,000 Smithsonian employees is a driving force behind its rising funding needs. Between 1998 and 2003, Smithsonian personnel costs increased by \$70 million, or nearly 30 percent, much of the increase due to legislated pay raises, additional staff for new museums, and increased security. Despite this rate of increase, the Smithsonian remains without a strategic plan for managing its human capital. The Institution seeks to develop its initial plan by Spring 2003.

Keeping up its buildings is the Smithsonian's biggest management challenge. The Smithsonian is faced with enormous maintenance costs and will need to make difficult decisions regarding future funding priorities. A 2001 National Academy of Public Administration report estimated that \$1.5 billion in repairs would be needed over the next 10 years to return the Smithsonian's buildings to a state of good repair.

Faced with cost increases that exceed likely future federal budget levels, the Smithsonian must now consider significant and innovative cost-cutting measures and changes to its traditional operating procedures.

TENNESSEE VALLEY AUTHORITY

The Tennessee Valley Authority (TVA) is a federal regional development agency serving 8.3 million people in Tennessee and six neighboring states. TVA receipts and expenditures show up, dollar for dollar in the federal budget. Consequently, TVA reduces the size of the federal budget deficit when it pays down its debt, as the Administration proposes that the federal power agency do.

To promote development in the region it serves, TVA operates a large electric utility (the fifth largest in the country), with annual power sales of over \$7 billion. TVA also runs a natural resource and river management program with an annual operating budget of \$83 million. The TVA river management program received a PART assessment of “effective” and one of the highest ratings government-wide.

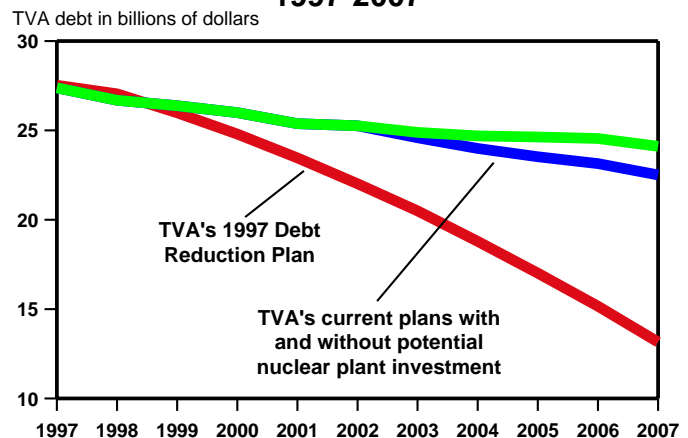
The primary program TVA manages, its electric power program, gets mixed reviews in the PART evaluation process. TVA operates its existing assets efficiently and has received industry awards for running its nuclear and coal-fired power plants cost-effectively, a significant improvement from the past when those plants posed major problems. TVA’s power program scores less well, however, in terms of strategic planning, competitive bidding and debt reduction.

As the President and TVA Board have stated, TVA needs to be run like a business. A healthy business has a healthy balance sheet and a plan in place to guide its investments and risk profile in a changing market. TVA currently has neither: It is carrying excessive debt relative to its assets, and is planning major investments before it has a strategic plan in place. TVA had a 1997 plan that would have reduced its debt to \$13 billion by 2007, but it has abandoned that plan and its debt is significantly above its originally intended target levels (see accompanying graph).

TVA needs to determine a new debt-reduction goal and design a plan to get there. TVA’s debt is statutorily capped at \$30 billion; at the end of 2002, TVA had outstanding bonds and notes of \$25.3 billion. That amount, however, gives an incomplete picture of TVA’s debt position, because it excludes \$865 million in lease/leaseback arrangements. Under a lease/leaseback, TVA receives a lumpsum for leasing out one or more of its assets, then leases it back at a fixed annual payment for a set number of years. These arrangements carry as much risk as traditional debt and are recorded as a liability on TVA’s balance sheet under generally accepted accounting principles. Because current authorizations are unclear on the point, the Budget proposes legislation to ensure that lease/leasebacks, and other arrangements that are equivalent to traditional debt financing, are included under TVA’s debt cap.

The Administration believes a healthier debt level for TVA would be in the range of \$13 to \$15 billion, based on its 1997 plan and the need to reach a fixed-cost level that will position TVA for a more competitive electricity market. The budget shows TVA’s planned debt reduction over five years under current conditions would reduce TVA’s debt to approximately \$24 billion by 2008, including lease/lease-backs counted as debt. However at this rate, it will take 25 years to get to the higher end of the “healthy” debt level range. Moreover, if TVA carries out planned capital construction actions, such as completing the Brown’s Ferry nuclear plant using its own debt directly or creating more long-term liabilities, it may actually increase rather than decrease its debt, further compromising its

**TVA Debt Reduction Plans
1997-2007**



competitive position in a restructured electricity market. Debt reduction and a sound strategic plan are key elements needed to ensure that TVA continues to aid economic development in its service territory in the future. The Administration is committed to identifying a TVA debt reduction target within the “healthy” range, and having a plan by September 30, 2003, to reach the number in a reasonable period of time.

