United States Senate

COMMITTEE ON
AGRICULTURE, NUTRITION, AND FORESTRY
WASHINGTON, DC 20510–6000
202–224–2035
TTY/TDD 202–224–2587

March 2, 2006

The Honorable Judd Gregg
Chairman
Committee on the Budget
United States Senate
Washington, DC 20510

The Honorable Kent Conrad
Ranking Democratic Member
Committee on the Budget
United States Senate
Washington, DC 20510

Dear Mr. Chairman and Senator Conrad:

This letter provides the views of the Senate Committee on Agriculture, Nutrition and Forestry regarding the fiscal year 2007 (FY07) Budget Resolution. These views are provided in response to your February 8, 2006, letter and are in accordance with the requirements of the Congressional Budget Act. We thank you for this opportunity to provide these data, views and recommendations regarding the FY07 budget resolution process.

Our Committee's jurisdiction includes a number of important mandatory spending programs including farm income support, agricultural trade, conservation, rural economic development, research, crop insurance, food stamps and child nutrition. We strive, on an ongoing basis, to ensure that these programs meet critical national needs and provide the maximum possible benefit per taxpayer dollar expended. Many of these programs are scheduled to expire next year and will be thoroughly reviewed as part of the omnibus farm bill reauthorization process.

Mandatory spending under the Agriculture Committee's jurisdiction totaled $69.248 billion in FY05. Importantly, the January 2006 CBO baseline projects that mandatory spending under our jurisdiction will grow slowly – only 1.6 percent per year – to $82.86 billion by fiscal year 2016 assuming that current law governing these programs continues without change. By contrast, all other mandatory spending in the federal budget was $1.251 trillion in FY05, and CBO projects that this non-Agriculture Committee mandatory spending will grow considerably more rapidly – 6.3 percent per year – to $2.444 trillion by fiscal year 2016.

Moreover, the CBO baseline does not reflect provisions of S. 1932, the recently enacted Deficit Reduction Act of 2005. Agriculture Committee programs provided $2.709 billion, or 7 percent, of the bill's $38.810 billion in savings over the 5-year period covering FY06 – FY10 even though our programs account for only 4.7 percent of all mandatory spending projected over that period. S. 1932 made significant multi-year reductions in Agriculture Committee mandatory spending for several programs, and these are in addition to annual reductions in many of these programs in recent agriculture appropriations bills, including a cut of $1.666 billion in budget authority in mandatory programs in the FY06 agriculture appropriations bill enacted last fall.

We respectfully request that the FY07 Budget Resolution not require a new round of reductions in Agriculture Committee mandatory spending programs this year. We strongly believe it is simply not realistic, substantively or politically, to expect additional reductions from these mandatory spending programs this year. Many farmers are facing reduced income prospects this year due to higher production expenses related, in part, to higher fuel and energy prices and due to lower market prices expected for many commodities. Reductions in farm commodity programs at this time would worsen farm income prospects further. Likewise, further reductions are not warranted for mandatory funding for conservation, rural development, research and energy programs, given their importance to farmers and rural communities.

The Food Stamp program, which currently serves 26 million people and helps cushion the impact of economic downturns for needy and low income Americans, was not changed by S. 1932. Protecting Food Stamps from spending cuts was a decision that received broad bipartisan support in the Senate last year, and that sentiment enjoys the same broad bipartisan support this year.

The 2002 farm bill added countercyclical income support to farm commodity programs. As a result, producers broadly support the current farm programs. To this point, the annual cost to the taxpayer under the present Farm Bill has been less on average than the spending under the 1996 Farm Bill whose farm programs the Congress repeatedly augmented with emergency income support legislation. Commodity Credit Corporation farm income stabilization support and related outlays, including farm disaster payments, have averaged $14.2 billion over the four-year FY02 – FY05 period since the 2002 farm bill was enacted, 28 percent lower than average outlays over the immediately preceding four years covering fiscal years 1998 – 2001.

Moreover, it is possible that new disciplines will be imposed on farm support programs both here and abroad as part of a new World Trade Organization (WTO) Doha Round agricultural trade agreement which negotiators are seeking to conclude by the end of 2006. If so, the Agriculture Committee may need to adjust U.S. farm income support programs to conform to a new WTO agreement. However, any required changes need not be considered until at least 2007.

We also ask that the FY07 Budget Resolution provide for adequate discretionary spending for the important programs within our Committee's jurisdiction that rely on annual appropriations. For programs in our jurisdiction, the President's FY07 budget request assumes reduced levels of discretionary funding along with offsets from mandatory spending and new user fees. The FY07 Budget Resolution should allow for adequate levels of discretionary spending for programs within our Committee's jurisdiction to avoid impairing our mandatory programs and to allow the Department of Agriculture and other agencies to fulfill their critical responsibilities.

Thank you for this opportunity to provide data, views and recommendations regarding the FY07 budget resolution process.

Sincerely,

Saxby Chambliss
Chairman

Tom Harkin
Ranking Democratic Member

United States Senate
COMMITTEE ON APPROPRIATIONS
WASHINGTON, DC 20510-6025
http://appropriations.senate.gov

March 1, 2006

The Honorable Judd Gregg
Chairman
The Honorable Kent Conrad
Ranking Member
Committee on the Budget
United States Senate
Washington, DC 20510

Dear Senators Gregg and Conrad,

In recent years, Congress has tended to set discretionary levels in the budget resolution that, in general, match the levels of the President's budget request. In determining the appropriate levels for the fiscal year 2007 budget resolution, we suggest that your committee pay careful attention to the growing reliance on provisions in the budget request for discretionary programs that are contingent upon the enactment of legislation – legislation that has limited or no support in Congress. These include user fee proposals and other changes in mandatory programs. To the extent that these assumed savings do not materialize, the President's request for discretionary programs is appreciably understated.

Most of these proposals are not under the jurisdiction of the Committee on Appropriations and have been considered and rejected in previous years by the committees of jurisdiction. Yet, the administration continues to propose them as offsets to discretionary programs, and to propose new ones. Based on estimates of the Office and Management and Budget (OMB) such user fees and other proposed changes in mandatory programs total at least $7.4 billion. Unless the Committee receives substantial relief from these unachievable assumptions, the Committee will be unable to fund the President's request much less items of Congressional interest. Shown below are illustrative examples of these assumed savings.

Last year, by assuming the enactment of increased passenger fees as offsetting collections of the Transportation Security Administration, OMB understated the request of the Department of Homeland Security by some $1.68 billion. The proposed fees were strongly opposed by the committees of jurisdiction in both the House and Senate. This year OMB is proposing $1.631 billion in aviation passenger and airline fees.

Last year, OMB also assumed the enactment by Congress of fees for medical care through the Department of Veterans Affairs (VA) of some $0.7 billion ($0.45 billion from fees and $0.23 billion from lower participation with concomitant reduced workload). Last year the Congress needed to provide both additional supplemental 2005 funding for VA medical care plus additional funding above the original and amended OMB requests. This year OMB is assuming fees through the Department of Defense and VA $1.5 billion for medical care ($0.8 billion from fees plus lower participation/workload of $0.7 billion).

Last year, OMB also assumed the enactment by Congress of reduced Federal capitalization of the Perkins Loan revolving fund as a savings to be achieved in the reconciliation bill, but the committees of jurisdiction did not adopt the proposal. This year, OMB is assuming a partial recall in the annual appropriations process ($0.7 billion).

This year, OMB assumes the enactment by Congress of a $0.5 billion reduction in the cap of the Social Services Block Grant as offset to discretionary spending.

In addition the budget request assumes enactment of "cancellations" of budget authority ($1.5 billion). Instead of submitting a special message proposing the rescission of funds -- which may be considered under expedited procedures in the House and Senate, OMB has assumed that the funds will be "cancelled" by Congress as part of the regular appropriations process. The extensive use of cancellations appears to be an attempt to circumvent the statutory mechanism of title X of the Congressional Budget and Impoundment Control Act of 1974, as amended.

We reiterate that unless the Committee receives substantial relief from these unachievable assumptions, the Committee will be unable to fund the President's request much less items of Congressional interest.

Attached for your information is a listing of the major proposed user fees and other changes in mandatory programs, and of the proposed "cancellations" in the fiscal year 2007 request.

Thank you for your consideration of these matters.

Sincerely,

Robert C. Byrd
Ranking Member

Thad Cochran
Chairman

Fees, Mandatory Changes, and Cancellations in the Budget Request
FY 2007 OMB Estimates ($ millions)

Proposed User Fees	OMB
Agriculture:	
Farm Service Agency user fees	-35
Commodity Futures Trading Commission transaction fees	-127
Food Safety Inspection Service	-105
Grain Inspection, Packers and Stockyards Administration	-20
Agricultural Marketing Service	-14
Animal and Plant Health Inspection Service	-8
Commerce-Justice:	
Bureau of Alcohol, Tobacco, Firearms, and Explosives	
Explosives regulation user fees	-120
Defense:	
Medical care fees	-249
Administration assumed participation/workload reduction	-496
Homeland Security:	
TSA aviation security fees	-1,631
Interior:	
Abandoned mine reclamation fees	-312
Labor-HHS-Education:	
Centers for Medicare and Medicaid Services	
Medicare program management: Survey and certification user fee	-35
Department of Labor	
Application fee: permanent foreign labor certification program	-23
Milcon/VA:	
VA medical care fees:	-544
Administration assumed participation/workload reduction	-251
TTHUD:	
Federal Housing Administration	
Mutual Mortgage Insurance (MMI) loan guarantee program	-6
Multifamily GI/GRI fees	-115
Ginnie Mae administrative expense fees	-54
Office of Federal Housing Enterprise Oversight	
Government-sponsored enterprise (GSE) regulation	62
St. Lawrence Seaway Development Corporation	

Fees, Mandatory Changes, and Cancellations in the Budget Request
FY 2007 OMB Estimates ($ millions)

Commercial tolls	-9
Total, user fees	**-4,092**

Fees, Mandatory Changes, and Cancellations in the Budget Request
FY 2007 OMB Estimates ($ millions)

Proposed Changes in Mandatory Programs	**OMB**
Agriculture:	
Environmental Quality Incentives Program (EQIP) (a)	-270.0
Ground and surface water program (k)	-9.0
Agricultural Management Assistance program (h)	-14.0
Wildlife Habitat Incentives Program (b)	-30.0
Farmland Protection Program (g)	-47.0
Watershed Rehabilitation Program (c)	-65.0
Market Access Program (f?)	-100.0
Distance Learning, Terlemedicine and Broadband Program (d)	-10.0
Rural Cooperative Development Grants (e)	-40.0
Renewable Energy Program (j)	-3.0
Biomass Research and Development (i)	-2.0
Cushion of Credit rescission	-88.6
Commerce, Justice, Science:	
Crime Victims' Fund	-1,255
Labor-HHS-Education:	
Social Services Block Grant	-500
Perkins Loans legislation	-664
Vaccines for Children Program	-100
Reduce Federal capitalization of the health professions student loan revolving funds	-100
Total, other changes in mandatories	**-3,298**

Fees, Mandatory Changes, and Cancellations in the Budget Request
FY 2007 OMB Estimates ($ millions)

FY 2007 Proposed "Cancellations"	OMB
Department of Agriculture	
High Energy Cost Grants	-25.3
Department of Commerce	
Emergency Steel Guaranteed Loan Program Account	-46.0
Department of Justice	
Crime Victims' Fund	N/A
Salaries & expenses, U.S. Attorneys (Project Seahawk)	-27.0
Federal Prison System	
Buildings and facilities	-142.0
Office of Justice Programs	
Justice Assistance	-127.5
Community Oriented Policing Services (COPS)	-127.5
Energy and Water:	
Department of Energy	
Clean Coal Technology	-203.0
Department of Interior	
Bureau of Reclamation	
Water and Related Resources (at risk terminal lakes program)	-88.0
Department of Homeland Security	
Counterterrorism Fund	-16.0
Labor, HHS, Education:	
Department of Health and Human Services	
HRSA Health Centers Loan Guarantee Program	-6.0
Public Health Service Act	
Department of Labor	
Training and Employment Services	
Construction, rehabilitation, and acquisition of Job Corps Centers	-75.0

Fees, Mandatory Changes, and Cancellations in the Budget Request
FY 2007 OMB Estimates ($ millions)

FY 2007 Proposed "Cancellations" (Continued)	**OMB**
Transportation,Treasury , The Judiciary, HUD:	
Department of Transportation	
Compensation for Air Carriers	-50.0
Federal Transit Authority	
Formula and Bus Grants	-28.7
National Transportation Safety Board	
Salaries and expenses	-1.7
Emergency fund	-2.0
Maritime Administration	
National Defense Tank Vessel Construction Program	-74.0
Maritime Guaranteed Loan (Title XI) Program Account	-2.0
Department of Housing and Urban Development	
HOPE VI	-99.0
Community Development Fund	
- Economic Development Initiative (EDI)	-306.9
- Neighborhood initiatives	-49.5
Executive Office of the President	
Unanticipated Need for Natural Disasters	-12.0
Total, cancellations	**-1,509.0**

United States Senate
COMMITTEE ON ARMED SERVICES
WASHINGTON, DC 20510–6050

March 2, 2006

Honorable Judd Gregg
Chairman
Committee on the Budget
United States Senate
Washington, D.C. 20510

Honorable Kent Conrad
Ranking Member
Committee on the Budget
United States Senate
Washington, D.C. 20510

Dear Judd and Kent:

In accordance with your request, I am forwarding my recommendations for the Fiscal Year 2007 budget resolution.

We are in a critical period in the ongoing Global War on Terrorism. The Iraqi people are working to form a permanent, democratic government in the aftermath of yet another round of historically successful elections. Iraqis have spoken for freedom and democracy, but their voice would not have been heard without the service and sacrifice of the United States Armed Forces, our coalition partners, and the Iraqi Security Forces. We need to do all we can for those who serve ---- and their families.

This is a time of hope for Iraq and Afghanistan, but difficult work lies ahead in these lands and others in this long war on terror. The manpower demands of on-going stabilization operations, along with the requirements to build more agile, deployable forces for the future is an extremely difficult challenge. With these competing demands in mind, we consider this year's budget request.

The President's budget request arrives this year at a critical time of change ---- not just in the Global War on Terrorism, but here at home, as well. The first Quadrennial Defense Review (QDR) fully focused on post-9/11 threats has just been delivered to the Congress. The Congress will need to carefully analyze and evaluate this document. For the first time in a decade, a Base Realignment and Closure round has been completed. These results now need to be implemented. Finally, the Department is currently implementing a global integrated presence and basing strategy to ensure our military forces stationed overseas are adequately postured to meet emerging threats to our national security. The Congress must take into consideration all of these "moving parts," as it reviews this year's budget request in the coming weeks and months. It is important to ensure that we not only enhance our capability to win today's wars, but that we will retain the strength to deter, and if necessary win, conflicts of the future as well.

I ---- and other members of the Armed Services Committee ---- have concerns with the President's budget request and hope to work with you and your staff to address them in the coming months.

In late 2004, and again last fall, the Office of Management and Budget imposed top-line reductions on proposed defense budgets of almost $60 billion across the Future Years Defense Plan (FYDP). These reductions were clearly driven by budgetary concerns, not military analysis. While important, we must not balance the budget on the backs of our Soldiers, Sailors, Marines and Airmen, particularly in time of war.

The funding requirements for the Army's Future Combat System, recapitalization and its unfunded requirement of $56 billion for Army reset; the Marine Corps unfunded requirement of $11.7 billion for reset and its impending shortfall in tactical airlift and facilities; the Navy's unmet need for shipbuilding and tactical aviation funding; and the cost of the Air Force F-22, JSF, KC-X tanker, transport and its recent decision to cut upwards of 45,000 personnel; make clear that the current funding profile will not provide the resources needed to sustain and modernize our armed forces over and beyond the FYDP

The shipbuilding budget is of particular concern. In a hearing before this Committee on February 10, 2005, the Chief of Naval Operations (CNO) stated that given the current rate of ship purchases and production, the Navy could be faced with a decreasing fleet of ships, eventually dropping below 250 major combatant ships. A fleet of this small size may well jeopardize the Navy's ability to meet its mission requirements, and the financial viability of the vital shipbuilding industrial base could easily be threatened. More encouraging was the CNO's recent brief to this Committee on December 16, 2005, outlining a naval force structure of 313 ships. Financing this future naval force is a critical national objective, however current assumptions in the plan may place significant pressure on the discretionary defense budget top-line in the out years.

Therefore, I request that the Department' discretionary budget top-line be increased to at least $443.1 billion, the president's projected funding level for Fiscal Year 2007 as of last spring. This represents an increase of $3.8 billion over the President's requested discretionary defense budget.

We must take care of our brave men and women in uniform ---- active duty, reserve, National Guard ---- and their families. The Committee will continue to identify ways to improve recruiting and retention in the active and reserve components, quality of life for all members of the military family, and operational readiness through improvements to pay and benefits. It is our solemn duty to take care of those who risk their lives in defense of our freedom, and to care for the survivors of those who pay the ultimate price. In this context, I believe additional mandatory funding is also necessary for Fiscal Year 2007.

I ask that an additional $45 million in mandatory spending be allocated in Fiscal Year 2007 to provide authority to pay the full death gratuity to survivors of military decedents who died between May 12, 2005, and August 31, 2005. Section 664 of the National Defense Authorization Act for Fiscal Year 2006 erroneously stated in subparagraph (b) that the benefit would apply through May 11, 2005. The correct date should have been August 31, 2005, to accomplish the legislative intent of providing an increased death gratuity of $238,000 retroactively to the survivors of all military members who died on active duty from October 7, 2001, through the implementation of the enhanced Servicemembers' Group Life Insurance program on September 1, 2005. CBO has estimated that this would cover approximately 300 decedents and cost $45 million.

I ask that an additional $980 million in mandatory spending be allocated from Fiscal Year 2007 through 2015 for an improved reserve retirement benefit. The benefit would permit certain retirement eligible reservists and Guardsmen, who have been mobilized in support of a contingency operation or a national emergency declared by the President, to begin collecting retired pay before age 60. This additional mandatory spending would compensate individual reservists who have been mobilized in support of Operation Iraqi Freedom, Operation Enduring Freedom, and relief operations for Hurricane Rita. It would also provide an additional incentive to encourage reservists and Guardsmen who have served at least 24 months on active duty since 2001 to volunteer for operational deployments who would not be required to do so under current policies.

In order to assist the reserve components in recruiting and retention, I ask that $525 million in mandatory spending be made available for increases in the Montgomery GI Bill for Selected Reservists (MGIB-SR) under section 16131 of title 10, United States Code. This education benefit has increased since its inception in 1985, but the cost of a college education has far exceeded its rate of increase. In order to provide a benefit that would amount to 35 percent of the current active-duty MGIB, CBO estimates that $40 million is needed in Fiscal Year 2007 and $525 million over ten years.

I also recommend that additional authority in the amount of $200 million in mandatory spending be provided to the Department to fund implementation of selective early retirement boards under section 638a of title 10, United States Code, for the Air Force and the Navy. Both services have plans to significantly reduce their active-duty end strengths and should be empowered to use the more comprehensive procedures available under section 638a.

Lastly, I ask that an additional $663 million be allocated in mandatory spending be allocated from Fiscal Year 2007 through 2015 to accelerate rebasing plans and the acquisition of safe, secure housing for U.S. military personnel and their families stationed in the Republic of Korea. As mentioned, the Department is currently implementing a global integrated presence and basing strategy to ensure our military forces stationed overseas are adequately postured to meet emerging threats to our national security. In order to provide for the most efficient use of military resources, we want to provide the Department with legislative authorities which result in this mandatory increase to the obligation authority in the Fiscal Year 2007 budget.

Finally, in keeping with long-standing tradition, the full costs for on-going military operations were not included as part of the President's Fiscal Year 2007 budget request. Such estimates, given ever-changing wartime situations, cannot be made with the accuracy needed for annual budget submissions. Congress included a "bridge" fund of $50.0 billion in the Fiscal Year 2006 Defense Authorization and Appropriation Acts, but that amount most likely will not be enough to cover the full costs of the war on terror through Fiscal Year 2006. It is also clear that, even thought the Administration has included a $50.0 billion "bridge" in the Fiscal Year 2007 President's Budget Request, many of the costs for the on-going Global War on Terrorism are not included. I look forward to supporting and working with the Budget Committee on the emergency supplemental budget request for Fiscal Year 2006 and also recommend including a $50.0 billion "bridge" fund of emergency supplemental funds as we develop the Fiscal Year 2007 budget.

I look forward to working with you on a Budget Resolution for Fiscal Year 2007 that fully funds and supports a strong national defense. The U.S. Armed Forces are the best in the world today. They are a symbol of America's resolve to defend freedom and to constructively work with others to make the world a safer place. Our responsibility is to provide the resources that will sustain and improve our military as they fight for the security of this great Nation.

With kind regards, I am

Sincerely,

John Warner

John Warner
Chairman

United States Senate
COMMITTEE ON ARMED SERVICES
WASHINGTON, DC 20510-6050

March 2, 2006

Honorable Judd Gregg
Chairman
Committee on the Budget
United States Senate
Washington, D.C. 20510

Honorable Kent Conrad
Ranking Member
Committee on the Budget
United States Senate
Washington, D.C. 20510

Dear Judd and Kent:

In accordance with your request, I am forwarding my recommendations for the fiscal year 2007 budget resolution.

The President's budget requests $463.0 billion in budget authority for the national defense budget function for fiscal year 2007, and in addition includes a "placeholder" of $50 billion for a future budget amendment that would serve as the next "bridge" supplemental to partially fund the cost of operations in Iraq and Afghanistan in FY2007. I anticipate that defense funding requirements for FY2007 will exceed this combined total of $513 billion, and I recommend that you include no less than $513 billion in the national defense budget function for fiscal year 2007.

There are several areas where adjustments to the budget request will be needed. The most fundamental of these is the way we deal with the costs of war. The Administration took a step backward last year, as they declined to even submit a request for the $50 billion bridge fund that Congress enacted last fall, pursuant to your budget resolution conference report. Without that additional funding, our military would not be able to execute their assigned missions today.

In this year's budget, the Administration has taken a step forward by recognizing the cost of war will be at least $50 billion in FY2007, and including that amount in their deficit projections. They are now catching up to where the Congress has been the past two years. In fiscal years 2005 and 2006, I recommended, and your budget resolution conference included, additional funding to recognize the cost of war at least in part, so that our military would not be in the position of absorbing the entire cost of these operations, which have been running at or above $1 billion per week for several years now.

This is a step in the right direction, but it is not enough. I believe it is now time to take the next steps. First, these costs should be moved into the regular budget process, rather than continuing to treat them purely as emergency spending. These expenses are not, to use the words of section 402 of last year's budget resolution, "unforeseen, unpredictable, and unanticipated". Calling them emergencies does nothing to reduce their impact on our federal deficit and debt. Furthermore, the Quadrennial Defense Review released by the Department of Defense last month asserts that our military is fighting a "long war" that "may last for some years to come". If this is so, all the more reason to start recognizing the ongoing costs of this "long war" in our budget, so we can start paying for it. So far, these costs have been financed entirely by deficit spending. That may be necessary for a short, unforeseen war, but if a "long war" is part of our national security reality, it must become part of our fiscal reality, and we must pay for it.

There is an additional reason why these costs should be built into our regular budget process. Supplementals are not subjected to the oversight of the authorizing committees. I believe it is time for that to change. The costs of war are enormous, and these costs, starting with the $50 billion budget amendment the Administration intends to submit, should receive more oversight, and putting this funding through the normal budget process will help Congress do its job better, which will better serve the American public.

I commend your leadership for including $50 billion in supplemental funding for the cost of war in the past two budget resolutions, which has made your deficit estimates more realistic than the budgets submitted by the Administration. This year, I request that you include that extra funding in the regular national defense function totals.

In addition, there are four additional discretionary costs that should be recognized.

First, the budget request once again contains unrealistic assumptions about the number of Army and Marine Corps personnel who will actually be serving during FY2007. Last year, I recommended that the cost of those additional personnel be recognized up front and added to the base budget, and I renew that request this year. I believe the national defense budget function should be increased to recognize the number of personnel expected to be serving, which is approximately 502,400 active duty Army personnel, and 180,000 Marines. This represents an increase of 20,000 Army and 5,000 Marine Corps personnel above the amounts funded in the budget. The cost of supporting these additional personnel would be approximately $2.1 billion in FY2007.

Second, I believe the military pay raise of 2.2 percent for military personnel included in the budget request should be increased. Our military forces are stretched very thin and are making great sacrifices, and I believe that enacting what would be the smallest pay raise since 1994 would only increase our recruiting and retention challenges. I recommend that additional funding of $320 million be included to fund an additional one-half percent pay increase in FY2007. The five-year cost of this increase would be $2.1 billion.

Third, as you know, the budget proposes reductions to Army National Guard personnel and force structure levels that the Army's leadership has already agreed they will not make, in the face of widespread opposition from the governors and within Congress. Given the enormous expenses the Army is incurring for operations in Iraq and Afghanistan, including the extra personnel needed and the wear and tear on their equipment, it is pointless to repay these funds by making cuts to other Army programs that will only need to be restored later. Therefore, I request that the national defense budget function be increased to restore the $789 million that was cut from the Army National Guard budget.

Fourth, operations in Iraq and Afghanistan are placing an enormous strain on our equipment, putting three years or more of wear and tear on our equipment for every year we maintain this pace of operations. The costs to repair or replace this equipment will far exceed the amounts provided or requested to date. The Army alone projects a requirement of $10.5 billion in FY2007 for reset and recapitalization of their equipment, and the Marine Corps also has a substantial unfunded requirement beyond the amounts requested for FY2006. In addition to the $50 billion in operating expenses for Iraq and Afghanistan, I recommend that the budget resolution include an additional $10 billion in FY2007 to repair and replace worn out equipment. This is comparable to the amount being funded through supplementals in FY2006. Future requirements will exist beyond FY2007.

In addition, there are three areas where additional mandatory funding should be provided.

First, I request that the resolution provide a one-time increase of $45 million to provide the same enhanced death gratuity to servicemembers who died between May 12, 2005 and August 31, 2005 as to those who died at any other time since October 7, 2001. An error in section 664 of the National Defense Authorization Act for Fiscal Year 2006 inadvertently created this gap in benefit levels.

Second, I support a proposal by Senator Reid that would allow certain additional medically retired members who have a service-connected disability to receive both disability compensation from the Department of Veterans Affairs for that disability and Combat-Related Special Compensation for that disability. Improvised Explosive Devices (IEDs) have created numerous amputees and therefore, an increase in medically discharged veterans. As you know, we have reached nearly 18,000 injured service members from the war in Iraq. Many of the members have reached the 10, 12, 14-year marks of their military careers and forced to retire medically prior to the 20 year retirement norm. If we don't address this, they won't receive legitimate compensation due them for their physical and emotional sacrifices incurred during their service. The estimated cost of this mandatory spending proposal is $29 million in FY2007, $849 million over five years, and $1.9 billion over ten years.

Finally, I support Senator Bill Nelson's proposal to eliminate the offset of payments from the survivor benefits of servicemembers who also receive Dependency and Indemnity Compensation (DIC) from the VA. The estimated cost of this proposal is approximately $443 million in FY2007, $3.5 billion over five years, and $8.2 billion over ten years.

To summarize, I recommend that the budget resolution increase the non-emergency discretionary spending totals for the national defense function for fiscal year 2007 by $50 billion to reflect the Administration's forthcoming budget amendment for operations in Iraq and Afghanistan; an additional $2.1 billion for the full cost of the Army and Marine Corps personnel we will actually have on duty in 2007; $320 million for an enhanced military pay raise; $789 million to restore cuts to the Army National Guard's program; and an additional $10 billion to repair and replace equipment being worn out by the high pace of operations.

I also recommend that you increase the mandatory spending totals for fiscal year 2007 by the following amounts: an additional $45 million to cover the cost of filling in the gap in the enhanced death gratuity , $29 million for compensation for medically retired servicemembers, and $443 million to eliminate the SBP-DIC offset.

I look forward to working with you to create a budget that supports our national security and the needs of our troops, and that is straightforward with the American taxpayer about the price of meeting those needs.

Sincerely,

Carl

Carl Levin
Ranking Member

cc: Senator John Warner

United States Senate
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, DC 20510-6075

March 3, 2006

The Honorable Judd Gregg, Chairman
The Honorable Kent Conrad, Ranking Member
Committee on the Budget
Washington, D.C. 20510

Dear Chairman Gregg and Ranking Member Conrad:

This letter transmits the views and estimates of the Committee on Banking, Housing, and Urban Affairs regarding the funding of programs in our jurisdiction, as required by Section 301 of the Congressional Budget Act of 1974.

Flood Insurance

The Committee's consideration of legislation to reform the National Flood Insurance Program (NFIP) will be a high priority for 2006. Congress has increased the NFIP's borrowing authority to $18.5 billion in order to meet hurricane-related claims from last year. The NFIP is currently bankrupt, and the Committee believes that substantial reform is necessary in order for the NFIP to be a sustainable program. Under its current financial structure, the NFIP has no ability to pay even the interest on its current debt, let alone the principal.

The Committee supports the Administration's request for $198 million to continue with the NFIP's map modernization process, which the Committee believes is a critical component towards placing the NFIP on sound financial footing. The Committee supports the Administration's additional borrowing request of $5.6 billion to cover the NFIP's outstanding obligations relating to last year's hurricane season. However, the Committee believes that a substantial overhaul of the NFIP is necessary in order for the program to continue with its mandate of ensuring that flood insurance remains available while at the same time not creating incentives for development in harm's way.

Regulatory Reform for Government-Sponsored Enterprises

The Committee will continue its efforts to establish a credible new regulator for the housing-related government sponsored enterprises (GSEs), i.e., Fannie Mae, Freddie Mac and the Federal Home Loan Banks. In the 108th Congress, the Committee began a series of comprehensive hearings examining the circumstances surrounding the breakdown of internal management controls and accounting functions at Freddie Mac. The Committee's effort continued into the 109th Congress with the identification of serious deficiencies in accounting practices and internal controls at Fannie Mae. This series of hearings made clear the need to undertake legislative action to strengthen the existing regulatory system. As a result, the Committee voted in July 2005 to report out S. 190, as amended, which creates an independent regulator with strengthened affordable housing goals. The bill also provides the new regulator with certain core powers necessary to establish credibility of the new regulator: combined oversight authority for both the safety and soundness and the housing mission of the GSEs; enhanced authority over capital requirements, enforcement and prompt corrective action; the clear authority to conduct an orderly liquidation of a troubled or insolvent GSE; and clear guidance on the GSEs' portfolio holdings, considering the GSEs' mission, safety and soundness, and potential systemic risk. Adoption of this reform package would ultimately benefit the GSEs, protect taxpayers, and strengthen our nation's housing markets.

The President's Budget also continues its support for a new regulatory framework for the GSEs and provides the new GSE regulator with funding outside of the appropriations process with mandatory assessments on the GSEs to cover the costs. The Committee supports such a structure and has included similar treatment as part of its regulatory reform package. The Committee also supports the President's Budget request of $62 million, a 3.3 percent increase for the Office of the Federal Housing Enterprise Oversight.

Housing and Community Development Programs

The President's Budget for the Department of Housing and Urban Development (HUD) includes a number of reforms aimed at streamlining programs and providing greater flexibility. These steps could enable states and local governments to target resources where they are most needed. The President's Budget proposes to consolidate a variety of community development programs into the existing Community Development Block Grant program. The Committee intends to closely examine this proposal once legislative language, not included in the budget submission, is available.

The President's Budget also includes a proposal to consolidate the three competitive homeless assistance programs into a single program. As this consolidation could provide more consistent funding for grantees while simplifying the awards process, the Committee intends to evaluate this proposal.

The Committee also intends to closely examine the President's proposal for a new Federal Housing Administration (FHA) subprime single-family mortgage product that would assist families with weak credit. Given the declining market share of the FHA program, the Committee intends to give these proposals careful consideration.

The President's Budget proposes to transfer the existing Youthbuild program from HUD to the Department of Labor (DOL). As such a transfer could allow greater coordination with other job training programs housed within DOL, the Committee intends to closely consider this proposal.

Money Laundering and Terrorist Financing

The Office of Terrorism and Financial Intelligence (TFI) oversees the Department of the Treasury's efforts at combating financial crimes, especially money laundering and terrorism financing. Within the Office are two assistant secretariats, one for Terrorism Financing and Financial Crimes, which is the principal policy formulation body, and one for Intelligence and Analysis.

The overall budget for TFI for FY 2006 is $40 million. The President's Budget request for FY 2007 is for $45.4 million. The increase for FY 2007 includes nine additional personnel for the Office of Intelligence and Analysis (OIA), which has been slow in staffing up and implemented a quick fix last year by transferring the Foreign Terrorist Division from the Office of Foreign Assets Control (OFAC) to OIA. Seven of the nine personnel are additional intelligence analysts; two are for the Iraq Threat Finance Cell. In addition, an increase of 13 personnel for OFAC is requested, with eight designated to work on economic sanctions against terrorist networks, and the remaining five personnel for weapons of mass destruction related sanctions work.

The budget increase for miscellaneous items includes $1 million for secure workspace in line with the increase in the number of personnel with security clearances performing classified work; funding to increase the office of the general counsel in support of OFAC; and general counsel work in support of TFI. The Committee believes that staff increases for both OIA and OFAC are warranted by the missions of those agencies and therefore supports the increase in funding for TFI.

Financial Crimes Enforcement Network (FinCEN)

The President's Budget request for FinCEN represents a sizable increase over the previous and current fiscal years. Specifically, the current year's estimated budget for FinCEN is $76.4 million. The budget request for FY2007 is $91.3 million.

The increase in funding for FinCEN is attributable overwhelmingly to two related projects, both involving significant upgrades to the agency's information technologies. An ongoing project, BSA Direct, is automating the system for filing and retrieving data attained through implementation of the Bank Secrecy Act requirements for Currency Transaction and Suspicious Activity Reports. When fully implemented, BSA Direct is intended to allow for greater access to and utilization of financial data by federal and state law enforcement and regulatory agencies. The President's Budget includes $2.5 million to complete BSA Direct.

BSA Direct was supposed to be completed in October 2005, at a cost of $15 million. A total of $16.5 million has been authorized to create and operate the new system. It has fallen behind schedule, and the Committee will continue to press FinCEN for accurate information on when it will be fully implemented and at what total cost.

The FinCEN budget request also includes $10 million to set up a system to process BSA-related information on cross-border wire transfers into and out of the United States. FinCEN has sought congressional concurrence to require wire transfer companies to report on cross-border transactions. The 2004 Intelligence Reform Act authorizes a study to determine the feasibility of that request; the report is not yet complete. The Committee has been concerned about the feasibility of absorbing and exploiting the tens of millions of additional reports that would come into FinCEN each year, should the requirement come to fruition. Should the requirement prove feasible, however, the intelligence that would be gleaned from those reports would likely prove invaluable in tracking the movement of terrorist financing. For this reason, the Committee recommends supporting the budget request, contingent upon the completion and validation of the feasibility study.

Department of Commerce Bureau of Industry and Security

The President's Budget request for the Department of Commerce Bureau of Industry and Security (BIS), which is responsible for administering and enforcing the nation's laws and regulations pertaining to the export of items and technologies with commercial and military applications, represents a minor increase over the current fiscal year. The total amount requested for FY 2007 is $78.5 million, an increase of $4 million over the current fiscal year. The increase is primarily attributable to the requirement to replace the existing Export Control Automated Support System (ECASS), which allows for electronic processing of export license applications, with a more up-to-date system.

The Committee concurs with the increase in the budget request. BIS's existing technology is old and inefficient. Updating that technology will facilitate quicker and more efficient processing of license applications, a major enduring complaint of American industry.

The President Budget also includes a large increase -- 40 percent -- in funding for information security programs at the Department of the Treasury. This increase, however, is only large relative to FY 2006; the FY2005 funding was of an amount equivalent (adjusted for inflation) to the FY2007 request.

The System and Capital Investments Program includes projects to improve the department's security against physical and cyber attack. Given the Committee's concerns about the protection of the banking and financial services critical infrastructure, the increases requested should be supported.

Export-Import Bank

The Committee will work to reauthorize the Export-Import Bank, whose current authorization expires on September 30, 2006. The Bank is the official export credit agency of the United States. The mission of the Bank is to support U.S. exports by providing export financing in cases where the private sector is unable or unwilling to provide financing, and to neutralize financing provided by foreign governments to their exporters when they are in competition for export sales with U.S. exporters. The Bank provides its export credit services through direct loans, loan guarantees, and insurance programs. The Bank is mandated to actively assist small- and medium-sized U.S. businesses in export promotion.

As part of the reauthorization process, the Committee will conduct extensive oversight of the Bank and determine whether any reforms should be enacted to the Export-Import Bank statute. Among the potential reforms that have been discussed are the creation of a small business division at the Bank, and the strengthening of the Bank's economic impact procedures and tied aid program.

The Committee supports the President's Budget request of $26.4 million for credit subsidy appropriations, $75.2 million for the Bank's administrative budget (including $10.7 million for technology expenses), and $988,000 for an Inspector General. Although the credit subsidy appropriations request is significantly lower than the $99 million appropriated last year, the Bank has $150 million in carryover appropriations and appropriations from program cancellations, leaving the Bank with $176 million available to finance exports in 2007. The request, however, does not include appropriations for any potential reforms of the Bank that may be enacted as part of the Bank's reauthorization legislation.

Regulatory Relief Legislation

The Committee will continue its work in addressing undue regulatory burden on financial institutions and their customers. One provision likely to be part of our legislative package would allow the Federal Reserve to pay interest on the required reserves of depository institutions which are held by the Federal Reserve. While reserve requirements are only one tool for implementing monetary policy, the Committee is concerned about the increased bank usage of retail sweep accounts to avoid the reserve requirements. The resulting decline in the level of required reserves could adversely affect the Federal Reserve's ability to implement monetary policy.

Along with the potential complications for implementing monetary policy, not allowing the payment of interest is an unfair tax on banks and causes banks to engage in inefficient shifting of customers' monies. Eliminating this tax could also mean higher interest rates for bank depositors, assuming banks pass along benefits to account holders.

Because this provision may increase costs to the Federal Reserve, a budgetary cost is likely to be associated with this proposal. We urge the Budget Committee to work with the Committee to make any necessary accommodation in the resolution.