SUMMARY TABLES

Table S-1. Budget Totals
(Dollar amounts in billions)

	2002	2003	2004	2005	2006	2007	2008
In billions of dollars:							
Receipts	1,853	1,836	1,922	2,135	2,263	2,398	2,521
Outlays	2,011	2,140	2,229	2,343	2,464	2,576	2,711
Deficit	-158	-304	-307	-208	-201	-178	-190
Debt held by the public	3,540	3,878	4,166	4,387	4,603	4,797	5,003
As a percent of GDP:							
Receipts	17.9	17.1	17.0	18.0	18.1	18.3	18.3
Outlays	19.5	19.9	19.7	19.7	19.7	19.7	19.7
Deficit	-1.5	-2.8	-2.7	-1.8	-1.6	-1.4	-1.4
Debt held by the public	34.3	36.1	36.9	36.9	36.9	36.6	36.4

Table S-2. Budget Summary by Category
(In billions of dollars)

	2002	2003	2004	2005	2006	2007	2008	Total 2004-2008
Outlays:								
Discretionary:								
Defense (050).....	349	376	390	410	423	436	460	2,119
Nondefense	385	416	429	440	447	455	466	2,237
Total, Discretionary	734	791	819	850	870	891	926	4,356
Mandatory:								
Social Security	452	474	493	512	533	559	587	2,684
Medicare.....	228	241	255	272	301	323	345	1,497
Medicaid and SCHIP.....	151	167	185	199	217	234	254	1,089
Other	274	305	301	307	319	329	344	1,599
Total, Mandatory	1,106	1,188	1,234	1,289	1,369	1,445	1,531	6,868
Net interest.....	171	161	176	204	225	240	254	1,099
Total Outlays.....	2,011	2,140	2,229	2,343	2,464	2,576	2,711	12,323
Receipts.....	1,853	1,836	1,922	2,135	2,263	2,398	2,521	11,239
Deficit.....	-158	-304	-307	-208	-201	-178	-190	-1,084
On-budget deficit.....	-317	-468	-482	-407	-412	-406	-433	-2,140
Off-budget surplus	160	163	175	199	211	228	243	1,056

Table S-3. Impact of Budget Policy
(In billions of dollars)

	2003	2004	2005	2006	2007	2008	Total 2004-2008
Current baseline surplus/deficit	-264	-158	-40	5	29	51	-114
Budget proposals:							
Economic growth package	-33	-114	-88	-69	-56	-54	-380
Defense and homeland security	-3	-12	-22	-28	-31	-45	-138
Strengthening Medicare	—	-6	-10	-33	-38	-43	-130
Aid to education	-*	-1	-6	-10	-11	-11	-39
Incentives for charitable giving	-*	-2	-2	-2	-2	-2	-9
Health tax credits	—	-1	-7	-12	-13	-15	-48
Extension of expiring tax provisions	-1	-5	-14	-18	-7	-8	-53
Other proposals	-3	-5	-8	-14	-20	-22	-68
Related debt service	-*	-4	-11	-20	-30	-40	-105
Subtotal, budget proposals	-40	-149	-168	-205	-207	-241	-970
Budget deficit	-304	-307	-208	-201	-178	-190	-1,084

* \$500 million or less.

Table S–4. Discretionary Totals
(Budget authority; dollar amounts in billions)

	2002 Enacted	Estimate		2003-2004 Change	
		2003	2004	Dollar	Percent
Discretionary budget authority:					
Homeland security (non-Defense)	13	27	28	1	¹ 5.5%
Department of Defense	328	365	380	15	4.2%
Other operations of government	350	360	374	14	3.8%
Total, Discretionary budget authority	691	752	782	30	4.0%
		Estimate		2004-2005 Change	
		2004	2005	Dollar	Percent
Total, Discretionary budget authority	782	813		31	4.0%

Assumptions:

- All totals include mass transit budget authority.
- 2002: \$686 billion enacted discretionary funding adjusted for technical re-estimates. In addition, \$44 billion was provided in supplemental acts, \$29 billion for recurring purposes.
- 2003: Presidentially approved spending level: House passed budget resolution, adjusted for mass transit.

¹ Discretionary homeland security only. Including mandatory and fee funded costs, homeland security grows 7.6 percent.

Table S–5. Homeland Security Funding by Agency
(Budget authority in millions of dollars)

	2002		Estimate	
	Enacted	Supplemental	2003	2004
Non-Defense Homeland Security Funding:				
Department of Agriculture.....	230	322	396	390
Department of Commerce	99	19	133	153
Department of Energy.....	1,067	153	1,164	1,361
Department of Health and Human Services	433	1,480	3,987	3,776
Department of Homeland Security.....	11,398	5,982	22,035	23,890
Department of Justice.....	1,019	1,125	1,947	2,290
Department of State.....	438	39	658	811
Department of the Treasury	84	32	80	91
Department of Transportation	635	785	258	284
Department of Veterans Affairs.....	47	2	132	145
Corps of Engineers	—	139	65	104
Environmental Protection Agency.....	13	174	134	124
Social Security Administration	113	8	132	147
National Aeronautics and Space Administration.....	114	109	164	170
National Science Foundation	240	19	264	307
Postal Service	—	587	—	—
Other Agencies	267	556	623	590
Total, Non-Defense Homeland Security Funding	16,197	11,531	32,172	34,633
Department of Defense—Military.....	4,423	733	8,863	16,714
Total, Homeland Security Funding, including Defense.....	20,620	12,264	41,035	41,347
<hr/>				
Total, Homeland Security Funding, including Defense	20,620	12,264	41,035	41,347
Less Mandatory Homeland Security Funding ²	-1,656	—	-2,006	-2,897
Less Discretionary Fee-Funded Activities ³	-1,828	—	-3,406	-3,497
Less Department of Defense—Military	-4,423	-733	-8,863	-6,714
Net Non-Defense Discretionary Homeland Security Budget Authority.....	12,713	11,531	26,760	28,239

¹ Defense homeland security funding falls in 2004 due to one-time force protection investments in 2003.

² Mandatory homeland security programs include Agricultural Quarantine and Inspections, Border Protection, and Immigration Enforcement.

³ Discretionary fee-funded homeland security programs include Visa Processing, Airport Security, and Social Security physical and computer security measures.