Public Transportation

In August 2006, the Congress completed action on the Safe, Accountable, Flexible, and Efficient Transportation Equity Act (SAFETEA), which authorizes $45.3 billion for the federal transit program through 2009. This carefully crafted piece of legislation was the culmination of years of study regarding the effectiveness of the transit program. The Committee conducted an extensive evaluation of the success of specific transit investments; the ways in which funds are distributed to various grantees across the country; and most importantly, the results that communities experience as a consequence of federal transit investment. The resulting modification in the Chapter 53 of Title 49 of the U.S. Code is a more effective, more fair, and more accountable federal transit program.

The President's Budget follows the authorization levels set out in SAFETEA almost exactly – the one notable exception being a $100 million cut to the "Small Starts" program. This highly competitive program is already oversubscribed and shorting dollars to this key program that communities can well utilize to enhance cost-effective transportation options is not prudent. Further, the President's Budget proposes to fully fund the federal highway program, in keeping with SAFETEA levels. With the accompanying cut to the transit program, this proposal violates the historic balance between highways and public transportation. This split is also an important recognition that transit use has a strong impact on highway users. In order to ensure that public transportation continues to foster economic growth, reduce congestion, and improve air quality, the Committee urges that both transit and highways be fully funded at SAFETEA levels.

Deposit Insurance Reform

In early 2006, the President signed the Deficit Reduction Act of 2005 into law. This Act contained several important reforms to federal deposit insurance programs, including the merger of the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF) as well as changes to fund management and insurance pricing that reduce volatility in premiums for financial institutions and promote a more risk-based insurance system. The Committee expects the Federal Deposit Insurance Corporation to use the greater flexibility in fund management and insurance pricing to increase the Designated Reserve Ratio by assessing appropriate premiums necessary to build the combined Deposit Insurance Fund.

Sincerely,

Richard Shelby

Richard Shelby
Chairman

United States Senate
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, DC 20510-6075

March 2, 2006

The Honorable Judd Gregg, Chairman
The Honorable Kent Conrad, Ranking Member
Committee on the Budget
United States Senate
Washington, DC 20510

Dear Senator Gregg and Senator Conrad:

Thank you for the opportunity to offer the views of the Democrats of the Committee on Banking, Housing, and Urban Affairs on programs in the FY2007 budget within the Committee's jurisdiction.

Department of Housing and Urban Development (HUD)

We are very concerned about the Administration's budget for the Department of Housing and Urban Development (HUD). The budget for HUD drastically cuts funding for critical housing and community development programs, placing greater strains on low-income families and their communities. The overall HUD budget is cut $622 million from fiscal year 2006 levels, a cut of 1.8% of HUD's funding. We urge the Budget Committee to restore cuts for these critical programs.

Housing Programs

Housing programs assist millions of families around the country, including many of this nation's most vulnerable – the working poor, the elderly, the disabled, and children. Without housing assistance, many families would lack the stability to find and retain employment, and many children would be unable to adequately perform in school because of multiple moves or health problems induced by inadequate housing, including asthma, poor nutrition and lead poisoning.

Further, study after study indicate that the need for additional housing assistance is acute. It is estimated by the National Housing Conference that nearly 15 million American families are paying over half of their income for housing, leaving them in an extremely precarious economic position. The Joint Center for Housing Studies of Harvard University found in their report, The State of the Nation's Housing 2005, that "housing affordability problems are particularly widespread among low-wage workers, elderly and disabled households and others in the bottom income quartile." Unfortunately, the FY2007 budget request cuts programs which help these vulnerable populations find and retain stable housing.

Public Housing

Public Housing, which provides a place to call home to millions of Americans is once again cut in the Administration's budget request. The Public Housing Operating Fund is level funded, despite steep increases in energy costs. Without increased funding to pay for rising energy costs, housing agencies will have to divert funds from maintenance and operations. Maintenance funds for public housing in the Public Housing Capital Fund have been steadily declining, as the Administration seeks to cut this important fund each year. While housing agencies have a backlog in maintenance and repair needs far in excess of $20 billion, the program has been cut over $250 million just in the past 2 years, and the Administration seeks an additional cut of $261 million in its FY2007 budget. Public Housing represents a significant federal investment in housing, and it makes sense to maintain this housing in good condition to ensure it does not fall into disrepair.

Once again, the Administration seeks to eliminate the HOPE VI program which has successfully transformed neighborhoods of despair into places of hope in communities across the country. In addition to eliminating the program, the budget rescinds $99 million of funds already appropriated for HOPE VI, despite the continued need for these funds. In addition, the Administration's budget leaves thousands of authorized vouchers unfunded, while waiting lists grow.

We would ask that the Committee reverse this damaging trend and provide the Public Housing Authorities with adequate funding to operate their housing units, to maintain them, to restore the important HOPE VI program, and to increase the number of vouchers that receive funding.

Housing for the Elderly and Disabled

The FY2007 budget proposes to drastically cut funding for housing programs which serve this nation's most vulnerable citizens. The Section 202 program, which houses seniors, is cut by almost $190 million, or 26%. This is the time to be securing additional funds for the growing senior population, which is estimated to double by 2030, from 36 million to 70 million, one-fifth of the Nation's population. We must begin to prepare to meet the needs of our senior population, including increasing our investment of service-enriched housing opportunities so that seniors can age in non-institutional settings.

The budget also proposes cutting the disabled housing program (Section 811 program) by almost $118 million, or 50%. A disabled person receiving Supplemental Security Income (SSI), on average, must pay more then their monthly SSI benefits for a one bedroom apartment. Clearly, affordable, supportive housing opportunities are needed to ensure that disabled people can live independently. We urge the Committee to restore funding for these critical programs.

Community Development Block Grant (CDBG)

The Community Development Block Grant Program (CDBG) is an effective program which provides flexible funds to states and localities to meet local needs. CDBG funds are used to provide housing, community centers, homeless facilities, commercial revitalization grants, and many other benefits that are identified at the local level through a comprehensive planning process. The FY2007 budget cuts CDBG by $736 million (20 percent). In the past 2 years, CDBG has been cut over $600 million, forcing states and localities to cancel plans to meet local housing and community development needs. We urge the Budget Committee to restore funding to this important program.

The Multifamily Housing Insurance Programs of the Federal Housing Administration (FHA)

The President's FY2007 budget proposes to increase premiums for a range of multifamily housing insurance programs offered by FHA. However, most of the programs for which the premium increase is proposed already collect more in premiums than they pay in claims. In other words, the programs earn money for the federal government. The proposed premium increase would apply to some of the most useful, effective, and needed programs, including the New Construction/Substantial Rehabilitation program, and the Health Care and Hospitals programs. This premium increase would lead to higher costs for developers and higher rents for residents. We do not believe that these premium increases are justified.

The Government National Mortgage Association (GNMA)

GNMA currently pays for all of its administrative expenses through the guarantee fees it currently collects. The President's proposed budget would shift these expenses to the discretionary budget, and require GNMA to charge an additional upfront fee to pay for the appropriation.

The Committee should not adopt this proposal. The fees GNMA currently charges already pay for all the administrative expenses of the program and the losses that GNMA incurs, and provide in excess of $700 million to the federal treasury.

Office of Federal Housing Enterprise Oversight (OFHEO)

We strongly support the Administration's request for funding for OFHEO, or its successor entity, which is responsible for the safety and soundness regulation of Fannie Mae and Freddie Mac. Currently, OFHEO is funded through the appropriations process. We also support the Administration's proposal to fund OFHEO directly through mandatory assessments on Fannie Mae and Freddie Mac.

Department of the Treasury

Community Development Institutions Fund (CDFI Fund)

For the second consecutive year, the President has proposed to eliminate funding for the Community Development Financial Institutions Fund's (CDFIs) competitive grant programs (Technical and Financial Assistance, Bank Enterprise Award program and Native American Initiatives) and recommended that these grant programs be consolidated under the "Strengthening America's Communities Initiative" to be administered at the Department of Housing and Urban Development (HUD) and the Department of Commerce. We strongly oppose this proposal .

The CDFI Fund was created in 1994 to foster a nationwide network of community development financial institutions and has been incredibly successful in encouraging the revitalization of distressed communities with very limited federal resources. Since its inception, the Fund has made over $771 million in capital grants, equity investment, loans and awards to fund technical assistance and organizational capacity building awards to CDFIs and other financial institutions to support activities in underserved communities. According to Treasury officials, for every federal dollar the CDFI Fund invests in a local CDFI through its grant program, the CDFI leverages $21 in private sector investment. We understand that the Administration is seeking to eliminate duplicate programs. However, there is very little, if any, overlap between the CDFI Fund grant programs and other community development programs. Moreover, moving the Fund's grant programs to the Commerce Department will likely result in a dramatic decline in funding for CDFIs because these will be forced to compete against other programs and there is no guarantee that the new grant making entity at the Commerce Department will appreciate the unique role played by CDFIs in leveraging private sector investments. We hope that you will maintain the CDFI Fund's grant program funding level and location at the Department of the Treasury.

Federal Transit Administration

Through the transit program, the federal government supports states and localities in their efforts to develop multimodal transportation systems that meet the mobility needs of their citizens. Last year, the Congress passed, and the President signed, the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) to reauthorize the federal surface transportation programs, including the transit program. We strongly support the investment level provided by SAFETEA-LU, which provided for growth in the transit program while maintaining the historical balance between highways and transit. Unfortunately, the President's FY2007 Budget does not fully fund the transit program in accordance with SAFETEA-LU.

Robust investment in our nation's transit systems is critical to our ability to sustain America's economic growth, and is especially indispensable to our efforts to maintain and revitalize our metropolitan areas. Safe and efficient transit systems provide significant benefits both to transit riders and to others in the community, including employers, property owners, and automobile drivers. According to the Texas Transportation Institute, in 2003 Americans in 85 urban areas spent 3.7 billion hours stuck in traffic, with an estimated cost to the nation of $63.1 billion in lost time and wasted fuel. TTI has estimated that without transit, the 85 urban areas they studied would have suffered an additional 1.1 billion hours of delay, which would have added more than $18 billion to the national cost of congestion.

Transit ridership is at the highest level in 40 years, as more and more people use transit to get to work, school, medical facilities, and retail and recreational areas. Robust support for transit is essential in light of this increasing demand. The U.S. Department of Transportation estimates that an annual investment of $15.6 billion to $24 billion (in 2002 dollars) is needed to maintain and improve transit systems' condition and performance. We hope that you will help to meet these needs by including in the Budget Resolution transit funding consistent with SAFETEA-LU, which passed the Congress last year with overwhelming support.

Again, thank you very much for your consideration of our views.

Sincerely,

Paul Sarbanes

Paul S. Sarbanes

United States Senate

COMMITTEE ON COMMERCE, SCIENCE,
AND TRANSPORTATION

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March 3, 2006

The Honorable Judd Gregg
The Honorable Kent Conrad
Committee on the Budget
United States Senate
Washington, D.C. 20515

Dear Senators Gregg and Conrad:

As required by the Congressional Budget Act, this letter reflects the Commerce, Science, and Transportation Committee's Views and Estimates for the FY 2007 Budget Resolution. Our recommendations for programs with direct spending that are within our jurisdiction, and for which we may consider legislative changes are as follows:

Aviation

The President's FY 2007 budget request includes a provision that would restructure the commercial aviation passenger security fee authorized subsequent to September 11, 2001, in the Aviation and Transportation Security Act (ATSA) (P.L. 107-71). Under the current structure, commercial airline passengers pay $2.50 per enplanement for a maximum of $5.00 per one-way trip. The new proposed fee structure would impose a flat fee of $5.00 for all air travelers for one-way travel from U.S. based airports. The flat fee of $5.00 matches the fee paid by most rural air passengers or those with connecting flights, and it would increase by $2.50 the fee paid by air travelers flying on direct flights or only one enplanement. This proposed change to the passenger fee likely would not only adversely affect citizens in rural areas who rely on air travel for their daily activities, but it may also serve to jeopardize the availability of such air travel in rural areas of the United States as air carriers look to reduce costs associated with the increased fee. Last year, the vast majority of the Committee opposed a similar proposal, and the Committee recommends again that no change be made to the existing commercial aviation passenger fee.

The proposed budget level for FY 2007 for the Essential Air Service (EAS) program is $50 million, which is $77 million below the authorized $127 million established in the Vision-100 Century of Aviation Reauthorization Act (Vision-100) (P.L. 108-176), and $60 million below the program's FY 2006 funding level. Due to mounting financial problems, commercial air carriers continue to discontinue service to subsidy-eligible EAS communities. However, EAS program funding levels have not increased correlative to the eligibility demand, and a legislative modification to the program that would impose a local cost share requirement of between 10 and 50 percent also is being proposed in the budget. The proposed FY 2007 funding level for the EAS program, coupled with the possibility of up to a 50 percent local cost share, would result in more than one-third of the EAS communities being dropped by the program. This program is essential to ensure the mobility of individuals who reside in remote areas of our nation, and the Committee recommends that EAS be funded at $127 million as authorized in Vision-100.

The Administration's budget proposal excludes funding for the Small Community Air Service Development (SCASD) program for FY 2007 despite the program being authorized in Vision-100 at $35 million. The deregulation of the commercial airline industry resulted in inadequate service to many small communities. This program has provided development assistance to underserved small- and medium-sized communities to improve air service for those adversely affected by such deregulation. The Committee recommends that the SCASD program be restored to its authorized FY 2007 level of $35 million.

The Administration's proposed $2.75 billion for the Airport Improvement Program (AIP) is $950 million below the Vision-100 authorized $3.7 billion funding level for FY 2007. This reduction would only serve to compound the congestion and delays in our commercial aviation system by reducing primary airport entitlement funds by 50 percent, reducing minimum primary entitlement funds by 35 percent, and eliminating general aviation airport entitlement funds. The Committee recommends that the AIP program be funded at the authorized level of $3.7 billion for FY 2007 so as to ensure that advances are made in addressing airport capacity and safety needs.

In addition, the Administration's budget proposal of $2.503 billion for Facilities & Equipment (F&E) is $607 million below the $3.110 billion level authorized in Vision-100 for FY2007, and the proposed funding for Research, Engineering, and Development (R,E,&D) is $226 million below the Vision-100 authorized level of $356 million. The Committee recommends that both F&E and R,E,&D at levels authorized in Vision-100.

National Oceanic and Atmospheric Administration

The President's FY 2007 budget proposal of $3.68 billion for the National Oceanic and Atmospheric Administration (NOAA) would reduce NOAA funding by 5.8 percent from the FY 2006 enacted level of $3.91 billion, and 6.7 percent from the FY 2005 enacted level of $3.95 billion. While it includes funding for some of the Committee's priorities for better weather modeling and forecasting, including increased funding to the National Weather Service and the National Environmental Satellite, Data, and Information Service, there are a large number of Committee priorities, including those set by the Presidentially-appointed Oceans Commission, and endorsed in the Administration's Ocean Action Plan, both of which have been eliminated, reduced, or simply not addressed in the budget proposal.

Many of the proposed reduced or eliminated funds would be taken from activities funded by Congress specifically to support expert recommendations of the U.S. Commission on Ocean Policy and key Committee and Administration priorities. These include the implementation of legislation such as the Magnuson-Stevens Fishery Conservation and Management Act, the Oceans and Human Health Act, and the Marine Mammal Protection Act. Such reductions or elimination of funds would adversely affect priority activities such as marine debris removal, coastal land protection, ballast water invasive species control, marine aquaculture, ocean exploration and mapping, education and outreach on earth sciences, as well as the ability of NOAA to better provide services and integration of its activities in each region of the country. The budget proposal completely fails to address various program and research project terminations. Specifically, there is no justification for the reduction of $18,969,000 in the FY 2007 budget request for the Alaska Composite Research and Development Program, or termination of over $30 million in funding for core NOAA facilities and programs in Hawaii.

Finally, while the FY 2007 budget request shows increases in various weather and atmospheric programs, the budget proposal continues to reduce funding for many of its core missions in many of its oceanic programs.

Therefore, the Committee believes that additional funding is necessary for NOAA to correct the current trend of shifting resources and focus away from important ocean and coastal needs, and urges that there be a dedicated level of funding for NOAA in FY 2007 that is at least equivalent to the FY 2006 enacted level, adjusted for inflation.

Maritime Security

The President's budget requests $600 million in integrated grants for the protection of transit, railroads, ports, highways, and energy facilities. The Committee opposes the consolidation of the port security grant program into the creation of the proposed Targeted Infrastructure Protection Program (TIPP) within the Office of State and Local Government Coordination and Preparedness, as part of the DHS Office of Domestic Preparedness's (ODP). This action is inconsistent with existing law (46 U.S.C. 70107) and the FY 2006 Department of Homeland Security Appropriations bill (P.L. 109-90). According to a Maritime Security Notice in the Federal Register of December 30, 2002, the total costs of implementing security in our seaports will reach $7.2 billion over the next ten years. Despite the fact that limited funds have been requested by the Administration for port security grants, Congress has widely recognized the importance of seaport security appropriating a total of $818 million in port security grants to date. We urge the Committee to allocate $400 million for the port security grant program.

Competitiveness

The President's budget includes funding for the American Competitiveness Initiative, which would place a much-needed emphasis on new investments in basic science and technology research at two agencies within the Commerce Committee's jurisdiction, the National Science Foundation (NSF) and the National Institute of Standards and Technology (NIST). This new funding would allow these important agencies to expand the research base that has funded Nobel Prize-winning discoveries and transformative new technologies.

Support for basic research will need to be paired with effective programs to ensure that results can be translated out of the lab and into U.S. commercial products. Unfortunately, the request excludes one such program with broad Congressional support, the Hollings Manufacturing Extension Partnership (MEP) program implemented by NIST. MEP is a nationwide network of local centers offering technical and business assistance to smaller manufacturers through local centers in all 50 states. In FY 2004, MEP helped small manufacturers save $721 million in costs and create or retain 43,624 jobs that they directly attribute to the program's assistance. We recommend restoring funding for MEP to the FY 2006 level of $104.6 million, which is $58.3 million higher than the FY 2007 request of $46.3 million.

In addition, the National Academy of Science (NAS) report entitled, "Rising Above the Gathering Storm," recommends several actions to ensure U.S. competitiveness in the coming century. Many of these recommendations will have a budgetary impact, but in particular, we would like to draw your attention to the need to dedicate increased funding to Federal research agencies' budgets to catalyze high-risk, high-reward basic research. We endorse this approach. Nonetheless, the budgets of science research agencies within the Commerce Committee's jurisdiction, particularly NIST, are quite lean. Without a higher overall allocation for science research, agencies may not be able to effectively implement this recommendation without cutting important core programs.

National Aeronautics and Space Administration

In December, the National Aeronautics and Space Administration (NASA) Authorization Act (P.L. 109-155) was signed into law. That bill authorized appropriations of $17.9 billion for NASA, $1.1 billion more than the President's FY 2007 budget request. In particular, the law authorizes more robust funding for aeronautics research, scientific research on the space station, and unmanned space and Earth science research. The budget proposes an 18 percent decrease in aeronautics research to $724.4 million, down from $884.1 million in FY 2006, and down from the $962 million authorized. NASA aeronautics research helps ensure that the United States remains the world leader in aviation and aerospace technologies.

The Committee recommends that the budget for NASA conforms to the higher levels authorized in the NASA Authorization Act. Without higher overall funding, NASA risks squeezing every program, including the Space Shuttle, Space Station, and exploration programs, with the inevitable result that no program can be successful. A higher overall funding level would allow NASA to maintain its important science programs, safely operate the shuttle and space station, meet US international commitments for space station and other important joint research, and expeditiously build the crew exploration vehicle to maintain U.S. human space flight capability.