Table S-6. Percentage Year-to-Year Growth in Discretionary Budget Authority

Agency	1998 to 1999	1999 to 2000	2000 to 2001	2001 to 2002	2002 to 2003	2003 to 2004	Average Growth 1998-2004
Agriculture	4	4	13	3	-2	*	4
Commerce	29	61	-41	6	-5	5	4
Defense	6	5	5	8	11	4	7
Education	-3	2	37	21	4	6	10
Energy	7	-1	13	4	5	6	6
Health and Human Services	12	9	19	10	9	3	10
Housing and Urban Development	12	-6	34	4	5	1	8
Interior	-1	6	21	2	-2	3	5
State and International Assistance Programs	23	2	-4	6	7	12	7
Labor	3	-20	36	2	-4	-1	1
Veterans Affairs	2	9	7	6	6	11	7
Corps of Engineers	-2	1	14	-4	-10	1	*
Environmental Protection Agency Operating Program	5	1	9	1	2	7	4
National Aeronautics and Space Administration	*	*	5	4	1	3	2
National Science Foundation	7	6	13	8	5	9	8
Small Business Administration	16	7	1	-15	2	2	2
Social Security Administration	*	2	8	6	5	9	5
Homeland Security Agencies (see below)	1	6	14	7	11	3	7
Other Agencies	5	-3	*	-14	14	7	1
Total (excluding emergency response funding)	6	4	10	8	9	4	7
Total (including emergency response funding)	6	4	13	11	2	4	7

Agencies principally affected by creation of the Department of Homeland Security ¹ :	Average Growth 2002 to 2004					
Department of Homeland Security				62	5	31
Justice ²	5	2	13	-12	-1	-3
Transportation ²	-14	13	28	-30	*	6
Treasury ²	12	-2	16	-27	5	4
Federal Emergency Management Agency ²	18	37	-38	26		

* 0.5 percent or less.

¹ For agencies in the box, the comparable amounts back to 1998 are not available as of the printing of this budget. These agencies are shown as transferred to the Department of Homeland Security from 2002 to 2004 for comparability.

² Growth rates shown for 1998 to 2001 reflect the old structure.

Table S–7. Discretionary Budget Authority by Agency
(Dollars in billions)

Agency	2002 Actual	Estimate		Change: 2003–2004
		2003	2004	
Agriculture	20.0	19.5	19.5	*
Commerce	5.4	5.1	5.4	0.3
Defense	327.8	364.6	379.9	15.3
Education.....	48.5	50.3	53.1	2.8
Energy	20.9	22.1	23.4	1.3
Health and Human Services.....	59.5	64.6	66.2	1.6
Homeland Security	15.7	25.4	26.7	1.3
Housing and Urban Development.....	29.4	30.9	31.3	0.4
Interior	10.5	10.2	10.6	0.4
State and International Assistance Programs	23.0	24.5	27.4	2.9
Justice	18.6	18.3	17.7	-0.6
Labor	12.1	11.6	11.5	-0.1
Transportation.....	12.9	12.9	13.7	0.8
Treasury.....	10.5	11.0	11.4	0.4
Veterans Affairs	23.8	25.4	28.1	2.7
Corps of Engineers.....	4.5	4.0	4.0	*
Environmental Protection Agency	7.9	7.6	7.6	*
<i>Environmental Protection Agency Operating Program</i>	3.9	4.0	4.3	0.3
National Aeronautics and Space Administration	14.8	15.0	15.5	0.5
National Science Foundation.....	4.8	5.0	5.5	0.5
Small Business Administration	0.8	0.8	0.8	*
Social Security Administration	6.4	6.7	7.3	0.6
Other Agencies.....	13.2	15.1	16.1	1.1
Allowances ¹	—	1.1	-0.5	-1.7
<hr/>				
Total, excluding emergency response funding	690.9	751.8	782.2	30.4
Emergency response funding.....	43.8	*	*	*
<hr/>				
Total, including emergency response funding.....	734.7	751.8	782.2	30.4

* \$50 million or less.

¹ Adjusted in 2003 for the Presidentially approved spending level (the House-passed budget resolution, adjusted for mass transit) and includes a \$1.3 billion adjustment for the reclassification of the Crime Victims fund as mandatory.

Table S–8. Discretionary Proposals By Appropriations Subcommittee
(Budget authority in billions of dollars)

Appropriations Subcommittee	2002 Enacted	2003 Estimate	2004 Estimate	Change: 2003-2004
Agriculture and Rural Development.....	16.9	17.0	16.9	-0.1
Commerce, Justice, State, and the Judiciary	37.5	38.0	38.6	0.6
Defense	317.3	354.3	371.0	16.7
District of Columbia	0.3	0.2	0.3	*
Energy and Water Development.....	24.8	25.4	26.8	1.4
Foreign Operations	15.1	16.5	18.8	2.3
Interior and Related Agencies	19.5	19.1	19.7	0.5
Labor, Health and Human Services, and Education.....	123.7	130.2	135.1	4.9
Legislative.....	3.0	3.4	3.8	0.3
Military Construction.....	10.6	10.5	9.0	-1.5
Transportation and Related Agencies	12.8	12.8	13.5	0.7
Treasury and General Government	12.1	12.8	13.5	0.7
Veterans Affairs, Housing and Urban Development	81.6	85.1	89.1	4.0
Allowances ¹	—	1.1	-0.5	-1.7
Department of Homeland Security	15.7	25.4	26.7	1.3
Total, excluding emergency response funding	690.9	751.8	782.2	30.4
Emergency response funding.....	43.8	—	—	—

* \$50 million or less.

¹ Adjusted in 2003 for the Presidentially approved spending level (the House-passed budget resolution, adjusted for mass transit) and includes a \$1.3 billion adjustment for the reclassification of the Crime Victims fund as mandatory.

Table S–9. Mandatory Proposals
(In millions of dollars)

	2003	2004	2005	2006	2007	2008	Total	
							2004–2008	2004–2013
Medicare Modernization.....	—	6,000	10,000	33,000	38,000	43,000	130,000	400,000
Economic Growth Plan:¹								
Personal Re-employment Accounts.....	1,600	2,000	—	—	—	—	2,000	2,000
Refundable Child Tax Credit	300	1,074	4,783	4,272	4,195	4,142	18,466	25,239
Subtotal, Economic Growth Package	1,900	3,074	4,783	4,272	4,195	4,142	20,466	27,239
Medicaid/State Children's Health Insurance Program (SCHIP):								
Medicaid/SCHIP Reform.....	—	3,258	1,053	1,664	1,213	1,756	8,944	-66
Disability/New Freedom Initiatives	—	180	184	197	212	221	993	1,338
Medicaid Rebate Reform	—	-384	-432	-481	-531	-581	-2,409	-6,421
Other Medicaid Proposals.....	225	359	579	426	437	457	2,257	2,687
Subtotal, Medicaid/SCHIP.....	225	3,412	1,384	1,805	1,330	1,854	9,786	-2,462
Welfare Reform:								
Temporary Assistance for Needy Families Reauthorization...	-4	147	310	334	325	324	1,441	3,069
Child Support Enforcement: Increase Collections and Improve Program Effectiveness.....	—	-61	-47	10	51	48	2	221
Child Welfare Program Option	—	31	88	127	-13	-205	28	40
Extend Abstinence Education	7	37	42	47	50	36	212	218
Subtotal, Welfare Reform	3	154	393	519	413	204	1,683	3,548
Other Proposals:								
Agriculture:								
Limit Conservation Security Program.....	—	—	-215	-332	-447	-603	-1,597	-5,200
Forest Service Recreation Fee Proposal	—	—	-17	-12	-7	-2	-38	22
School Lunch: Require Third-Party Verification of Income and Reinvest Program Savings	—	—	—	—	—	—	—	—
Subtotal, Agriculture	—	—	-232	-344	-454	-605	-1,635	-5,178
Education:								
Teacher Loan Forgiveness	—	178	47	50	54	55	384	696

Table S–9. Mandatory Proposals—Continued
(In millions of dollars)

	2003	2004	2005	2006	2007	2008	Total	
							2004–2008	2004–2013
Energy:								
Power Marketing Associations to Directly Fund Corps of Engineers' Operation and Maintenance Expenses.....	149	145	148	151	154	158	756	1,603
Increase BPA's Borrowing Authority	—	—	85	430	185	—	700	700
Arctic National Wildlife Refuge (ANWR), Lease Bonuses..	—	—	-1,200	—	—	—	-1,200	-1,200
Subtotal, Energy	149	145	-967	581	339	158	256	1,103
Homeland Security:								
Extend Customs User Fees	—	-1,398	-1,490	-1,588	-1,692	-1,804	-7,972	-18,939
Vaccine Biodefense	—	575	840	790	635	578	3,418	5,593
Subtotal, Homeland Security	—	-823	-650	-798	-1,057	-1,226	-4,554	-13,346
Interior:								
ANWR, Lease Bonuses:								
State of Alaska's share:								
Receipts	—	—	-1,201	-1	-101	-1	-1,304	-1,588
Expenditure	—	—	1,201	1	101	1	1,304	1,588
Federal share	—	—	-1	-1	-101	-1	-104	-388
Compacts of Free Association - financial assistance	—	19	20	21	22	23	105	235
Permanent Recreation Fee Authority	—	—	-13	12	49	88	136	587
Correct trust accounting deficiencies in individual Indian money investments	7	—	—	—	—	—	—	—
Increase Indian Gaming Commission Fees ¹	—	—	3	4	4	5	16	41
Bureau of Land Management Land Sale Authority:								
Receipts	—	-10	-25	-34	-42	-50	-161	-444
Expenditure	—	—	—	10	25	34	69	337
Subtotal, Interior	7	9	-16	12	-43	99	61	368
Labor:								
Reform Unemployment Insurance Administration	—	—	—	—	718	1,712	2,430	17,336
Reform Federal Employees Compensation Act (FECA)	—	-10	-17	-16	-9	-8	-60	-130
Refinance Black Lung Disability Trust Fund Debt:								
Black Lung Disability Trust Fund	—	1,851	-444	-433	-429	-423	122	-1,913
Interest Receipts on Repayable Advances	—	-1,851	444	433	429	423	-122	1,913
Subtotal, Labor	—	-10	-17	-16	709	1,704	2,370	17,206
Transportation:								
Federal-aid Highway Program: Increase Emergency Relief	—	27	68	84	94	100	373	873

Table S–9. Mandatory Proposals—Continued

(In millions of dollars)