U.S. Coast Guard

The President is requesting a budget of $8.4 billion for the U.S. Coast Guard. While this is a four percent increase over the FY 2006 enacted level of $8.1 billion, the request would decrease the total discretionary funding available by $80 million – from $7,116,852 in FY 2006 to $7,116,772 in FY 2007. Moreover, $105 million in the request is for items that are not part of the Coast Guard's core, coastal operations: $50 million devoted toward relocating Coast Guard headquarters and $55 million for the new mission of enforcing the National Capital Region no-fly zone. Without these two items, the total budget would result in an increase above FY 2006 levels of only 2.7 percent, and discretionary funding would decrease by 1 percent. Therefore, the Committee believes that additional funding is needed in FY 2006 to cover these areas and to ensure that the Coast Guard is fully capable of implementing its many security and non-security missions. The Committee recommends funding of $9.5 billion for the Coast Guard for FY 2007.

With best wishes,

Cordially,

TED STEVENS
Committee Chairman

DANIEL INOUYE
Committee Co-Chairman

P.S. We assure you that we are seriously examining where fees could be assessed for security-related and other programs under the Commerce Committee's jurisdiction.

United States Senate

COMMITTEE ON
ENERGY AND NATURAL RESOURCES
WASHINGTON, DC 20510–6150

ENERGY.SENATE.GOV

March 2, 2006

The Honorable Judd Gregg, Chairman
The Honorable Kent Conrad, Ranking Member
Committee on the Budget
United States Senate
Washington, D.C. 20510

Dear Chairman Gregg and Senator Conrad:

This letter is in response to your request of February 13, that the Senate Committee on Energy and Natural Resources provide to you by March 2 its views and estimates on the federal budget for fiscal year 2007. After consultation with my Ranking Member, Senator Bingaman, we have determined that we will submit separate views to the Budget Committee. This letter sets forth the views of the Republican Members of the Committee as to proposals in the Administration's FY2007 budget submission for programs within this Committee's jurisdiction.

MANDATORY PROGRAMS

Savings

We do not expect a majority of the Committee to support Administration proposals to achieve the following mandatory savings, and therefore recommend that savings attributable to these proposals be excluded from budget resolution assumptions.

- Elimination of Bureau of Land Management Range Improvements Fund (-$47 million over five years and -$97 million over ten years.)
- Elimination of Geothermal Implementation Fund to be replaced with increased user fees (-$13.5 million over five years and -$27 million over 10 years)
- Pick-Sloan Project Cost Repayment (-$100 million over five years and -$300 million over ten years)

- Repeal of Section 365 of the Energy Policy Act of 2005 and imposition of new oil and gas processing fees in its place (-$82.8 million over five years and -$186.3 million over 10 years)

- *Power Marketing Administrations*

1. The Administration proposes that the Bonneville Power Authority (BPA) use secondary market revenues in excess of $500 million per year to make advance amortization payments to the Treasury on BPA's bond obligations (-$574 million over five years; -$924 million over ten years). The Administration has construed existing enabling statutes to include authority for this proposal. Such an interpretation is inconsistent with the manner in which BPA has interpreted those laws for over thirty years and is also contrary to legal opinions on this subject rendered by previous administrations. A majority of the Committee neither agrees with the Administration's interpretation of existing law nor would support legislation to authorize the Administration's proposal.

The Committee also notes that the budget documents reference legislation requested by the Administration in 2005 that would count third-party financing of transmission facilities against BPA's borrowing authority. A majority of the Committee remains opposed to that legislation.

2. The Administration proposes assigning agency borrowing rates to new debt incurred by SEPA, SWPA, or WAPA. While the Administration estimates that this borrowing rate increase would have minimal impacts on customers, the Committee is concerned with the precedent of this proposal.

Receipts

ANWR -- The Energy and Natural Resources Committee is likely to have a majority of Members in support of legislation to authorize the Administration's proposal to open a portion of the Arctic National Wildlife Refuge (ANWR) to oil and gas exploration. The Administration estimates $3.5 billion in Federal receipts over five years, and $4.0 billion in receipts over ten years.

The Committee notes that there can be significant differences in the scoring of budget proposals between the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO). It is critical that the Budget Committee use congressional scoring for the budget resolution so that the President's policy proposals can be appropriately considered by the Senate.

Sales of BLM Land – The Administration proposes enactment of legislation to amend the Federal Land Transaction Facilitation Act to permit the Bureau of Land Management to sell additional lands and to expand how those receipts could be used. A majority of the Committee Members would not support such legislation. No assumptions related to this proposal should be included in the budget resolution.

Spending

County Payments -- Senators Craig, Wyden, and others have introduced legislation (S. 267) to extend the authorization of the Secure Rural Schools and Community Self-Determination Act of 2000 (P.L. 106-393). This program is designed to provide a stable source of revenue to states and counties that lose revenue-sharing payments from National Forest and some Bureau of Land Management lands. These funds are used by localities to benefit public education and public roads, and for joint projects to improve natural resource conditions on federal lands. The program expires at the end of FY2006 with the final payments being provided in FY2007. The estimated cost of extending this program is approximately $500 million per year. The Committee will support legislation to extend this program and recommends that these funds be included for the five-year window in the budget resolution.

Abandoned Mine Land Program. The Abandoned Mine Land (AML) program was established in 1977 as a 15-year program to complete the backlog of abandoned coal mine reclamation by 1992. The program has been extended through June 30, 2006. Although the Administration has not renewed its specific legislative proposal to extend the coal fee and to modify the Surface Mining Control and Reclamation Act (SMCRA) formula, the Administration continues to support comprehensive reform of the AML program.

The Committee held a hearing on AML legislation in the last Session, and there is interest in considering the legislation in the 109th Congress. The estimated cost of this legislation is likely to be in the range of $2.5 billion to $3.0 billion over ten years, and should be considered in the FY 2007 budget resolution.

DISCRETIONARY PROGRAMS

Similar to FY2006, the President's constrained budget request for non-defense, non-homeland security programs funded in annual spending bills presents a significant challenge to the Appropriations Committees of the Congress. Some of these challenges for programs under the jurisdiction of this Committee are discussed below. The Committee notes with approval requested increases in areas sorely in need of additional funding, new initiatives to address the nation's long-term energy policy, as well as funding to implement much of the Energy Policy Act of 2005. Areas of particular interest or concern are:

Advanced Energy Initiative -- To achieve his goal announced in the State of the Union address of replacing more than 75% of our oil imports by 2025, the Advanced Energy Initiative provides for a 22% increase in clean-energy research at the Department of Energy. The Committee is generally supportive of requested increases for further development of clean energy sources that could displace the nation's reliance on foreign sources of fuel. Many of these proposals were included in the Energy Policy Act of 2005 [EPACT]. However, the Committee is concerned that some important programs authorized in EPACT, such as the Clean Coal Power Initiative and gas hydrates research, have been zeroed out or significantly reduced. Similarly, while overall Nuclear Energy, Science and Technology is increased 18% from FY2006 levels, there are recommendations for large decreases in important programs such as Nuclear Power 2010 (17% decrease) and Generation IV Nuclear Energy Systems Initiative (42% decrease). The Committee is especially concerned about the need to restore $27 million to support nuclear energy research and education programs at universities that produce the nuclear engineers so vital to efficient, safe operation of nuclear power plants.

American Competitiveness Initiative(ACI) – The Committee Members strongly support the proposal to double funding over ten years for basic research in the physical sciences at the Department of Energy Office of Science and to promote career development in math and science. The Administration's request for the DOE Office of Science of a 14.1% increase will put the Office of Science on track to reach the ten-year goal. The Committee strongly supports ACI but also notes that funding for *all* of the initiatives in the PACE-Energy Act [S. 2197] should be assumed in non-defense discretionary funding totals.

Healthy Forests Issues – The Committee urges that the President's full request for fire suppression, hazardous fuels reduction, and other components of the National Fire Plan be assumed in the FY2007 budget resolution. The request represents the ten-year historical average for firefighting expenses which has been the traditional approach to funding these costs. We also urge the Budget Committee to include language in the budget resolution, as it has done in the past, providing for an adjustment for wildland fire suppression funding. Some areas in the West are still experiencing persistent drought which increases the risk of fires and thus the likelihood that additional funding may be needed to fight these fires.

Water Resources – Another priority issue for the Committee related to the persistent drought in the West is water availability. The Committee anticipates working to authorize the Bureau of Reclamation's Water 2025 program in support of the Administration's $14.5 million request and recommends that the budget resolution include this assumption. The Committee will continue to focus on water issues this session and notes that the budgetary impact of potential water-related legislation, particularly settlement of disputes involving the federal government, could be hundreds of millions of dollars over the next ten years.

Payment in Lieu of Taxes (PILT) – The Committee continues to support full funding of the PILT program which provides payments to county governments that have lost land from the tax rolls due to federal ownership. These counties are increasingly called upon to provide services, such as search and rescue, fire, law enforcement, and other health and safety services to visitors to our federal public lands. These counties also must maintain local roads used by visitors to federal parks, wilderness and recreation areas, and wildlife refuges. The

Administration budget reduces funding for PILT by $34.5 million to $198 million for FY2007. The Committee strongly supports the PILT program and urges the Budget Committee to sustain at least the current FY2006 level of funding in the FY2007 budget resolution as well as assume increases necessary to reach full funding of the PILT program within four years.

We appreciate the opportunity for Republican Members of the Senate Energy and Natural Resources Committee to provide their views and estimates to your Committee as you begin work on the FY 2007 budget resolution. We look forward to working with you.

Sincerely,

Pete V. Domenici
Chairman

Cc: Senator Jeff Bingaman
Ranking Minority Member

United States Senate

COMMITTEE ON
ENERGY AND NATURAL RESOURCES

WASHINGTON, DC 20510–6150

ENERGY.SENATE.GOV

March 2, 2006

The Honorable Judd Gregg, Chairman
The Honorable Kent Conrad, Ranking Member
Committee on the Budget
United States Senate
Washington, D.C. 20510-6100

Dear Chairman Gregg and Senator Conrad:

I generally concur with Senator Domenici's statement of the views and estimates of the Committee on Energy and Natural Resources on the fiscal year 2007 budget. I believe they fairly reflect the views of a majority of the Committee. I write separately, however, to offer a few additional views on the President's budget proposal as it relates to the management of the public lands. While I and other Democrats on the Committee oppose other proposals in the President's budget request, including the inadequate funding for implementation of the Energy Policy Act of 2005 (including the Department of Energy's weatherization program), the excessive request for the poorly defined Global Nuclear Energy Partnership, and proposals to raise money by increasing federal power rates and accelerating repayment of Bonneville Power Administration's debt, this letter will focus on our public land concerns.

Our public lands are a unique and valuable national resource. They provide the nation with timber, mineral, energy, and recreational resources. They are a priceless capital asset. Reflecting that fact, our public land laws require that they be managed for the lasting benefit of this and future generations.

In several instances, the President's budget loses sight of this important principle. In at least four significant areas, the President's budget proposes policies that reap short-term financial gains or savings at the expense of the long-term maintenance of the public domain.

Sale of public lands to raise revenue

Under current law, public lands are to be retained in federal ownership, unless disposal of a particular parcel will serve the national interest. 43 U.S.C. 1701(a)(1). The Bureau of Land Management is authorized to sell certain lands identified for disposal, and to retain and use the proceeds from these sales to purchase other lands and pay certain administrative expenses. 43 U.S.C. 2304 and 2305.

The Administration is proposing to amend the law to eliminate the limitation on which lands can be sold, and requiring the Bureau to return 70 percent of the proceeds to the Treasury. In short, the Administration is proposing to sell off the public lands to help pay the Government's annual operating costs. As Senator Domenici has said, a majority of the members of the Committee on Energy and Natural Resources is unlikely to support such a scheme and it should not be included in the budget resolution.

Sale of public lands to fund county school payments

Six years ago, Congress authorized the Secretary of the Treasury to make payments to certain rural counties in the Pacific Northwest to make up for revenue losses resulting from diminishing timber harvests on public land forests in the affected counties. Those payments are currently scheduled to end this year. As Senator Domenici indicated, legislation to extend these payments is now pending before the Committee on Energy and Natural Resources, and a majority of our members is likely to support it. The Administration, however, has proposed to fund this program by selling off National Forests lands. Once again, the Administration's proposal would sell off a valuable capital asset to pay annual operating costs. All Democrats on the Committee would oppose this proposal.

Use of the budget process to circumvent environmental protections—ANWR

The Administration has once again assumed enactment of legislation to open the Arctic National Wildlife Refuge to oil and gas development. While Senator Domenici is correct that a majority of the Committee probably supports such legislation, the Senate has repeatedly considered similar legislation and failed to enact it in the past. The Senate remains deeply divided over this issue, and the Budget Committee should not assume its enactment this year.

Democrats on the Committee on Energy and Natural Resources are acutely aware of the nation's energy needs. We support energy production where it can be done in an environmentally responsible manner. But most of us do not believe it can be done in an environmentally responsible manner in the Arctic National Wildlife Refuge.

By assuming enactment of legislation to open the Arctic National Wildlife Refuge to oil and gas development in its budget reconciliation instruction to the Energy Committee last year, the Budget Committee created a situation in which the legislation considered by the Senate exempted oil and gas development in the Refuge from the normal mineral leasing and environmental laws that govern oil and gas development on all other public lands. The expedited procedures governing consideration of reconciliation bills, coupled with the arbitrary scoring decisions of the Congressional Budget Office, frustrated attempts to consider thoughtful, relevant amendments to the ANWR provision. Use of the budget reconciliation process to open the Refuge to energy production effectively, if unintentionally, precluded consideration of constructive amendments or the application of even minimal environmental protections.

The Budget Committee should not include ANWR in its budget assumptions this year. If the Senate ultimately decides to permit oil and gas production in the Refuge, it should do so under regular order, so that it may give appropriate consideration to amendments and provide for necessary environmental protections.

Failure to provide for the future—the Land and Water Conservation Fund

Congress set up the Land and Water Conservation Fund over forty years ago to ensure that present and future generations of Americans would have access to adequate outdoor recreation opportunities. We were a nation of fewer than 200 million people when the Fund was established, but our farsighted predecessors recognized that additional parks and open spaces needed to be set aside for our growing population. To meet that need, they set aside the proceeds from the sale of surplus federal land and part of the receipts from oil and gas development on the Outer Continental Shelf into the Fund for the purchase of both federal and state parks and recreation areas. The idea was "that the revenues from one natural resource which belongs to all the people of the United States ... should be reinvested in outdoor recreation areas and developments which become a part of the permanent estate of the Nation for the use, benefit, and enjoyment of all its citizens of this and future generations."

Under current law, Congress may appropriate up to $900 million from the Land and Water Conservation Fund each year. 16 U.S.C. 460 *l*-5. Of that amount, at least 40 percent is to be available for federal land purchases and up to 60 percent is to be made available to the States. 16 U.S.C. 460 *l*-7.

The Administration is proposing to spend only $91 million–17 percent of the authorized amount–on federal land acquisitions. This is one of the smallest requests for authorized funding in the history of program. In addition, the Administration is proposing to eliminate funding for the State grant program entirely.

The continued growth of our population, the relentless expansion of our cities and suburbs, and the ever-increasing demand for land, energy, and natural resources in the years ahead require us to act today to set aside parks and open space for health and enjoyment of future generations. As our predecessors understood when the set up the Land and Water Conservation Fund, land for outdoor recreation is rapidly depleting, for all time, and once it is lost, it is lost forever.

Sincerely,

Jeff Bingaman
Ranking Democratic Member

United States Senate

COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS

WASHINGTON, DC 20510-6175

March 2, 2006

The Honorable Judd Gregg, Chairman
The Honorable Kent Conrad, Ranking Member
Committee on the Budget
United States Senate
Washington, DC 20510

Dear Chairman Gregg and Ranking Member Conrad:

The Environment and Public Works Committee minority concurs with the views expressed by the majority with the exception of the section on the budget of the Environmental Protection Agency.

The minority believes that the EPA's budget, which has been cut by 13% from FY 2004 and 4% from FY 2006, should not be further reduced. The minority agrees with the majority's sentiments on the funding of the State Revolving Funds, however, we would not favor making cuts in other areas of EPA's budget such as discretionary grants.

Further the minority agrees with the budget language that supports restoring $17 million for the PM monitoring network--returning to full FY 2006 funding for that network. However, that should take place under section 103, not section 105, since section 105 will require a 40% match from states with already limited resources. In addition, the President's FY 2007 Budget cuts $15.6 million from the section 105 air grants program and $2.5 million for regional planning organizations. In a time of increasing Clean Air Act responsibilities, we would also support restoring the funding for these programs to their FY 2006 enacted levels.

EPA's documents estimate a shortfall of up to $1 billion for needed Superfund cleanups. Yet the President's Budget request includes a $7.3 million cut for the Superfund Remedial Program and a $2.9 million cut for the Emergency Response and Emergency Preparedness programs. Rather than further slow down the cleanup of the nation's most toxic sites, Congress should significantly increase EPA's funding to accelerate the clean up abandoned hazardous waste sites across the nation.

In addition, we continue to support full funding of the Brownfields program. EPA reports that it was able to provide grants to only 200 of the nearly 700 communities that applied for funds last year. We urge the Committee to fully fund the Brownfield's program at $250 million, as authorized under the Brownfields Revitalization Act of 2002.

Sincerely,

Jim Jeffords

James M. Jeffords
Ranking Member
Environment and Public Works Committee

JMJ:ghb

United States Senate
COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS
WASHINGTON, DC 20510-6175

March 2, 2006

The Honorable Judd Gregg
Chairman
The Honorable Kent Conrad
Ranking Member
Committee on the Budget
United States Senate
Washington, DC 20510

Dear Chairman Gregg and Ranking Member Conrad:

In response to your letter of February 8, 2006, we have prepared the following views and estimates for programs under the jurisdiction of the Committee on Environment and Public Works. As in previous years, a brief summary of the Committee's legislative initiatives also is included.

Legislative Initiatives:

The Committee on Environment and Public Works will work on a number of legislative initiatives this year. The Committee does not expect to report any bills that include mandatory spending. The Water Resource Development Act (WRDA), approved by the Committee on April 13, 2005, is awaiting floor consideration. This bill contains $1.1 billion in direct spending, for which the Committee requests an allocation in the budget resolution.

Specific Discretionary Programs:

1. Federal Highways

The President's fiscal year (FY) 2007 budget request includes a $39.1 billion obligation limitation for the Federal-aid Highways program. The Committee is very pleased that the Administration followed the "guaranteed spending" levels included in the Safe, Accountable, Flexible, Efficient Transportation Equity Act: a Legacy for Users (SAFETEA-LU). The Committee urges that the budget resolution follow the funding levels in the President's budget for the Federal-Aid Highway program.

2. Environmental Protection Agency

President Bush has requested $7.32 billion in discretionary spending for the EPA's FY 2007 budget. The President's request is a $310 million decrease from the FY 2006 EPA enacted budget. While the Committee disagrees with many proposed cuts in the President's budget proposal for EPA, such as the grants to States, it does agree with the necessity of cutting EPA's total appropriation by making cuts to other areas of the budget, like certain EPA discretionary grants.

Clean Air

The budget proposes $49.5 million for the Diesel Emission Reduction program, an increase from 2006 enacted level of $0. While this increase is substantial, the $49.5 million represents a consolidation of a number of clean diesel programs, including the Clean School Bus and Clean Diesel Initiative programs, which were funded at a $6.9 and $4.7 million level, respectively. Thus, the net programmatic requested increase from the three programs is $37.9 million above 2006 enacted levels. The Diesel Emissions Reduction program represents a cost-effective way to address the emissions from the estimated 11 million older diesel engines. This program is a complement to the Administrations on- and non-road diesel rules, which will result in near zero emissions from diesel engines, going forward.