	2003	2004	2005	2006	2007	2008	Total	
							2004–2008	2004–2013
Treasury:								
Pay financial institutions for their services in lieu of providing compensating balances:								
Financial Agent Reimbursement Fund	—	386	396	400	408	416	2,006	4,169
Interest on Treasury Debt Securities	—	-386	-638	-540	-539	-540	-2,643	-5,321
Subtotal, compensating balances	—	—	-242	-140	-131	-124	-637	-1,152
Internal Revenue Service Collection Contractor Support...	—	2	96	146	146	146	536	1,266
Move Asset Forfeiture Fund to the Department of Justice:								
Treasury Asset Forfeiture Fund	—	-221	-221	-221	-221	-221	-1,105	-2,210
Justice Asset Forfeiture Fund	—	221	221	221	221	221	1,105	2,210
Extend the Rum Carryover for Puerto Rico	—	57	78	19	—	—	154	154
Outlay Effects of Refundable Tax Credits: ¹								
Child Credit	—	—	—	—	—	—	—	20,781
Earned Income Tax Credit	—	—	—	—	—	—	—	3,744
Education Credit	—	213	543	714	796	886	3,152	3,626
Health Credit	—	—	3,546	8,166	9,251	9,827	30,790	87,608
Subtotal, refundable tax credits	—	213	4,089	8,880	10,047	10,713	33,942	115,759
Subtotal, Treasury	—	272	4,021	8,905	10,062	10,735	33,995	116,027
Veterans Affairs:								
Reverse Allen Case providing compensation for drug and alcohol abuse related disabilities	—	-127	-302	-392	-460	-502	-1,783	-4,559
Payment of full compensation to New Philippine Scouts and DIC survivors of Filipino veterans if they reside in the United States	—	3	4	4	4	5	19	46
Eliminate the “45 Day Rule” for Death Pension	—	1	1	1	1	1	6	13
Revision to Montgomery G.I. Bill to Provide for On-the-Job Training in Self-Employment	—	*	*	*	*	*	2	4
Retroactivity for Second Headstone or Marker Benefit	—	5	3	3	1	1	13	13
Allow states to receive a burial plot allowance for all veterans buried at no cost in state veterans cemeteries.	—	*	*	*	*	*	2	4
Alternate Beneficiary to Claim National Service Life Insurance and Veterans Special Life Insurance Policy Proceeds	—	—	—	6	5	4	15	17
Amend the law to provide the same extension of time for using education benefits for members of the National Guard	—	*	*	*	1	1	3	5

Table S–9. Mandatory Proposals—Continued
(In millions of dollars)

	2003	2004	2005	2006	2007	2008	Total	
							2004–2008	2004–2013
Move Transitional Housing Program from a mandatory loan to a discretionary grant program	—	-5	-10	-10	-10	-5	-40	-40
Subtotal, Veterans Affairs	—	-122	-303	-387	-457	-495	-1,764	-4,498
Federal Communications Commission (FCC):								
Analog Spectrum Lease Fee	—	—	—	—	-500	-500	-1,000	-2,530
Extend Spectrum Auction Authority and Authorize Other Economic Mechanisms (Fees)	—	—	-10	-25	1,950	1,900	3,815	-4,060
Subtotal, FCC	—	—	-10	-25	1,450	1,400	2,815	-6,590
Federal Deposit Insurance Corporation:								
Merge Bank Insurance Fund and Savings Association Insurance Fund	—	440	824	295	—	21	1,580	1,805
Office of Personnel Management (OPM):								
Postal Service Pension Proposal:								
On-budget	3,490	2,658	2,851	2,873	3,065	3,411	14,858	36,719
Off-budget	-3,490	-2,658	-2,851	-176	—	—	-5,685	-5,685
Simplify computation of annuities under the Civil Service Retirement Service for part-time service	—	3	8	14	20	27	72	313
Subtotal, OPM	—	3	8	2,711	3,085	3,438	9,245	31,347
Social Security Administration (SSA):								
Close Loophole that Allows Some Workers to Avoid Government Pension Offset	—	—	—	-5	-5	-10	-20	-90
Reduce Improper Payments by Requiring Reporting of Non-Social Security Covered Pension Income	—	—	—	-195	-295	-260	-750	-2,180
Compensation for 2000-01 Military Wage Credits:								
On-budget	—	628	—	—	—	—	628	628
Off-budget	—	-628	—	—	—	—	-628	-628
Supplemental Security Income Pre-Effectuation Reviews and Other Technical Adjustments	—	—	-16	-36	-57	-85	-194	-1,062
Subtotal, SSA	—	—	-16	-236	-357	-355	-964	-3,337
Multi-Agency:								
Spectrum Relocation Fund	—	—	200	400	500	600	1,700	2,500

Table S–9. Mandatory Proposals—Continued

(In millions of dollars)

	2003	2004	2005	2006	2007	2008	Total	
							2004–2008	2004–2013
Indirect Impact of Other Proposals (Third Scorecard):								
Medicare Program Management User Fee Effects on Supplemental Medical Insurance Premiums	—	—	35	12	—	—	47	298
Postal Service Pension Proposal Effect on Federal Financing Bank Revolving Fund	2	5	9	11	11	10	46	86
Enact FECA Surcharge	—	—	-4	-5	-5	-3	-17	-24
Total, Mandatory Proposals	2,286	12,764	19,557	50,846	57,870	64,836	205,872	567,666
 Total, Excluding Medicare Modernization.....	2,286	6,764	9,557	17,846	19,870	21,836	75,872	167,666

* \$500,000 or less.

¹ Affects both receipts and outlays. Only the outlay effect is shown here.

Table S–10. Effect of Proposals on Receipts—Continued
(In millions of dollars)