The budget proposes a categorical grant for State and Local Air Quality Management of $185 million, a decrease of $35 million below 2006 enacted levels. Of this amount, a $17 million reduction is requested related to the PM monitoring network. The rationale is that the Agency will use CAA section 105 authority instead of section 103 authority to fund the network. The Committee believes this will discourage additional deployment and reduce operational support for the PM network, and thus supports funding this portion of the STAG grants at 2006 levels.

Superfund and Brownfields

The President's Budget proposes $1.259 billion for Superfund, an increase of $17 million above the 2006 enacted level. EPA anticipates completing remediation at 40 sites. The budget increases funding for Superfund related homeland security activities by over $12 million. The Committee supports the President's request and applauds the continuing cleanup of sites and focus on homeland security response. In FY 2005, EPA completed work at 40 sites, for a cumulative total of 966 sites with work completed – 62 percent of the top priority sites ranked on the National Priorities List. EPA conducted 665 ongoing cleanup projects at 422 sites.

The Committee applauds the President's continued focus on restoring contaminated sites to productive use through the Brownfields program and supports the request.

The budget request would increase funding for Brownfields by nearly $1 million from the FY 2006 enacted levels. The Brownfields Program funds pilot programs, research efforts, clarifies legal issues, conducts research and creates job training and workforce development programs. In FY 2007, Brownfield grantees will assess 1,000 Brownfield properties and cleanup 60 Brownfield properties, leveraging 5,000 cleanup and redevelopment jobs as well as $900 million in cleanup and redevelopment funding.

State Revolving Loan Funds

The President's budget request includes $688 million for states and Indian tribes for the Clean Water State Revolving Fund (CWSRF), a reduction of $199 million from the FY 2006 enacted level. The Drinking Water State Revolving Fund (DWSRF) is requested at $842 million, an increase of $4 million over the FY 2006 enacted level. The nationwide need for funding water and wastewater infrastructure projects continues to far outpace the amount of funding that is available from all levels of government. The EPA has determined the gap for clean water ranged from $21 billion to $122 billion over 20 years and the gap for drinking water ranged from $45 billion to $102 billion over 20 years. In order to meet the backlog in local clean water and drinking water projects, the Committee has passed legislation to provide additional resources to the SRFs in order to meet the growing demand. The Committee supports spending levels for both SRFs at levels not less than those enacted in FY 2006 and would urge the Budget Committee to support increased funding for these important loan funds.

3. Department of Interior

The President's FY 2007 budget request for the Fish and Wildlife Service is nearly $1.3 billion in discretionary funding, a decrease of $23.5 million from the FY 2006 enacted level. With the inclusion of $808.1 million in mandatory funding, the budget request totals $2.1 billion. The Committee also supports the $11.2 million increase over FY 2006 for the programs in the Land and Water Conservation Fund, which includes funding for the successful State and Tribal Wildlife Grants program. However, the Committee is concerned to see a $7.5 million decrease for the highly effective Partners for Fish and Wildlife Program, which we believe should be funded at least at FY 2006 levels.

The Committee is opposed to shifting funding for Neotropical Migratory Bird Conservation to the Multinational Species Conservation Fund. These programs are, and should continue to be, run by separate offices within the U.S. Fish and Wildlife Service due to their distinct program characteristics and goals. The Committee is also concerned that the budget request proposes reducing all of the funding accounts currently within the Multinational Species Conservation Fund. The Committee supports funding parity for these accounts at levels at least equal to past appropriations.

The Committee has been briefed on the impact uncontrollable and fixed costs have had on the Service's budget and is concerned that, based on the current budget proposal, approximately $5.5 million in such costs would have to be absorbed by the Service in FY 2007. In that vein, the Committee is concerned that the maintenance budget for the National Wildlife Refuges is projected to decline by $1.734 million in FY 2007.

The committee plans to report legislation to amend the Endangered Species Act that will better address the biological needs of species, increase transactional efficiency, and reduce the concerns of regulated parties. The ESA program has been underfunded and the Committee is concerned that the FY 2007 request is $5 million less than the 2006 enacted level.

4. U.S. Army Corps of Engineers (Civil Works)

The President's request for the civil works program of the Army Corps of Engineers is $4.733 billion for FY 2007, a $596 million decrease from the FY 2006 enacted level of $5.329 billion. Even though funds have been requested to complete fourteen construction projects and to begin two new projects, the Committee is concerned about the continued backlog in Corps projects. The Committee believes construction funding should be at a level that ensures continued progress at reducing the backlog of projects. Similarly, operations and maintenance funding should be at a level to maintain current benefits of existing Corps projects and to make progress at reducing the serious backlog of operations and maintenance requirements.

The President's budget proposes to shift funding for four types of activities from the Construction account to the Operations and Maintenance account. While the Committee does not object to these changes in accounting, it should be noted that even after controlling for these changes both accounts suffer decreases from FY 2006 enacted levels ($451 million decrease in the Construction account and $50 million decrease in the Operations and Maintenance account).

The Committee recognizes the need for fiscal discipline, but the Inland Waterways Trust Fund and the Harbor Maintenance Trust Fund together contain substantial unused balances. In fact, the budget estimates that the combined balance will increase by more than $500 million in FY 2007. Money from these funds could be appropriated to do the project work that Congress already has authorized as necessary to be performed.

One of the new starts included in the Investigations account of the President's request is a National Flood Inventory funded at $20 million. Similar proposals are currently under consideration by the Committee and if the Committee determines that these proposals are advisable, authorizing language would be attached to the WRDA bill.

The 2007 budget re-proposes a Corps recreation facility modernization initiative to enable the Corps to finance a portion of the cost of maintaining and upgrading recreation facilities through fees collected at such facilities. The WRDA bill reported by the Committee last year included language to accomplish this policy goal.

6. Economic Development Administration (EDA)

The Administration's FY 2007 budget request includes $327.167 million for the Economic Development Administration. Of that amount, $297.467 million is for the Economic Development Assistance Programs, including $257 million for a new Regional Development Account that encompasses activities from the public works, economic adjustment and technical assistance accounts of previous years; $27 million for the Partnership Planning Program; and $13 million for the Trade Adjustment Assistance Program. The Committee supports this increase in EDA's funding, and intends to take a detailed look at what salaries and expenses funding level is needed to ensure efficient regional staffing.

7. General Services Administration (Public Buildings Service)

The Administration's FY 2007 budget proposal for the Public Building Service is $8.047 billion in new obligational authority. Of the new authority requested, $4.323 billion is allocated for rental of space; $2.004 billion is allocated for building operations; $866 million is allocated for repairs and alterations; $164 million is allocated for installment acquisition payments; and $690 million is allocated for construction and acquisition of facilities. The Committee supports the President's budget, which maintains the *status quo* of the operation of the Federal Buildings Fund rather than drastically altering the rent structure of the judicial branch, a measure supported by the Judicial Conference and some members of Congress. Such a measure would be inconsistent with standard rent arrangements between GSA and other GSA tenants and would threaten the solvency of the Federal Buildings Fund.

We appreciate this opportunity to comment on the programs within the jurisdiction of the Environment and Public Works Committee. We look forward to working with you as you prepare the FY 2007 budget.

Sincerely,

James M. Inhofe
Chairman

United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510–6200

March 2, 2006

The Honorable Judd Gregg
Chairman
Senate Committee on the Budget
United States Senate
Washington, D.C. 20510

The Honorable Kent Conrad
Ranking Member
Senate Committee on the Budget
United States Senate
Washington, D.C. 20510

Dear Judd and Kent:

Pursuant to section 301(d) of the Congressional Budget Act of 1974, we are submitting our views and estimates with respect to federal spending and revenues within the jurisdiction of the Senate Committee on Finance for the Fiscal Year 2007 Senate Concurrent Resolution on the Budget.

Revenues

Tax Reform and Simplification. The Finance Committee will work on a simplification package of reforms including measures to lessen taxpayer compliance burdens.

Expiring Tax Provisions. In February, the Senate passed a package of expiring tax provisions, many of which expired in Fiscal Year 2006, in a Senate amendment to H.R. 4297. That legislation is currently in conference with the House. Depending on the outcome of that conference, a subset of those provisions may expire again on December 31, 2006, including the alternative minimum tax hold harmless provision. Those provisions will require a further extension for calendar year 2007.

Retirement Security Reforms. Last session, the Finance Committee worked with the HELP Committee to further develop and pass through the Senate a retirement security reform package that (1) provides a long-term substitute for the 30-year Treasury rate, (2) protects workers from abuses of employer stock that came to light in recent corporate scandals, and (3) strengthens retirement savings and security. These initiatives are likely to be reconciled with similar initiatives passed by the House and enacted into law in time for Fiscal Year 2007.

Maintaining Integrity in Our Tax System and Reducing the Tax Gap. In a 2005 report on "21st Century Challenges," the Government Accountability Office cited the tax system as one of its top 12 concerns about the federal government and recommended improved enforcement of the nation's tax laws. The IRS currently estimates the "tax gap" (i.e., the difference between the amount of tax owed and amount of tax collected) at $345 billion a year. The Finance Committee will continue to develop legislation to combat tax shelters, increase compliance, improve tax administration, and reduce the tax gap.

Incentives for Energy Production and Conservation. The Finance Committee approved legislation which passed into law last year as the "Energy Policy Act of 2005." The Finance Committee remains committed to the goals of decreasing our dependence on foreign energy, encouraging energy efficiency and conservation, and promoting the development of new technology. The Finance Committee will continue to pursue legislation that targets these goals.

Airport and Airway Trust Fund. The authorization for expenditures from the Airport and Airway Trust Fund is scheduled to expire on September 30, 2007. Airport and Airway programs are funded with excise taxes that are deposited in the Airport and Airway Trust Fund. When the federal program is reauthorized, the Finance Committee will need to provide appropriate funding for the Airport and Airway Trust Fund, extend the relevant excise taxes, provide necessary expenditure authority for the legislation, and amend other tax-related provisions.

Education. The Higher Education Act is up for reauthorization this year, and the Finance Committee may report a tax title for this bill. The tax title would likely include provisions to increase the affordability of post-secondary education, and promote access to such educational opportunities. It may also include provisions to simplify education incentives in the tax code.

Health Tax Initiatives including Health Savings Accounts (HSAs). The Finance Committee will examine health care tax initiatives including those offered by the Administration in its FY 2007 budget and will review the effectiveness of HSAs.

Telecommunications Act Re-Write. Discussion has recently focused on a re-write of the Telecommunications Act and the Finance Committee may report a tax title for this bill. We anticipate that members may want to raise issues related to increasing access to high speed communications services to rural areas, easing the transition from analog to digital television, and addressing the taxation of services and products purchased over the Internet.

IRS Budget

The President's request for the Internal Revenue Service (IRS) for FY 2007 is $10.7 billion (funding for FY 2006 was $10.679 billion). Although funding for enforcement shows a slight increase, cuts in taxpayer services and systems modernization offset the increase. Other cuts include a reduction in a discretionary cap adjustment for enforcement from $446 million last year to $137 million this year. The FY 2007 Budget Resolution should allow for sufficient funds to support a balance of service, enforcement and technology that will maximize compliance by helping taxpayers understand their tax responsibilities, pursuing taxpayers who choose not to comply, and using technology to work efficiently.

Medicare

The Medicare Prescription Drug, Improvement, and Modernization Act (MMA) provided for the largest package of rural Medicare payment enhancements in the history of the program. The 10-year, $25 billion commitment represented the most dramatic investment in rural health care any Congress has ever enacted. The Deficit Reduction Act (DRA) modestly continued this commitment, by enacting a number of provisions to help ensure the availability of health care services in rural areas, all while reducing the net growth in Medicare spending by $6.4 billion over the next five years. These provisions included extending 'hold-harmless' payments for rural hospital outpatient departments, restoring the five percent payment improvement for rural home health services, and re-establishing the Medicare-dependent hospital program.

Despite these payment enhancements, however, aggregate rural hospital Medicare margins remain negative. The Medicare Payment Advisory Commission (MedPAC) projects that in 2006, rural hospitals will have an average Medicare margin of negative 4.5 percent. Meanwhile, major teaching hospitals will have an average Medicare margin of positive 6.1 percent while non-teaching hospitals will have an average Medicare margin of negative 7.4 percent. These significant swings in Medicare margins require further examination, and changes may be needed to improve payment accuracy. These changes are likely to be budget neutral.

The Medicare inpatient hospital prospective payment system is now over 20 years old. CMS has indicated that it plans to take steps that would improve the accuracy of payment rates and expects to adopt significant revisions in 2007. While the Administration has the ability to take some administrative steps towards refining the payment system, Congress may need to reexamine certain mandated payment provisions to see if additional legislative changes are necessary to improve the accuracy of the system.

In Part B of Medicare, the DRA provided a 0 percent update in 2006 for the Medicare physician fee schedule, instead of the scheduled 4.4 percent reduction in payments. However, without either legislation or significant action by the Administration – such as retroactively removing Part B drugs from the Sustainable Growth Rate spending target – significant reductions in the conversion factor for the Medicare physician fee schedule will again take place in 2007 and beyond. Addressing this issue will have a substantial 5-year budget impact.

Another area of continued concern is the Part B therapy cap. Congress enacted an exceptions process for beneficiaries who require additional therapy services after they have reached the service limit under the cap. The DRA established this policy for one year, and it expires on December 31, 2006. Without congressional action, the exceptions process for the Medicare therapy cap will not continue beyond that date and beneficiaries may be denied coverage for medically necessary therapy services. Addressing this issue will also have a budgetary impact.

In order to help Congress monitor these developments and others – and to assist in devising solutions to these problems – we will be working to ensure that the Medicare Payment Advisory Commission is appropriated the funding necessary for the proper fulfillment of its critically important role in these processes. MedPAC's efforts are vital to our oversight of the program.

It is also important that adequate funding be provided to the Centers for Medicare and Medicaid Services (CMS) and the Social Security Administration in FY 2007. This funding is essential to ensure that these agencies have the resources they require for the appropriate implementation and management of the Medicare Part D drug benefit, efforts to improve health care quality – such as instituting systems to pay for performance – and other important improvements to the Medicare program that were enacted in both the MMA and DRA. Adequate funding for community-level outreach and education to providers and beneficiaries will help seniors make informed drug benefit enrollment decisions and improve drug benefit administration.

We also need to do more to fight fraud and abuse. The President's budget proposes to adjust discretionary spending caps for activities of the Health Care Fraud and Abuse Control Program (HCFAC) in the CMS. The proposed adjustment is $118 million for FY 2007 and $182 million for FY 2008. We believe these activities will help ensure proper payments from the Medicare Trust Funds and generate savings to the program. By exempting these HCFAC funds from counting against the spending caps on domestic discretionary appropriations, we can dedicate resources to these program integrity efforts. Funding for program integrity is particularly important given the extraordinary volume of new transactions accompanying the drug benefit

<u>Promoting Quality</u>. Beginning in 2005, and for the first time in the history of the program, Medicare created a link between quality of services to beneficiaries and payment for those services. Under the inpatient payment system, hospitals became eligible for higher Medicare payments if they submit data on ten measures of quality care. The DRA built upon this initiative, expanding the set of quality data that hospitals would be required to report and initiating a similar "pay-for-reporting" system for home health agencies. Also, hospitals would no longer receive a higher Medicare payment rate if a patient acquired certain preventable infections during their hospital stay. These are small but substantial steps forward in linking Medicare payment to quality care.

With the exception of these recent programs, Medicare payment systems are at best neutral and at worst negative towards quality. In the physician arena, Medicare continues to pay based on the volume and not the value of services delivered. Medicare must enhance its efforts to link payment to quality care by developing quality initiatives for other Medicare providers, in particular physicians and practitioners. And, we must move past the concept of "pay-for-reporting" to establishing "pay-for-performance," across all of Medicare. Medicare should reward those providers who are working to provide higher quality services.

Access to health information technology is a building block for improving quality. It is necessary for payment systems that hold providers accountable for the quality of health care they provide, for programs to eliminate medical errors, and for initiatives to improve the prevention and detection of fraud and abuse. Nationally-adopted health IT standards are necessary to ensure that data can be exchanged among health care providers. The true value of an interoperable system will not be evident until electronic medical records can travel with the patient to any provider across the country.

Nationally-adopted IT standards, incentives, and targeted assistance are needed to ensure that the promise of health information technology is achieved. Despite the possibility of long-term savings, many providers – such as those in rural areas – are unable to make the initial investment necessary to install a health information technology system and to train staff. The Administration's budget proposes $169 million in funding for FY 2007, including $116 million for the Office of the National Coordinator for Health Information Technology; $50 million for the Agency for Healthcare Research and Quality; and $3 million for the Office of the Assistant Secretary for Planning and Evaluation. Certain providers, especially those in rural and frontier communities, may need additional financial assistance if a truly national health information network is to be realized. If we truly want a national health information network, we must do more to ensure that rural providers are not left behind.

In addition to enabling the better use of technology, we must also develop policies that enhance transparency of the Medicare program. The reporting of quality data is the first step to that end; where feasible, Medicare beneficiaries should be given access to pricing information, so they can become more engaged in making informed health care decisions. Currently, beneficiaries have limited access to useful information on the cost and quality of health care services. Where practicable, data on provider cost and performance should be available for those who wish to use this information in the selection of health care providers. Finally, CMS should be given the authority and resources to link medical claims data from Medicare Parts A and B with pharmacy encounter data from the new prescription drug benefit. Such data will be a valuable resource for measuring the quality of care in the Medicare program, and it will enable research on drug safety and patterns of use in older adults and vulnerable populations.

Medicaid and S-CHIP

The Medicaid and State Children's Health Insurance Program (SCHIP) programs play an increasingly important role in the U.S. health care system. Together, Medicaid and SCHIP provide health insurance coverage to more than 54 million Americans. Enrollment and combined federal and state spending for Medicaid and SCHIP exceed that of Medicare.

Medicaid, in particular, provides a safety net of coverage for vulnerable low-income populations for whom no private coverage options exist. The program serves as an important source of coverage for disabled and elderly individuals, pregnant women, parents and children. In determining priorities, we should also be mindful of Medicaid's neediest populations. Whether beneficiaries live in rural areas or cities, Congress must ensure that they are treated equally, that cost-sharing changes do not deter necessary care for beneficiaries, that disabled and elderly individuals receive an appropriate level of care, and that Medicaid's guarantee of coverage is preserved.

Through the DRA, Congress made significant reforms to the way Medicaid operates. The DRA is projected by the Congressional Budget Office to reduce federal Medicaid spending by $6.9 billion over the next five years, with net savings of $4.75 billion when new Medicaid and SCHIP spending is considered. The changes made in Medicaid by the DRA were substantial and the Committee will be closely monitoring the implementation of these provisions by CMS and the states. Accordingly, the Committee does not plan to pursue further substantial reforms to the program this year. Any further proposed changes must be considered carefully to determine their impact on Medicaid beneficiaries, health providers, and states. Changes should also not disproportionately burden states, but should fairly identify opportunities for shared federal and state savings where feasible. Therefore, we must carefully examine our priorities and balance the need to preserve Medicaid coverage for needy populations with any interest in restraining the growth of federal spending.