	2003	2004	2005	2006	2007	2008	Total	
							2004–2008	2004–2013
Provide refundable tax credit for the purchase of health insurance ³	—	-324	-1,449	-889	-409	-139	-3,210	-1,550
Provide an above-the-line deduction for long-term care insurance premiums	—	-112	-559	-984	-1,923	-3,063	-6,641	-28,255
Allow up to \$500 in unused benefits in a health flexible spending arrangement to be carried forward to the next year	—	-367	-640	-723	-782	-830	-3,342	-8,385
Provide additional choice with regard to unused benefits in a health flexible spending arrangement..	—	-19	-33	-39	-45	-52	-188	-595
Permanently extend and reform Archer MSAs	—	-26	-284	-432	-486	-549	-1,777	-5,134
Provide an additional personal exemption to home caregivers of family members.....	—	-70	-465	-437	-422	-417	-1,811	-3,892
Allow the orphan drug tax credit for certain pre-designation expenses.....	—	—	—	-1	-1	-1	-3	-8
Encourage telecommuting:								
Exclude from income the value of employer-provided computers, software and peripherals.....	—	-35	-51	-53	-54	-56	-249	-554
Increase housing opportunities:								
Provide tax credit for developers of affordable single-family housing	—	-7	-78	-315	-750	-1,316	-2,466	-16,133
Encourage saving:								
Establish Individual Development Accounts (IDAs).....	—	—	-124	-267	-319	-300	-1,010	-1,347
Protect the environment:								
Permanently extend expensing of brownfields remediation costs.....	—	-185	-282	-268	-257	-248	-1,240	-2,356
Exclude 50 percent of gains from the sale of property for conservation purposes	—	-21	-44	-46	-48	-50	-209	-531
Increase energy production and promote energy conservation:								
Extend and modify the tax credit for producing electricity from certain sources	-124	-264	-355	-209	-90	-92	-1,010	-1,492
Provide tax credit for residential solar energy systems	-4	-7	-10	-18	-25	-11	-71	-71
Modify treatment of nuclear decommissioning funds ..	-14	-251	-180	-191	-201	-212	-1,035	-2,260
Provide tax credit for purchase of certain hybrid and fuel cell vehicles.....	-44	-154	-316	-524	-793	-631	-2,418	-3,202
Provide tax credit for energy produced from landfill gas	-5	-28	-65	-88	-99	-112	-392	-707

Table S–10. Effect of Proposals on Receipts—Continued
(In millions of dollars)

	2003	2004	2005	2006	2007	2008	Total	
							2004–2008	2004–2013
Provide tax credit for combined heat and power property	-45	-71	-66	-64	-77	-14	-292	-250
Provide excise tax exemption (credit) for ethanol ⁴	—	—	—	—	—	—	—	—
Promote trade:								
Implement free trade agreements with Chile and Singapore ⁵	—	-25	-51	-68	-80	-92	-316	-913
Improve tax administration:								
Implement IRS administrative reforms	—	78	54	56	57	59	304	624
Permit private collection agencies to engage in specific, limited activities to support IRS collection efforts	—	46	128	111	94	97	476	1,008
Combat abusive tax avoidance transactions	12	45	83	98	99	103	428	1,007
Limit related party interest deductions	10	104	190	239	293	351	1,177	3,987
Reform unemployment insurance:								
Reform unemployment insurance administrative financing ⁵	—	—	-1,068	-1,439	-3,368	-2,016	-7,891	-13,401
Total tax incentives	-517	-3,865	-7,612	-8,616	-11,840	-11,832	-43,765	-107,290
Other Proposals:								
Deposit full amount of excise tax imposed on gasohol in the Highway Trust Fund ⁵	—	—	—	558	576	590	1,724	4,912
Increase Indian gaming activity fees	—	—	3	4	4	5	16	41
Total other proposals	—	—	3	562	580	595	1,740	4,953
Simplify the Tax Laws:								
Establish uniform definition of a qualifying child	-2	-43	-23	-24	-28	-19	-137	-211
Simplify adoption tax provisions	-4	-36	-37	-39	-40	-42	-194	-429
Expand tax-free savings opportunities	1,390	10,572	4,803	1,915	-648	-1,822	14,820	2,002
Consolidate employer-based savings accounts	-5	-185	-253	-263	-276	-292	-1,269	-3,011
Total simplify the tax laws	1,379	10,308	4,490	1,589	-992	-2,175	13,220	-1,649
Expiring Provisions:								
Temporarily extend expiring provisions:								
Combined work opportunity/welfare-to-work tax credit	—	-54	-201	-268	-181	-96	-800	-873
Minimum tax relief for individuals	—	-260	-7,286	-10,343	—	—	-17,889	-17,889

Table S–10. Effect of Proposals on Receipts—Continued
(In millions of dollars)

	2003	2004	2005	2006	2007	2008	Total	
							2004–2008	2004–2013
DC tax incentives	—	-53	-116	-58	-1	-4	-232	-357
Authority to issue Qualified Zone Academy Bonds	—	-6	-18	-34	-52	-64	-174	-514
Deduction for corporate donations of computer technology	—	-74	-127	-52	—	—	-253	-253
Net operating loss offset of 100 percent of AMTI	-639	-3,028	-2,274	-1,442	420	367	-5,957	-4,890
IRS user fees	—	68	81	6	—	—	155	155
Abandoned mine reclamation fees	—	—	308	313	319	325	1,265	2,978
Permanently extend expiring provisions:								
Provisions expiring in 2010:								
Marginal individual income tax rate reductions	—	—	—	—	—	—	—	-286,952
Child tax credit ⁶	—	—	—	—	—	—	—	-46,893
Marriage penalty relief ⁷	—	—	—	—	—	—	—	-20,654
Education incentives	-2	-11	-19	-27	-33	-42	-132	-4,685
Repeal of estate and generation-skipping transfer taxes, and modification of gift taxes	46	-292	-810	-1,319	-1,540	-1,736	-5,697	-125,991
Modifications of IRAs and pension plans	—	—	—	—	—	—	—	-11,236
Other incentives for families and children	—	—	—	—	—	—	—	-2,029
Other provisions:								
Research & Experimentation (R&E) tax credit	—	-1,005	-3,278	-5,187	-6,291	-7,129	-22,890	-67,922
Suspension of disallowance of certain deductions of mutual life insurance companies	—	-123	-137	-65	-36	-24	-385	-472
Total expiring provisions	-595	-4,838	-13,877	-18,476	-7,395	-8,403	-52,989	-588,477
Total budget proposals	-30,787	-109,124	-100,184	-89,234	-70,996	-71,710	-441,248	-1,307,000

¹ Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is \$300 million for 2003, \$1,074 million for 2004, \$4,783 million for 2005, \$4,272 million for 2006, \$4,195 million for 2007, \$4,142 million for 2008, \$18,466 million for 2004–2008, and \$25,239 million for 2004–2013.

² Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is \$213 million for 2004, \$543 million for 2005, \$714 million for 2006, \$796 million for 2007, \$886 million for 2008, \$3,152 million for 2004–2008, and \$3,626 million for 2004–2013.

³ Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is \$3,546 million for 2005, \$8,166 million for 2006, \$9,251 million for 2007, \$9,827 million for 2008, \$30,790 million for 2004–2008, and \$87,608 million for 2004–2013.

⁴ Policy proposal with a receipt effect of zero.

⁵ Net of income offsets.

⁶ Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is \$20,781 million for 2004–2013.

⁷ Affects both receipts and outlays. Only the receipt effect is shown here. The outlay effect is \$3,744 million for 2004–2013.

Table S-11. Receipts by Source - Summary
(In billions of dollars)

Source	2002 Actual	Estimates					
		2003	2004	2005	2006	2007	2008
Individual income taxes	858.3	849.1	849.9	934.6	1,014.1	1,103.4	1,175.3
Corporation income taxes.....	148.0	143.2	169.1	229.3	233.8	237.8	243.7
Social insurance and retirement receipts	700.8	726.6	764.5	810.9	845.8	883.6	922.2
(On-budget).....	(185.4)	(195.0)	(208.4)	(221.4)	(231.0)	(239.1)	(249.0)
(Off-budget).....	(515.3)	(531.6)	(556.2)	(589.5)	(614.8)	(644.4)	(673.2)
Excise taxes	67.0	68.4	70.9	73.3	75.6	77.8	80.0
Estate and gift taxes	26.5	20.2	23.4	21.1	23.2	20.8	21.2
Customs duties.....	18.6	19.1	20.7	21.2	23.9	26.0	27.6
Miscellaneous receipts	33.9	34.7	38.5	44.8	46.9	48.8	51.0
Adjustment for revenue uncertainty ¹ .	—	-25.0	-15.0	—	—	—	—
Total, governmental receipts.....	1,853.2	1,836.2	1,922.0	2,135.2	2,263.2	2,398.1	2,520.9
(On-budget).....	(1,337.9)	(1,304.7)	(1,365.9)	(1,545.7)	(1,648.4)	(1,753.6)	(1,847.7)
(Off-budget).....	(515.3)	(531.6)	(556.2)	(589.5)	(614.8)	(644.4)	(673.2)

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-12. Comparison of Economic Assumptions
(Calendar years)

	Projections						Average
	2003	2004	2005	2006	2007	2008	2003–2008
Real GDP (billions of 1996 dollars):							
CBO January	9,673	10,018	10,358	10,697	11,037	11,380	
Blue Chip Consensus January ²	9,704	10,050	10,383	10,709	11,041	11,384	
2004 Budget.....	9,710	10,061	10,414	10,760	11,102	11,446	
Real GDP (chain-weighted): ¹							
CBO January	2.5	3.6	3.4	3.3	3.2	3.1	3.2
Blue Chip Consensus January ²	2.8	3.6	3.3	3.1	3.1	3.1	3.2
2004 Budget.....	2.9	3.6	3.5	3.3	3.2	3.1	3.3
Chain-weighted GDP Price Index: ¹							
CBO January	1.6	1.7	2.0	2.1	2.1	2.2	2.0
Blue Chip Consensus January ²	1.6	1.9	2.1	2.1	2.1	2.1	2.0
2004 Budget.....	1.3	1.5	1.5	1.7	1.7	1.8	1.6
Consumer Price Index (all-urban): ¹							
CBO January	2.3	2.2	2.4	2.5	2.5	2.5	2.4
Blue Chip Consensus January ²	2.2	2.2	2.5	2.6	2.5	2.5	2.4
2004 Budget.....	2.2	2.1	2.1	2.2	2.2	2.3	2.2
Unemployment rate: ³							
CBO January	5.9	5.7	5.4	5.3	5.2	5.2	5.5
Blue Chip Consensus January ²	5.9	5.5	5.1	5.1	5.1	5.1	5.3
2004 Budget.....	5.7	5.5	5.2	5.1	5.1	5.1	5.3
Interest rates: ³							
91-day Treasury bills:							
CBO January	1.4	3.5	4.8	4.9	4.9	4.9	4.1
Blue Chip Consensus January ²	1.6	2.9	4.2	4.4	4.6	4.4	3.7
2004 Budget.....	1.6	3.3	4.0	4.2	4.2	4.3	3.6
10-year Treasury notes:							
CBO January.....	4.4	5.2	5.7	5.8	5.8	5.8	5.4
Blue Chip Consensus January ²	4.4	5.2	5.6	5.8	5.7	5.7	5.4
2004 Budget.....	4.2	5.0	5.3	5.4	5.5	5.6	5.2

¹ Year over year percent change.

² January 2003 Blue Chip Consensus forecast for 2003 and 2004; Blue Chip October 2002 long run extension for 2005 - 2008.

³ Annual averages, percent.