On the subject of health coverage for children, the State Children's Health Insurance Program (SCHIP) is the largest and most successful expansion of public health insurance for children since the creation of Medicaid. In 2004, 6.2 million low-income children received coverage through SCHIP. Projections by both CMS and the Congressional Research Service conclude that 18 to 20 states will lack sufficient federal SCHIP funds to meet their demands for coverage of uninsured children in FY 2007, experiencing an estimated shortfall of $970 million. Additional funding may be necessary to address the projected SCHIP shortfalls in FY 2007. We intend to work on a bipartisan basis to determine the best manner possible to address these state shortfalls. To this end, we hope that there would be sufficient flexibility in the budget to accommodate the need to address state SCHIP shortfalls.

New Freedom Initiative

We are pleased that the DRA included "Money Follows the Person," a key element of the Administration's New Freedom Initiative (NFI). However, there are other features of the NFI we believe should be enacted this year.

NFI continues the commitment by Congress and the Administration to create more options for people with disabilities. In 1999, Congress passed the Ticket to Work and Work Incentives Improvement Act allowing people with disabilities the option to have a job and engage more fully with their community. NFI builds off of these principles by identifying and eliminating barriers to community living including access to consumer directed and respite care.

It is our belief that a specific allocation for the New Freedom Initiative should be included in the FY 2007 budget with sufficient funding – according to Congressional Budget Office estimates – to undertake these demonstration projects.

Child Welfare

Since the passage of the 1997 Adoption and Safe Families Act, 268,000 children from the child welfare system have been adopted into safe, permanent homes. We should continue investments to promote adoption and post-adoption support. Still, 523,000 vulnerable children remain in foster care needing care and support. We intend to work together to reauthorize the Safe and Stable Families program. The DRA provides additional funding for Safe and Stable Families as well as $20 million a year for grants for court improvements.

We are also concerned about the impact that the rising methamphetamine epidemic is having on the already burdened child welfare system. We request that the budget include sufficient funding to address this issue in FY 2007.

We are reviewing the financing of the child welfare system. The President's FY 2007 budget includes a proposal that would better address the needs of abused and neglected children by allowing the States to move to an alternative financing system for foster care. We plan to review this proposal and other financing reform ideas to ensure that they will improve the safety of these children and the odds that these children will find permanent loving homes. We hope to work with the Administration to craft innovative legislation that achieves these bipartisan goals.

Social Services Block Grant

We strongly oppose the Administration's proposal to cut the Social Services Block Grant (SSBG). There is a long history of bipartisan support to increase SSBG back to its historic high of $2.8 billion. The SSBG provides states with the resources and the flexibility to address the needs of our most vulnerable populations: the elderly, children and the disabled. SSBG is often the sole federal source for funding for adult protective services. SSBG also helps states fund important child welfare programs. The DRA made a number of changes relevant to child welfare programs. Additionally, changes made to the Temporary Assistance for Needy Families (TANF) program may have implications for child welfare programs.

TMA/Abstinence Education

We support a one-year extension of Transitional Medical Assistance (TMA) which helps families transition from welfare to work, and we urge the Budget Committee to provide sufficient funding for this key work-support program as well as for a one year extension of Abstinence Education funding.

Trade

The Finance Committee will continue its extensive oversight efforts over the Homeland Security Act of 2002, which transfers some customs functions from the Department of the Treasury to the Department of Homeland Security. The Committee will continue to monitor this transition and other efforts to enhance our domestic security to ensure that the careful balance between the need for strong border security and an open international economy is maintained.

The Committee will also continue to oversee the enforcement of U.S. rights under trade agreements as well as the application of U.S. trade remedy laws, particularly with reference to major trade disputes such as softwood lumber. Per the Bipartisan Trade Promotion Authority Act of 2002, the Finance Committee will continue to conduct oversight over a number of international trade negotiations, including: (1) discussions aimed at concluding a new agreement under the aegis of the World Trade Organization; (2) multilateral negotiations to complete a Free Trade Area of the Americas and a U.S.-South African Customs Union Free Trade Agreement, and (3) bilateral negotiations on a U.S.-Colombia Free Trade Agreement, a U.S.-Ecuador Free Trade Agreement, a U.S.-Panama Free Trade Agreement, a U.S.-Thailand Free Trade Agreement, a U.S.-United Arab Emirates Free Trade Agreement, a U.S.-Korea Free Trade Agreement, and other potential free trade agreement negotiations that may be initiated in the coming year.

The Finance Committee may consider legislation to implement a U.S.-Oman Free Trade Agreement and a U.S.-Peru Free Trade Agreement. The Committee may also consider legislation to address the U.S.-China trading relationship; legislation to enhance the enforcement of U.S. rights under trade agreements; legislation to authorize permanent normal trade relations with Russia, Ukraine, Vietnam, and/or Moldova; legislation to continue trade sanctions on Burma; legislation to extend the Generalized System of Preferences; legislation to extend the Andean Trade Promotion and Drug Eradication Act; legislation to reauthorize the customs commercial functions of the Bureau of Customs and Border Protection and the Bureau of Immigration and Customs Enforcement at the Department of Homeland Security; legislation to reauthorize the Office of the United States Trade Representative and U.S. International Trade Commission; and legislation to suspend tariffs on miscellaneous imports. The Committee may also review legislation addressing U.S. laws that are found to be inconsistent with our World Trade Organization obligations, legislation addressing trade adjustment assistance programs, and legislation addressing trade and travel restrictions with Cuba.

Social Security

The Social Security system is projected to run significant annual surpluses over the next decade. However, soon after the baby boomer generation begins to reach retirement age, these annual surpluses will diminish and ultimately turn into deficits. We believe that the enactment of a solution to the financial problems facing Social must ultimately involve bipartisan legislation reported out by the Finance Committee. Although developing a solution that protects and improves Social Security will be a complex and challenging task, we believe our efforts can succeed if Democrats and Republicans are ultimately willing to work together in a spirit of bipartisanship.

Currently, many applicants to the Social Security Disability Insurance (SSDI) program and the disability portion of the Supplemental Security Income (SSI) program face significant delays in getting their benefits. Indeed, waiting times can exceed three years in some cases. Such delays create serious financial and emotional stress for the applicants and their families. According to the Social Security Administration (SSA), about half of these waiting times result from huge backlogs of cases. The funding level for SSA's administrative costs for Fiscal Year 2006 that was requested in the President's Budget for Fiscal Year 2006, if enacted, would have been sufficient to encompass a multi-year plan from SSA to eliminate backlogs of initial disability claims and of hearings, while keeping up with core workloads and processing special workloads.

Unfortunately, the ability of the Social Security Administration to begin its multi-year plan in FY 2006 has been damaged by two factors. First, the appropriations for SSA's administrative costs are, in effect, about $300 million below the amount requested by the President for FY 2006. Second, the implementation of the Part D Medicare drug benefit has resulted in additional workloads for SSA that were not anticipated. As a result, not only does SSA have insufficient resources to begin to reduce these backlogs this year, but the size of the backlogs is now projected to increase this year. SSA now expects to have an enormous backlog of 756,000 hearings at the end of the year compared with 708,000 at the beginning of the year. And SSA expects to have 577,000 initial disability claims pending at the end of the year, compared with 561,000 at the beginning of the year. Therefore, we request that if the FY 2007 Concurrent Resolution on the Budget includes funding levels for FY 2006, that additional funds for SSA's administrative costs be assumed. If no such funding levels are included in the Budget Resolution, we ask that report language recommending additional funds for FY 2006 be included in the Resolution. (The growing backlogs are not a result of SSA's workloads for administering the application process for the Part D low-income subsidy. Those workloads were anticipated and funds were provided to carry them out). For Fiscal Year 2007, in order for SSA to begin to reduce its backlogs, the Congress must appropriate at least the $9.496 Billion requested in the President's Budget for FY 2007. The Finance Committee urges the Budget Committee to assume in the Budget Resolution at least the full amount of funding proposed by the President.

The President's Budget for FY 2007 has proposed that a separate budgetary cap be enacted for non-defense discretionary spending for Fiscal Years 2007 and 2008. He has also proposed to allow these caps – and the parallel limits in the Budget Resolution – to be adjusted upward to include funds for program integrity activities. One such adjustment would be for $201 million of Budget Authority in FY 2007 and $213 million in FY 2008 for SSA to conduct additional Continuing Disability Reviews (CDRs). These reviews detect payments in SSA's disability programs to beneficiaries who are no longer disabled. These reviews save $10 for each dollar spent, according to the President's Budget. We recommend that any caps on non-defense discretionary spending that are enacted, and any limits on non-defense discretionary spending that are included in the Budget Resolution, provide for these potential adjustments.

The President's Budget for FY 2007 proposes to allow refugees and asylees to receive SSI for 8 years after entry into the country. Currently, refugees and asylees who have not become citizens can only receive SSI for 7 years after entry. The President's proposal recognizes that some individuals have been unable to obtain citizenship within the 7-year time limit, through no fault of their own. We support this proposal and urge the Budget Committee to accommodate this Presidential priority in the Budget Resolution.

Social Security taxes and benefits are given special status in that they are considered "off-budget." The cost of administering the program, however, remains within the overall cap on discretionary spending in the rest of the budget. We recommend that the Budget Committee take legislative steps to make the budgetary treatment of Social Security taxes, benefits, and administrative costs consistent.

Black Lung Trust Fund

The President's budget includes a proposal to refinance the Black Lung Disability Trust Fund. The Black Lung program provides benefits to certain disabled workers, and their families or survivors. These benefits are funded by an excise tax on coal. Although the future revenues from the tax are projected to exceed future benefits, operating deficits incurred in the past have resulted in an accumulated debt that is growing exponentially. The annual interest payments on this debt are expected to exceed annual revenue, even if the current excise tax rate is extended beyond 2013 for the indefinite future. Without debt restructuring, the Trust Fund will never become solvent and the debt will never be repaid. The Committee may consider legislation to refinance the Trust Fund debt in a budget neutral manner that allows the program to take advantage of today's lower interest rates and thereby repay its debt and restore solvency to its Trust Fund.

Unemployment Insurance

The President has proposed that a separate budgetary cap be enacted for non-defense discretionary spending for Fiscal Years 2007 and 2008. He has also proposed to allow these caps – and the parallel limits in the Budget Resolution – to be adjusted upward to include funds for program integrity activities. One such adjustment would be for $40 million of Budget Authority in each of FY 2007 and FY 2008 to reduce improper payments in the Unemployment Insurance program. We recommend that any caps on non-defense discretionary spending that are enacted, and any limits on non-defense discretionary spending that are included in the Budget Resolution, provide for these potential adjustments.

The President's budget also proposes to collect delinquent UI overpayments through garnishment of Federal income tax refunds. Federal law already allows offsets for delinquent debt owed to federal agencies, delinquent child support obligations, and delinquent state income tax debt. Under this proposal, Treasury will match information about past-due, legally enforceable state unemployment compensation debts with federal tax refunds, deduct amounts due, and credit those amounts to the appropriate state unemployment insurance trust fund account. The Committee believes this proposal raises important policy concerns.

Sincerely,

Chuck Grassley　　Max Baucus

Charles E. Grassley
Chairman

Max Baucus
Ranking Member

United States Senate

COMMITTEE ON FOREIGN RELATIONS

WASHINGTON, DC 20510-6225

March 2, 2006

The Honorable Judd Gregg
Chairman
The Honorable Kent Conrad
Ranking Member
Committee on the Budget
United States Senate
Washington, D.C.

Dear Mr. Chairman and Ranking Member:

Thank you for your letter of February 8. It will be a pleasure working with you both again this year. We read with great interest your opening statements at the Budget Committee's February 16 hearing with Secretary Rice. It is indeed critical that the State Department have all of the resources it needs to succeed in its mission, as you stated Mr. Chairman. It is also true that domestic needs are great and, as pointed out by the Ranking Member, "the question of how we arrange the priorities of the country in the work of this Committee is critically important." The Senate will be relying on both of you for strong leadership as we seek the right balance in our country's investments in security, both at home and abroad.

We appreciate the opportunity to provide you with views and estimates on the budget for programs within the jurisdiction of the Committee on Foreign Relations. With a few exceptions, such as the PL 480 food for peace program, the United States Institute of Peace, and the Export-Import Bank, the Committee jurisdiction covers the International Affairs Budget Function 150.

Data provided by the Congressional Budget Office shows that the President's request for the 150 foreign affairs account for FY2007 is a 10.3% increase over the baseline for FY2006. It appears, at first glance, as a large increase. Its significance, however, is diminished when put into the context of recent budget history. As you may remember, the President's Fiscal Year '06 request for the foreign affairs account was cut last year by some $2.1 billion. As a result, when measured as a function of one year's request over the previous year's request, the increase is only 6%. For further perspective, one must consider that the President's request for FY2005 was similarly cut. In other words, this year's increase is an effort to make up lost ground and fund people and programs that have been on the President's drawing board for some three years.

The President's effort to boost the civilian side of our national security stance is well-founded. It should be embraced by all Members who understand the complexity of the war against terrorism. Clearly, we need a full range of tools to prevail. In comparing the foreign affairs budget with the defense budget, the relative inexpensiveness of diplomacy and foreign assistance is immediately apparent. When they are successful, these non-military tools of foreign policy save national treasure. Even more important, of course, they can save American lives. The defense request is about thirteen times larger than the foreign affairs request this year. The foreign affairs FY2007 budget, approved in full, will still represent only about 4% of total government discretionary spending, whereas the defense budget will represent some 53%.

We would urge you and other Budget Committee Members to see the foreign affairs 150 account as the civilian counterpart to our military budget. In an era that is being described as the "long war," the President is asking for the diplomatic clout, the strong international information programs, and the targeted foreign assistance that are necessary for America to prevail in the long-term. His budget will build secure embassies for American workers and travelers at a time when they have never been under greater threat. It provides funding to work with foreign partners to track down terrorists overseas, to deny terrorists any hope of official documentation to enter this country, and to secure dangerous weapons wherever they are found.

This is the first international affairs budget that has been developed under Secretary Rice. It will undergird her decision to organize the Department for the sustained effort that is needed. Specifically, she intends to:

- Reorient people and posts away from the Western world and into transitional countries. As a beginning, she is transferring 100 positions from Europe and Washington, D.C. to countries like China, India, Nigeria, and Lebanon.
- Strengthen the Department's ability to organize and bolster the civilian component of U.S. reconstruction and stabilization missions overseas.
- Appoint the USAID Administrator to serve concurrently as her Director of Foreign Assistance to plan, implement, and oversee all foreign assistance spending by State and USAID.
- Increase the number of small American Presence Posts outside capital cities.
- Create Virtual Presence Posts – internet sites designed and continuously managed to focus on key population centers.
- Require that career advancement for Foreign Service officers be linked to service in hardship posts.
- Expand the training of Foreign Service officers in difficult languages and in the administration of programs.
- Focus on regional approaches. For example, she has said that the Department will create a new regional public diplomacy center in the Middle East that will be staffed by Arabic-speaking diplomats and where strategy can be designed specifically to address issues in the region.

A number of these decisions stem from executive-legislative conversations and suggestions that Members on both sides of the aisle have made for management improvements in the Department of State. As a result, the intention is that more diplomats will be assigned and trained to be effective in countries where the challenges are greatest, that foreign assistance programs at the State Department and USAID will be coordinated and better focused, and that stabilizing and reconstructing war-torn nations will finally be seen as a core mission. The Senate should not deny the Secretary the funding to implement the reforms that we ourselves have advocated.

Secretary Rice has also asked for 100 new diplomatic positions as she builds a strong cadre of personnel to lead our battle against terrorists in foreign capitals: political officers to gain foreign cooperation in apprehending terrorists, public diplomacy officers to get America's story out, and ambassadors to lead the complex and multi-faceted mission. In addition, she has asked for 135 new consular officers and passport staff to meet the growing demand from legitimate students, businesspersons, and tourists while simultaneously defending our borders from those who would do us harm. To make the military comparison again, this staff increase is no larger than the typical army company and is a modest investment in prevention that can save, in the long-term, many times the cost.

On the foreign assistance side, three areas account for the bulk of the increase in the request over the amounts appropriated last year. They include Iraq, HIV/AIDS, and the Millennium Challenge Corporation. We would add a fourth area where funding needs to be increased. The Nonproliferation, Antiterrorism, Demining and Related Programs account should be boosted by approximately $75 million to address the threats posed by MANPADs and the proliferation of weapons of mass destruction. We will be working with the Administration and the appropriators to plus up this account with the appropriate offsets.

Funding for Iraq in the regular 150 account request is substantial for the first time. The President has requested $771 million for democracy, governance, rule of law, private sector, and agricultural development programs. This request demonstrates an effort to begin to regularize Iraq reconstruction funding. The request for Afghanistan is $1.1 billion, an increase of some $223 million over last year's appropriated amounts, to consolidate and continue progress being made there.

For HIV/AIDS, the President's increase is some 22% above the amounts appropriated last year. The Senate has given strong support to HIV/AIDS funding. As you recall, during the FY2006 budget resolution debate, an amendment increasing funding well above the President's request passed with 19 co-sponsors by voice vote. Moreover, this new request for HIV/AIDS places the President's five-year initiative on pace to reach the $15 billion total by FY2008. The FY2007 government-wide request is $4.32 billion, with $3.44 billion coming from the 150 account, bringing the four-year total for HIV/AIDS to about $12.7 billion.

The third major increase in the foreign assistance request is for the Millennium Challenge Corporation. The President is requesting $3 billion; a significant increase over last year's appropriated level of $1.75 billion. By its third year of operation, the Millennium Challenge Corporation was intended to distribute $5 billion to MCC eligible countries. This has proven to be an overly optimistic projection. Like any start-up operation, the time needed is often longer than the time planned. For its first two years, the Foreign Relations Committee did not authorize funding at the level the President requested. Members wanted the organization to have time to institute the unique selection methods and donor-recipient relationships mandated by law, while at the same time setting up appropriate procedures for due diligence and expenditure oversight.

We know the Budget Committee relies heavily on the Congressional Budget Office baseline estimates and will be consulting the January estimates for MCC outlays. We would respectfully offer a second source of information. It is an estimate prepared by the General Accounting Office at Chairman Lugar's request that shows two projected expenditure rates, one that tracks current MCC compact levels and a second that tracks MCC's projected pace of completion and size of compacts. As you may be aware, MCC must have the funding appropriated up front in order to sign a compact. For that reason, we must expect the outlays tracked in the CBO estimates to trail needed appropriations by significant amounts. The GAO letter shows that MCC funding at the FY2007 request level of $3 billion would be fully obligated by January 2008 under current plans.

As you know, the MCC is the President's flagship development program and is being watched worldwide both by potential recipients and by other major donors. It is being judged as an indication of U.S. seriousness about long-term international economic development. Without full congressional support, it will not be able to fulfill its promise of showcasing the kind of economic progress that can be made in poor countries that are well-governed. At a time when we are struggling with uncontrolled territory in poorly-governed states, chaotic post-conflict situations, and corrupt or weak governments that can provide sanctuaries to terrorists, we should not skimp on our investment in strengthening poor societies that are working to govern themselves well, reduce poverty, and provide an example to other nations.

In closing, we request that you report out the 150 foreign affairs account for FY2007 at the level requested. Moreover, we hope that you and other Members of the Budget Committee will resist efforts by other Senators to offset their amendments with cuts in the foreign affairs budget line item. The budget is full of compelling domestic priorities, and, historically, foreign affairs spending has been a prime target for offsetting increases. But we would hope that, at this point in our history, the Budget Committee would take a strong stand against limiting the number of people and programs that can be activated to address terrorism, weapons proliferation, energy dependence, avian flu, religious extremism, and other innumerable threats. None of these national security challenges can be overcome purely through unilateral policy choices or through military action. We are dependent on other nations to help us respond to these threats so that individual Americans can live safely and pursue their dreams. We cannot fully succeed in this fundamental mission unless the programs and people in this budget request are funded at the level requested by the President.

Sincerely,

Dick Lugar

Richard G. Lugar
Chairman

Joe Biden

Joseph R. Biden, Jr.
Ranking Member

RGL/mlk
Attachment: GAO letter

GAO

Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

February 21, 2006

The Honorable Richard G. Lugar
Chairman, Committee on Foreign Relations
United States Senate

Subject: *Analysis of Future Millennium Challenge Corporation Obligations*

Dear Chairman Lugar:

The Millennium Challenge Corporation (MCC)—intended to provide aid to developing countries that have demonstrated a commitment to ruling justly, encouraging economic freedom, and investing in people—has received appropriations for fiscal years (FY) 2004-06 totaling more than $4.2 billion. About $3.8 billion of this amount has been set aside for compact assistance.[1] As of January 2006, MCC had signed or approved eight compacts[2] obligating about $1.5 billion,[3] leaving an unobligated balance of about $2.3 billion. To assist in this year's budget deliberations, this letter provides a range of estimates under two scenarios of how quickly MCC could obligate this balance and three possible levels of FY 2007 appropriations at the current pace of compact award. The President has requested an additional $3 billion for MCC for FY 2007.

To address this objective, we analyzed MCC's FY 2005 and 2006 budget presentations and other corporation records. We selected two illustrative scenarios for future MCC obligations: (1) a "higher cost" scenario in which the average size of future compacts is consistent with MCC projections and (2) a "lower cost" scenario in which future compacts are consistent with the average compact size to date. For both of these scenarios, we assumed that MCC would sign an average of two compacts per quarter—the actual rate observed since April 2005. We discussed our estimates with MCC officials and have incorporated their comments as appropriate. We conducted our work in December 2005 through February 2006 in accordance with generally accepted government auditing standards.

Summary

Under the higher-cost scenario, MCC would obligate the balance of its FY 2004-06 appropriations in the second quarter of FY 2007. Assuming that subsequent compact size remains consistent with MCC projections, an FY 2007 appropriation of $1, $2 or $3 billion will support the funding of compacts through, respectively, the third quarter of FY 2007, the fourth quarter of FY 2007, or the second quarter of FY 2008. The cumulative number of compacts under this scenario ranges from 18 to 23.

[1]About $400 million has been set aside for MCC's threshold country program, administrative expenses, due diligence, monitoring and evaluation, and other costs.

[2]The Millennium Challenge Act of 2003 (Public Law 108-199, Division D, Section 605) authorizes MCC to provide assistance to countries that enter into public compacts with the United States. MCC has negotiated compacts with countries that contain agreed assistance objectives, responsibilities, implementation schedules, expected results, and evaluation strategies.

[3]Through January 2006, MCC had expended about $12 million of the $1.5 billion obligated for compact assistance.

Under the lower-cost scenario, MCC would obligate the balance of its FY 2004-06 appropriations during the fourth quarter of FY 2007 (about 6 months later than under the first scenario). Assuming that subsequent compact size remains consistent with the average to date, an appropriation of $1, $2 or $3 billion will support the funding of compacts through, respectively, the third quarter of FY 2008, the first quarter of FY 2009, or the third quarter of FY 2009. The cumulative number of compacts under this scenario ranges from 25 to 34.

Assumptions Used in Our Analysis

For the higher-cost scenario, we assumed an average size of (a) $300 million for compacts funded with MCC's FY 2006 appropriations and (b) $345 million for compacts funded with its FY 2007 appropriations. These figures are consistent with recent MCC projections. For the lower-cost scenario, we assumed an average compact size of $190 million. This amount is consistent with MCC's FY 2006 budget presentation and the actual average for the eight compacts signed or approved to date. For these compacts, MCC ranks among the top three donors in five of the eight countries and among the top 10 donors in the remaining three countries.[4] According to its FY 2005 and 2006 budget presentations and recent comments by the corporation's Chief Executive Officer, MCC seeks to be among the largest donors in each country that receives compact assistance. Table 1 summarizes some key characteristics of the compacts signed or approved from April 2005 through January 2006.

Table 1: Characteristics of MCC Compacts Signed or Approved, April 2005 to January 2006

Dollars in millions

Country	Status	Month signed or approved	Total amount	Length (years)	Average amount per year	Donor rank
Madagascar	Entry into force [a]	April 2005	110	4	28	8
Honduras	Entry into force [a]	May 2005	215	5	43	5
Nicaragua	Signed	June 2005	175	5	35	10
Cape Verde	Entry into force [a]	July 2005	110	5	22	3
Georgia	Signed	Sept. 2005	295	5	59	2
Armenia	Approved [b]	Dec. 2005	236	5	47	3
Vanuatu	Approved [b]	Jan. 2006	66	5	13	2
Benin	Approved [b]	Jan. 2006	307	5	61	2
Total			**1,514**		**308.2**	
Average			189			

Source: GAO analysis of MCC records and data from the Organization for Economic Cooperation and Development.

[a]Signed compacts in which MCC and partner countries have negotiated additional agreements covering disbursement of funds, governance, procurement, fiscal and procurement agents, and other implementation matters.

[b]Compact approved by MCC Board of Directors but not yet signed by corporation and country officials.

For both scenarios, we assumed that over the next several years MCC would sign an average of two compacts per quarter—the actual rate observed. From April 2005 through January 2006, MCC signed or approved compacts with eight countries, or two compacts per quarter. This rate is the lower bound of the target range of two to four compacts per quarter established in MCC's FY 2006 budget presentation.

[4]To make this determination, we compared the average annual size of each compact with the gross official development assistance (average for 2003-04) provided by the top 10 donors in each country.

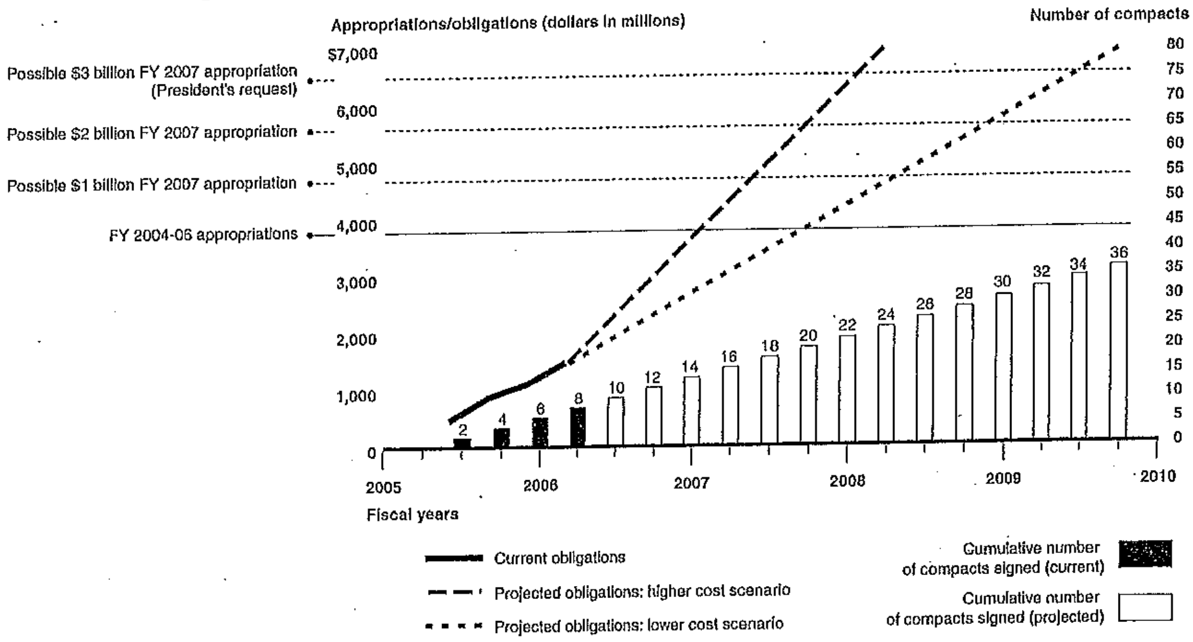
Analysis of Future MCC Obligations

Under the higher-cost scenario, the corporation would obligate the balance of its FY 2004-06 appropriations by the second quarter of FY 2007. Assuming subsequent compact size remains consistent with MCC projections, an FY 2007 appropriation of $1, $2 or $3 billion would fund compacts through, respectively, the third quarter of FY 2007, the fourth quarter of FY 2007, or the second quarter of FY 2008.[6] The cumulative total of compacts funded under this scenario would be 18, 20 or 23.

Under the lower-cost scenario, the corporation would obligate the balance of its FY 2004-06 appropriations by the fourth quarter of FY 2007 (or about 6 months later than under the first scenario). Again assuming that subsequent compact size remains consistent with the average to date, an appropriation of $1, $2 or $3 billion would fund compacts through, respectively, the third quarter of FY 2008, the first quarter of FY 2009, or the third quarter of FY 2009. The cumulative number of compacts funded under this scenario would be 25, 30 or 34.

Figure 1 presents our estimate of MCC's cumulative obligations and number of compacts signed under these two scenarios, as well as MCC's obligations to date.

Figure 1: Estimated MCC Obligations and Numbers of Compacts under Higher- and Lower-Cost Scenarios and Current Obligations as of January 2006



Source: GAO analysis of MCC data.

[6]Our estimates assume that about 10 percent of the corporation's FY 2007 appropriations would be set aside for MCC's threshold country program, administrative expenses, due diligence, monitoring and evaluation, and other costs, leaving the remaining 90 percent to finance compacts.

Some Implications of Our Analysis

Over the period covered by our analysis, the substantial expansion in the number of compacts—and thus the number of countries in which MCC would operate[6]—suggested by MCC's current and target rates for signing compacts could present several challenges for the corporation. First, such an expansion could exhaust the pool of candidate countries that meet MCC's quantitative eligibility criteria. Our analysis of MCC data suggests that 34 candidate countries—8 lower-middle income and 26 low income—met MCC's FY 2006 quantitative indicator criteria. We previously reported that 19 and 24 low income candidate countries met MCC's criteria in FY 2004 and 2005, respectively.[7]

Second, such an expansion could significantly challenge MCC's ability to make eligibility determinations; review and assist in proposal development; conduct due diligence reviews; negotiate, sign, complete entry into force requirements; and assist in the development of compact implementation structures for a large number of additional countries. For the eight countries in table 1, an average of 484 days elapsed from eligibility determination to compact signing or approval. It took, on average, an additional 112 days for three of these countries to advance from compact signing to entry into force.

Third, monitoring and evaluating the implementation of complex, multi-million-dollar compacts in a large number of countries could strain MCC's management and oversight capabilities. Several development experts have stated that MCC's proposed staffing level (300) is very lean for an organization planning to disburse $2 billion or more per year.

Comments from MCC

Overall, MCC officials characterized our analysis as unbiased and fact based. With regard to the implications of our analysis, MCC officials stated that the corporation was taking steps to reduce the time required to develop, review, and start implementing compacts. These steps include (1) developing guidance to assist eligible countries in developing proposals that will require limited revision; (2) reducing the time required to conduct due-diligence reviews by increasing staffing and resources devoted to this task;[8] and (3) implementing policies intended to reduce the time between compact signing and entry into force by requiring MCC teams and countries to resolve key implementation details and issues earlier in the compact development process. Consistent with recent public remarks made by the corporation's Chief Executive Officer, MCC officials recognized that implementing compacts in developing countries will present substantial challenges. MCC officials also provided updated information about projected compacts and several technical comments, which we have incorporated as appropriate.

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[6]Under the Millennium Challenge Act, countries may have only one Millennium Challenge compact in effect at a time.

[7]See U.S. Government Accountability Office, *Millennium Challenge Corporation: Progress Made on Key Challenges in First Year of Operations*, GAO-05-455T (Washington, DC: April 26, 2005).

[8]MCC plans to increase its staff from about 170 to 300 between January and September 2006.

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If you or your staff have any questions about this letter, please contact me at 202-512-4128 or gootnickd@gao.gov. Phil Herr and Michael Rohrback made significant contributions to this letter.

Sincerely yours,

David B. Gootnick
Director, International Affairs and Trade

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United States Senate

COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS

WASHINGTON, DC 20510-6300

March 2, 2006

The Honorable Judd Gregg
Chairman
Senate Budget Committee
624 Dirksen Building
Washington, DC 20510

The Honorable Kent Conrad
Ranking Member
Senate Budget Committee
624 Dirksen Building
Washington, DC 20510

Dear Judd and Kent:

Pursuant to Section 301(d) of the Congressional Budget Act, I am responding to your letter dated February 8, 2006, requesting a views and estimates letter on proposed FY2007 spending for programs and activities that fall within the jurisdiction of the Senate Health, Education, Labor and Pensions (HELP) Committee.

The Senate HELP Committee has a wide jurisdiction over America's domestic and social programs. These policies impact people in all walks of life, including students and teachers, workers and employers, and retirees and their families. Emerging demographic and workforce trends pose both challenges and opportunities for everyone, and the HELP Committee is striving to assist Americans meet the 21st century challenges at pivotal points in their lives. Through the authorization process and aggressive oversight, the Committee is dedicated to authorizing programs that foster a lifetime of opportunity—at school, at work and in retirement.

Responsibly funding federal programs is one of Congress' most important constitutional functions. The HELP Committee is committed to authorizing programs that are cost effective and produce measurable results, as well as spending responsibly and reducing the deficit. The Deficit Reduction Act of 2005 (PL109-171), which was signed last month, yielded nearly $40 billion in deficit reduction. Of this amount, the HELP Committee produced nearly $16 billion in mandatory spending reductions over 5 years—approximately 25% of the HELP Committee's 302 outlay allocation under the FY2006 Budget Resolution—a larger share than any other Senate authorizing Committee. These proposals yielded 40% of the entire spending cut package. Congress must continue to reduce mandatory spending, particularly in the areas of Social Security, Medicare and Medicaid.

This year the President's budget request again seeks to build upon the discretionary spending restraint enacted in FY2006. Though discretionary spending reductions are proposed at the Department of Health and Human Services, the Labor Department and the Department of Education, continued restraint is essential to keeping our country on sound fiscal footing. Because federal dollars are limited, the Committee is committed to reviewing and strengthening programs under its jurisdiction to ensure they are cost effective, not duplicative and that accountability and results are required.

HEALTH

As healthcare costs continue to increase at a dramatic rate, it is important to contain both discretionary and mandatory spending. Every American should have access to high quality health care at affordable prices and Congress must work with state governments and the private sector to achieve this goal. We must focus on making healthcare pricing more transparent and allow market forces to drive costs down as quality becomes more easily measured and reported. The HELP Committee is committed to making this vision of affordable and accessible healthcare across America, including in rural areas, a reality.

Health insurance affordability

Making health insurance more affordable for small businesses and working families is an achievable goal in 2006. Already, this Congress passed and the President signed into law the State High Risk Pool Funding Extension Act of 2005 (PL109-172), which provides and expands funding for states to establish last-resort programs for individuals who are otherwise medically uninsurable.

Further serious and meaningful reforms must take place in the small group and individual health insurance markets. We need to increase the ability of small businesses to offer health insurance. To this end, I have introduced and the Committee will soon consider S.1955, the Health Insurance Market Modernization Act of 2005.

Also this year, the Committee will be devoting serious attention to the President's proposals to improve health insurance portability, particularly with regard to health savings accounts, as well as the President's initiative to help states develop creative solutions to offering health coverage to the chronically ill. The President's budget allocates $500 million in FY2007 for this initiative, and the Committee looks forward to working with the Budget Committee to advance this proposal.

Electronic health records and health information technology

Moving to a system of portable electronic health records will give people more access to and control over their own personal health information. In addition, the widespread adoption of health information technology will improve the quality and reduce the cost of health care in this nation. Last year the Committee reported and the Senate unanimously approved S. 1418, the Wired for Health Care Quality Act. The Committee looks forward to seeing meaningful legislation signed into law this Congress.

The Committee also applauds the President's increased request of $166 million for the HHS Office of the National Coordinator for Health Information Technology and related activities within the Agency for Health Care Research and Quality. It is now up to Congress to authorize and appropriate these expenditures.

Fighting AIDS in America – the Ryan White CARE Act

The Committee plans to reauthorize the Ryan White CARE Act this year. A main goal is to ensure that the funding formulas are designed to battle the epidemic of today, not yesterday. As part of this reauthorization process we will be studying budget-oriented results and analysis of past performance. In particular, the Committee will be examining the President's budget proposal to include a 5% transfer authority from various Titles of the CARE Act, as well as key funding disparities which were highlighted in GAO's June 2005 report on the program. Without these key changes, we cannot ensure that every American with HIV has access to high quality care. The Committee is pleased with the President's proposed request for an additional $188 million for a domestic AIDS initiative, particularly in light of overall discretionary spending constraints.

Public health preparedness – bioterrorism and avian influenza

Biological threats – whether caused by man or by nature -- are one of the greatest dangers that face our nation. We must respond to these threats by developing a public health system that has the ability to detect outbreaks quickly. We also must encourage innovation to deliver the next generation of diagnostics, vaccines, and therapeutics for use against these organisms. Congress must work in coordination with an active and engaged biotechnology and pharmaceutical industry.

Congress also needs to facilitate the coordination of the Centers for Disease Control and Prevention, National Institutes of Health, Food and Drug Administration, and Department of Homeland Security and formulate an effective and reliable plan of action to detect outbreaks and deliver resources where needed. These agencies must develop tools to measure state and local preparedness levels, and assess public health infrastructure. Congress and these agencies must work together to establish accountability mechanisms implemented to ensure Federal funds are being used effectively.

With respect to avian influenza, President Bush last year announced the National Strategy for Pandemic Influenza and requested $7.1 billion in emergency funding for pandemic preparedness. According to the National Strategy, these funds would be used for preparedness planning initiatives, surveillance and detection of avian flu in the United States and abroad, stockpiling of antivirals and vaccines for the American population, and investing in vaccine research and development.

Congress included $3.3 billion in the FY2006 Defense Department Appropriations Act for the President's emergency funding request for pandemic flu preparedness. The Committee believes Congress must ensure that any additional funding fits within this National Strategy and has appropriate accountability measures to ensure that the funding is directed to prepare more fully the United States for pandemic influenza and any other potential or newly emerging pandemic.

FDA

The Committee strongly supports sufficient FDA funding to carry out the agency's critically important mission. The Committee notes that in order to meet the President's budget request, two new user fees would be required. These user fees have yet to be authorized through legislation.

The FDA has statutory responsibilities to both protect and promote the public health by ensuring that safe and effective drugs are available in a timely manner. Public confidence in the agency is critical. Any legislative changes must ensure that doctors and patients have the right risk and benefit information without compromising patient access to drugs that are right for them.

The Committee has been evaluating the entire drug review process to ensure the FDA has the authorities and resources necessary to meet present and future challenges. On a related note, the Committee supports the recent FDA focus on the "Critical Path" initiative to make medical product development more streamlined and predictable as a means to speed innovative therapies to market without compromising safety.

FDA relies on advisory panels in making important decisions about new drugs and medical devices. Although the panels' recommendations are not binding, FDA typically follows advisory panels' recommendations. The Committee remains invested in maintaining the current high standard of integrity for the Advisory Committee process.