Table S-13. Baseline Summary by Category
(In billions of dollars)

	2002	2003	2004	2005	2006	2007	2008	Total 2004-2008
Outlays:								
Discretionary:								
Defense (050).....	349	375	383	393	400	411	421	2,008
Nondefense	385	410	412	420	424	432	441	2,130
Total, Discretionary	734	785	795	813	825	843	862	4,138
Mandatory:								
Social Security	452	474	493	512	533	559	587	2,684
Medicare.....	228	241	249	262	268	285	302	1,367
Medicaid and SCHIP.....	151	167	182	198	215	233	252	1,079
Other	274	303	297	298	302	309	323	1,529
Total, Mandatory	1,106	1,185	1,221	1,269	1,318	1,387	1,465	6,660
Net interest.....	171	161	173	193	205	211	214	996
Total Outlays.....	2,011	2,131	2,189	2,276	2,384	2,440	2,541	11,794
Receipts.....	1,853	1,867	2,031	2,235	2,352	2,469	2,593	11,681
Surplus/deficit	-158	-264	-158	-40	5	29	51	-114
On-budget deficit.....	-317	-425	-330	-237	-207	-199	-192	-1,170
Off-budget surplus	160	160	172	197	211	228	243	1,056

Table S-14. Federal Government Financing and Debt
(In billions of dollars)

Function	2002 Actual	Estimates					
		2003	2004	2005	2006	2007	2008
Financing:							
Unified budget deficit (-)	-158	-304	-307	-208	-201	-178	-190
Financing other than the change in debt held by the public:							
Premiums paid (-) on buybacks of Treasury securities.....	-4	—	—	—	—	—	—
Net purchases (-) of non-Federal securities by the National Railroad Retirement Investment Trust	-2	-17	-*	1	1	1	1
Changes in: ¹							
Treasury operating cash balance.....	-17	11	—	—	—	—	—
Compensating balances ²	-14	-10	37	—	—	—	—
Checks outstanding, etc. ³	-12	-4	—	—	—	—	—
Seigniorage on coins.....	1	1	1	1	1	1	1
Less: Net financing disbursements:							
Direct loan financing accounts.....	-15	-16	-19	-15	-20	-20	-21
Guaranteed loan financing accounts	-2	1	1	*	2	2	2
Total, financing other than the change in debt held by the public	-63	-34	20	-12	-16	-16	-17
Total, requirement to borrow from the public.....	-221	-338	-288	-220	-216	-194	-206
Change in debt held by the public.....	221	338	288	220	216	194	206
Change in Debt Subject to Statutory Limitation:							
Change in debt held by the public.....	221	338	288	220	216	194	206
Change in debt held by Government accounts.....	208	216	281	296	300	310	324
Change in other factors.....	*	16	*	*	*	*	1
Total, change in debt subject to statutory limitation.....	429	569	569	517	516	505	531
Debt Subject to Statutory Limitation, End of Year:							
Debt issued by Treasury	6,171	6,725	7,294	7,811	8,327	8,832	9,363
Adjustment for Treasury debt not subject to limitation and agency debt subject to limitation ⁴	-15	-*	-*	-*	-*	-*	-*
Adjustment for discount and premium ⁵	6	6	6	6	6	6	6
Total, debt subject to statutory limitation ⁶	6,161	6,731	7,300	7,817	8,333	8,837	9,368

Table S-14. Federal Government Financing and Debt—Continued
(In billions of dollars)

Function	2002 Actual	Estimates					
		2003	2004	2005	2006	2007	2008
Debt Outstanding, End of Year:							
Gross Federal debt ⁷ :							
Debt issued by Treasury	6,171	6,725	7,294	7,811	8,327	8,832	9,363
Debt issued by other agencies	27	27	27	26	26	26	25
Total, gross Federal debt	6,198	6,752	7,321	7,837	8,353	8,858	9,388
Held by:							
Debt held by Government accounts	2,658	2,874	3,155	3,451	3,751	4,061	4,385
Debt held by the public ⁸	3,540	3,878	4,166	4,387	4,603	4,797	5,003

* \$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 taxes and non-tax receipts under financial agency agreements. The Administration is proposing legislation to replace them with an appropriation in 2004.

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 assets accounts, and profit on sale of gold.

⁴ Consists primarily of Federal Financing Bank debt in 2002.

⁵ Consists of unamortized discount (less premium) on public issues of Treasury notes and bonds (other than zero-coupon bonds) and unrealized discount on Government account series securities.

⁶ The statutory debt limit is \$6,400 billion.

⁷ Treasury securities held by the public and zero-coupon bonds held by Government accounts are almost all measured at sales price plus amortized discount or less amortized premium. Agency debt securities are almost all measured at face value. Treasury securities in the Government account series are measured at face value less unrealized discount (if any).

⁸ At the end of 2002, the Federal Reserve Banks held \$604.2 billion of federal securities and the rest of the public held \$2,936.2 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 government in the absence of enacted appropriations, usually at the same spending rate as the prior year.

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.

Federal Debt

Debt Held by the Public—The cumulative amount of money the federal government has borrowed from the public and not repaid.

Debt Held by Government Accounts—The debt Treasury owes to other accounts within the federal government. Most of it results from the surpluses of the Social Security and other trust funds, which are required by law to be invested in federal securities.

Debt Limit—The maximum amount of federal debt that may legally be outstanding at any time. It includes both the debt held by the public and the debt held by government accounts. When the debt limit is reached, the government cannot borrow more money until the Congress has enacted a law to increase the limit.

Fiscal Year

The fiscal year is the federal government's accounting period. It begins on October 1 and ends on September 30. For example, fiscal year 2003 begins on October 1, 2002 and ends on September 30, 2003.

Full-time Equivalents (FTEs)

Civilian employment in the Executive Branch is measured on the basis of full-time equivalents. One FTE is equal to one work year or 2,080 non-overtime hours. For example, one full-time employee counts as one FTE, and two half-time employees also count as one FTE.

Gross Domestic Product (GDP)

GDP is the standard measure of the size of the economy. It is the total production of goods and services within the United States.

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 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 monies that are deducted from outlays, rather than counted on the receipts side of the budget. They are often received in return for goods or services. For example, payments the Postal Service receives for stamps are offsetting collections.

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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