The Committee notes that there is currently a significant backlog of generic drug applications awaiting action at FDA. Generics drugs are a powerful tool to reduce prescription drug spending. However, any initiatives in this area must preserve the balance between incentives to innovate and incentives for less expensive generics. Some have proposed making "generic" or follow-on versions of biologics such as insulin and human growth hormone, much as is done for small molecule drugs under the Hatch-Waxman Act. The Committee notes that there are scientific, statutory and regulatory challenges to this, and intends to examine these issues in 2006.

It is important that we maintain the safety of dietary supplements that benefit so many Americans. The Committee will examine ways to implement a mandatory adverse event reporting system for dietary supplement manufacturers without restricting consumer access.

The Committee will also be looking at ways to promote greater development of devices to treat pediatric conditions.

Fair and reliable resolution of medical liability cases

The cost of medical liability insurance and the role of medical litigation raise very complex issues. But instead of pitting doctors versus trial lawyers versus insurance companies, the Committee believes the focus should be ensuring fair and reliable results for patients and providers, and on ensuring accessible and affordable healthcare for all Americans.

The Committee intends to encourage states to experiment with new approaches to resolving medical liability cases by promoting alternatives to litigation that encourage early disclosure of preventable medical errors, prompt and fair compensation for injured patients, and careful analysis and reporting on trends and patterns of health care errors to prevent future injuries. Quick, fair and reliable resolution of medical liability cases is a worthy objective in and of itself, but the Committee also believes moving the medical liability system toward this objective also would save the health care system billions of dollars by reducing legal costs and the cost of "defensive medicine" that is often unnecessary and sometimes dangerous for patients.

Community health centers

Community health centers play an integral role in ensuring all Americans have access to primary and preventive health care. Community health centers are especially important in rural and other underserved areas. The HELP Committee applauds the President's commitment to expand community health centers, especially the President's goal of placing a community health center in every poor county in the United States. The Committee is pleased to see that an adequate funding boost has been requested by the administration to complete this initiative. The Committee intends to consider the President's goal as it considers health care "safety net" legislation this year.

Substance abuse and mental health

Methamphetamine use is the scourge of many rural communities in the Western and Midwestern United States. The Committee supports the President's budget request which targets $25 million of the funding in the Access to Recovery voucher program for areas with high methamphetamine prevalence. The Access to Recovery program increases consumer control and choice over the treatment services they receive, and this targeted funding toward methamphetamine use will be welcomed by rural and frontier communities.

Congress must also ensure that the work of the Substance Abuse and Mental Health Services Administration (SAMHSA) is coordinated with other federal agencies. Much of the work of SAMHSA supports State efforts to expand and enhance prevention and treatment programs that provide substance abuse and mental health services. As the

Committee moves forward on reauthorizing SAMHSA, we will ensure that the agency's programs are not duplicative, and focus on measuring outcomes while ensuring that providers deliver effective treatment and prevention services to those in need.

Health Workforce

The Committee intends to reauthorize the health professions training programs in Titles VII and VIII of the Public Health Service Act in a way that addresses longstanding concerns about the effectiveness of these programs. The Office of Management and Budget and the Government Accountability Office have repeatedly questioned the focus and effectiveness of these programs. The Committee agrees with many of these criticisms, but nevertheless believes a small but targeted federal investment can play an important role in ensuring an adequate supply and distribution of health professionals across the country. The Committee intends to reauthorize these programs in a way that will sharpen their focus to address unmet need and ensure that program goals are both achievable and measurable.

Patient Navigator

Last year, the President signed into law the Patient Navigator Outreach and Chronic Disease Prevention Act of 2005 (PL109-18). The Committee recognizes that the timing of the enactment of the legislation made it difficult to fund last year, but the Committee supports appropriate funding for this program, which is authorized at $5 million for FY2007.

National All Schedules Prescription Electronic Reporting Act (NASPER)

The Committee supports funding for the recently enacted National All Schedules Prescription Electronic Reporting Act of 2005. The committee believes the diversion and abuse of legally manufactured prescription drugs is a pressing national issue. The Committee supports the goal of fostering the establishment of State-administered prescription drug monitoring systems to ensure that health care providers have access to accurate, timely prescription history information that they may use as a tool for the early identification of patients at risk for addiction.

EDUCATION AND WORKFORCE

Education is a key to our competitiveness. We are pleased that the President has included education in the American Competitiveness Initiative. Promoting a lifetime of learning through strong Federal education and training programs is vital to improving the quality of our workforce and America's competitiveness in the global economy.

In light of the dramatic increases in Federal education spending over the past five years, and the fact that we continue to be in a period where we must focus on fiscal responsibility—we are pleased that in the period 2001 through 2007, total education spending has increased 51%.

Elementary and Secondary Education

No Child Left Behind Act (NCLBA) is a comprehensive overhaul of the federal Elementary and Secondary Education Act (ESEA), which was enacted in 1965. ESEA authorizes numerous education programs and is the principal federal law affecting elementary and secondary education. Since 2002, NCLB has focused schools on achieving the goal of 100% proficiency for all children and putting in place plans to reach the goal. As a result, many schools are now in need of guidance and assistance for school improvement. The Committee is pleased with the President's proposal to provide first-time funding for Title I School Improvement grants for low and under-performing school districts.

The President's budget includes as part of its American Competitiveness Initiative a proposal for Math Now, to be patterned after Reading First and Striving Readers. These programs will be designed to prepare students for rigorous high school math and improve mathematics instruction for middle-school students whose achievement is significantly below grade level. The Committee is encouraged by this emphasis on science, technology, engineering and math (STEM) knowledge, and supports efforts to promote these essential skills.

The Committee appreciates the President's focus on and commitment to high school reform. A greater understanding of what is already being done in communities to ensure that more students graduate from high school on time, prepared for both postsecondary education and the workforce is necessary before substantive changes are made to NCLB. The Committee expects to continue a series of hearings and roundtables to gather this information.

Early Learning and Head Start

For children to succeed in school and the workplace, it is important we promote school readiness through high quality early childhood education. The Committee believes that improving Head Start while maintaining its strongest components and comprehensive nature is critical to ensuring that young children, particularly disadvantaged children, are equipped to learn. Any allocation increases for Head Start should be for strong accountability components, measurable results for children, and effective linkages between Federal, state, and local programs. To meet this objective, the Committee reported the *Head Start Improvements for School Readiness Act*, and intends to get a bill to the President for signature. The bill focuses on measures to improve the academic performance of Head Start children, promote better collaboration between Head Start and other Federal and State programs, and strengthen fiscal accountability for federal dollars in the reauthorization of the Head Start Act this year.

Career and Technical Education

America's competitiveness in the global economy is dependent on the skills of its workforce and the success of its education and training programs. As it stands today, high school dropouts have an unemployment rate nearly twice the level of high school graduates. The Committee is concerned that too few high school students are completing the rigorous academic courses needed for success in postsecondary education and the 21st century workforce.

Federal education must support high quality high school programs that improve academic achievement and provide the career and technical skills needed to succeed in postsecondary education and the workforce, particularly for at-risk high school students. To address these issues, the HELP Committee reported, and the Senate passed 99-0, a bill to reauthorize in 2006 the Carl D. Perkins Vocational and Technical Education Act of 1998. I look forward to working with the Administration, my Senate colleagues and members of the House to conference a bill that the President can sign by the end of this year. Because career and technical education is a critical component of providing a lifetime of learning to our students, the Committee is concerned with the President's proposal to eliminate this important program.

Higher Education

One component of the Deficit Reduction Act of 2005 reauthorized the mandatory spending programs under the Higher Education Act of 1965. It is critical to reauthorize the remaining discretionary programs under the Act, as postsecondary education is the key to future success for our students, our communities and our economy.

The President's FY2007 budget includes funds for the American Competitiveness Initiative that would establish grants to help teachers in high-poverty high schools receive training needed to teach Advanced Placement (AP) and International Baccalaureate (IB) courses in mathematics, science, and foreign languages. The proposal also establishes an adjunct teacher corps to create opportunities for professionals with subject-matter expertise to teach secondary school courses. Both of these concepts are clearly related to ensuring that our students have access to the STEM knowledge necessary for postsecondary education, and to meeting the requirements for highly qualified teachers in every classroom. The Committee supports enhancing existing programs in conjunction with reauthorization of the Higher Education Act.

President Bush's budget for FY2007 requests $12.7 billion to maintain a maximum 2007 Pell grant of $4,050 (unchanged from 2006). This amount assumes that nearly $300 million will be available from the 2006 enacted appropriation to support program costs of $13 billion. It is important that students of all ages have opportunities throughout their lives to pursue postsecondary education.

Job Training

The economic well-being of our nation depends on the skills of our workforce. In this technology-driven, global economy, school is never out. Republicans are committed to providing workers with the opportunity to gain the skills they need to succeed in the workforce, and to assist displaced workers who need retraining for new jobs. Federal, state, and local job training programs are vital to the country's economic well-being, and are invaluable for the people they serve.

The Workforce Investment Act (WIA) is our country's primary Federal job training program. It expired in September 2003. Reauthorizing this important legislation is a main priority for the HELP Committee. The Committee is concerned that the administration's FY 2007 budget proposes Career Advancement Accounts which appear to restructure the WIA system. I am committed to working with the administration, my colleagues in the Senate, and members of the House to reauthorize WIA as essential component of the Federal education and training infrastructure. The Senate needs to move quickly on S. 1021 to provide the flexibility and greater accountability needed to meet the skill requirements of a technology-driven workplace.

Special Education

When Congress passed IDEA in 1975, we committed to pay up to 40% of the national average per pupil expenditure (APPE) – estimated to be the extra cost to schools for providing special education services – to offset the excess cost of educating disabled children. The budget request for FY2007 for all of the programs funded under IDEA totals $11.7 billion, which includes an increase $100 million for Part B, Grants to States. This increase brings the total increase requested for Part B to $10.7 billion, an increase of $4.3 billion, or 69%, since FY2001. This represents the largest presidential request in the history of the program, and the highest level of Federal support ever provided for children with disabilities. The IDEA reauthorization outlined a plan to achieve "full funding" in discretionary appropriations by 2012. While we have made progress toward fulfilling this commitment, we must continue to improve every year. The Budget Resolution should reflect the goals outlined in the IDEA reauthorization.

Assistive Technology

The budget requests $22 million for the Assistive Technology Act, flat funding the State grants portion of the program, but did not request funding for Alternative Financing or Protection and Advocacy for Assistive Technology programs (PAAT). PAAT provides protection and advocacy services to assist individuals of all ages with disabilities in the acquisition, utilization, or maintenance of assistive technology services or devices—and should be adequately funded.

LIHEAP

The Low Income Home Energy Assistance Program (LIHEAP) is a block grant program where the Federal government provides states annual grants to operate home energy assistance programs for low-income households. Last year LIHEAP was reauthorized through FY2007 as part of the Energy Policy Act of 2005 (PL109-58). In FY2006, Congress appropriated $1.98 billion, and $181 million in contingency funding. The Deficit Reduction Act of 2005 provided $1 billion in FY2007 LIHEAP funding ($750 million in contingency funds and $250 million in regular funds). In addition, the President has requested $1.8 billion in regular LIHEAP funds, for a total FY2007 funding level of $2.8 billion. The Committee supports the President's goal of providing this economic assistance to low-income households.

Randolph-Sheppard and JWOD

Randolph-Sheppard and Javitz-Wagner-O'Day (JWOD) were enacted in the 1930's, and are the two main federal employment and training programs for persons with disabilities. Last year the HELP Committee conducted a six month investigation into these programs, and held the first oversight hearing in 70 years. The Committee found that a small group of entrepreneurs and nonprofit executives are exploiting the program to capture financial windfalls, but very few of the law's intended beneficiaries - namely, persons with disabilities - receive the intended training and employment opportunities. The HELP Committee will introduce deficit neutral reforms to Randolph-Sheppard and JWOD that create more and better opportunities for more persons with disabilities.

RETIREMENT AND AGING SECURITY

Pension Reform

Ensuring that the money employees have earned for their retirement is there when they retire is a high priority for the Committee. Accordingly, restoring stability and solvency to the pension system, and reducing the deficit at the Pension Benefit Guaranty Corporation (PBGC), received considerable attention by HELP Committee members in 2005 and will remain at the top of the agenda until comprehensive pension reform is enacted this year.

As part of the Deficit Reduction Act of 2005, the Committee produced savings of $3.6 billion over five years through increases in premiums paid to the PBGC. The Deficit Reduction Act increased single-employer premiums to $30 per participant, multiemployer plan premiums (raised for the first time since 1980) to $8 per participant, and imposed a new premium upon plan sponsors who terminate an under-funded plan. This new "termination premium" of $1,250 per participant is payable for each of the first three years after the year in which the sponsor emerges from bankruptcy, or immediately if the sponsor did not seek protection from its creditor under Chapter 11. This new premium alone raises approximately $1 billion over five years.

Despite calls for even higher premium increases for more aggressive deficit reduction at the PBGC, the Committee considers these new premium rates the maximum that can or should be enacted in the near future, especially in light of pending legislation and other pension changes. The Senate and House of Representatives have already passed comprehensive pension reform bills that will improve the funded status of defined benefit plans and increase payments to the PBGC. Many of these reforms could not be adopted as part of the budget reconciliation process, but will produce improvements to pension security. When the pension conference report is enacted later this year, adjustments to how the variable-rate premium is calculated will significantly reduce the PBGC deficit.

The Committee recognizes that the impending changes to pension accounting rules by the Financial Accounting Standards Board (FASB) later this year could have a dramatic impact on pension plan sponsors' willingness to maintain their pension plans and other post-retirement benefits. These changes will increase liabilities stated on annual financial returns and in some cases will reduce earnings per share materially.

As FASB rules and pension funding reform rules converge in 2007, some plan sponsors will be unable to meet the cash demands required and could be forced into bankruptcy or liquidation. Therefore, the Committee will be cautious in evaluating the proper level of congressional involvement necessary to accomplish the overriding goal of ensuring that workers' retirement money is there when they retire.

The Committee recommends that the pension reform bill conference report be passed and sent to the President for his signature, so that stricter funding rules take effect and the variable rate premium increases may phase in and provide a much-needed cash infusion to the PBGC.

Security for Older Americans

The Older Americans Act was created to provide services like meals on wheels, basic transportation and other social service programs to enrich the lives and well being of seniors. As Americans live longer, it is important to create an environment that allows our older Americans to live better. The Older Americans Act is due to be reauthorized this year, and the Committee will work across party lines to extend this program, and ensure it touches as many seniors as possible. The Committee is pleased that President Bush identified the Older Americans Act as a priority, and will work to ensure that the reauthorization embraces programs that allow seniors remain healthy, fed, housed, able to get where they need to go and safe from scams and abuse.

LABOR

Mine Safety Legislation

The sharp increase in the number of fatal accidents occurring at underground coal mines in 2006 is a matter of great concern to the Committee. Initial HELP hearings indicate that a thorough review of our nation's mining laws, regulations and agencies is warranted. There is particular interest in finding ways to improve the mine safety technology available and encourage its use in more mines. In many regards it is technology which will better ensure the survival of miners involved in accidents by giving them such tools as the oxygen they need to escape the mine and the ability to receive life-saving communications. Another area of interest is the initial accident response and issues relating to mine rescue teams. The Committee recognizes that coal extraction is an important industry for the energy needs of our country and the economic viability of many communities. The historical downward trend of accidents and fatalities in the industry reveals significant and rapid improvement; a fact which makes this year's tragic increase in fatalities all the more worthy of review and appropriate action. The Committee expects to report out legislation that will improve the safety of our nation's mines and preserve this industry. The Committee is also pleased that the administration requested an additional $10 million in MSHA funding, a 3.6% increase over FY2006.

NIOSH

Most federally-financed mine safety technology is conducted by the Office of Mine Safety at the National Institute for Occupational Safety and Health (NIOSH). NIOSH is currently housed in the Centers for Disease Control (CDC). For a variety of reasons, some structural change in NIOSH may be warranted. The Committee will review the possibility of separating NIOSH from CDC and increasing its mine safety funding authorization. The Committee will also work to find ways to create incentives and funding for industries to develop new technologies as well as for mine operators to implement them.

OSHA Reform

The Committee takes very seriously its obligation to ensure the on-the-job safety and well being of American workers, and notes that the administration proposes a 2.4% funding increase for FY2007—which would bring total funding to $484 million. Currently, there are three bills pending before the Committee which would dramatically improve worker safety and the efficacy of the Occupational Safety and Health Administration. The first, The Occupational Safety Partnership Act (S. 2065), is designed to enhance workplace safety through prevention, training and compliance assistance such as third party consultation and voluntary compliance initiatives. The second bill, The Occupational Safety Fairness Act (S. 2066) addresses issues of procedural fairness in OSHA's administrative processes. Finally, The HazCom Simplification and Modernization Act (S. 2067) includes measures to improve the hazard communications process so that employees can understand immediately how to respond to chemical hazards.

Committee Republicans recognize the fact that achieving safety in the workplace requires more than just regulatory enforcement. Employers have a natural incentive to encourage workplace health and safety, and the vast majority of American employers do seek to comply with the law and provide their employees with a safe workplace. We must build upon successful voluntary compliance programs, especially for smaller businesses, that are predicated on cooperation, not confrontation. The Committee expects to report out S. 2065, S. 2066 and S. 2067 this year.

Genetic Information Nondiscrimination

A reasoned reaction to the advances of modern science has resulted in the first workplace bill—the Genetic Information Nondiscrimination Act, S. 306. This legislation was reported out of the Committee and passed by the Senate last year by a vote of 98-0. The Committee has long recognized that one's genetic make-up is as unique and personal as one's race, or sex, or age, and no less deserving of the law's protection against misuse or discrimination. We look forward to the House's consideration of this bill and its enactment.

Workplace Flexibility

Many of our current employment laws originated at a time when the typical workplace and workforce was significantly different than today. For example, the Fair Labor Standards Act became law in 1938 when the American labor force was almost entirely composed of industrial and agricultural employees; and when less than 16% of married women were working outside the home—whereas recent data show that approximately 58% of married women now work outside the home. Congress must assess whether or not such laws continue to fit the needs of our changing workplaces and our changed society. Congress must address those laws that limit workplace flexibility, make accommodating the needs of work and family more difficult, and impair our ability to compete in a global marketplace.

Volunteerism

Volunteers perform a host of services that are essential to our communities. They not only support charitable organizations whose work is vital to our society, they also supplement, or in some cases, largely fill the role of government entities. For example, about three-quarters of all our fire departments are staffed by volunteers, our mine rescue teams are completely staffed by volunteers and most school athletic coaches and extracurricular moderators are volunteers as well. These are just some of the more visible examples of community volunteerism. Other examples abound in every community.

As a government we should do all that we can to encourage and nurture our national sense of volunteerism, not only because it is socially responsible, but because it is socially necessary. As our population begins to age and we lose the services of older volunteers; and, as younger volunteers are caught between the desire to serve and the time demands of family, we must take the necessary steps to both remove legal barriers to volunteerism and to provide incentives for others to participate. Congress needs to address this issue in a number of ways ranging from the tax treatment of volunteer benefits, to outdated wage and hour laws that can actually discourage volunteer participation.

Card Check

It is wholly inconsistent to encourage the spread of democratic rights abroad, while acting to deprive American workers of these same democratic rights at home. The right of employees to freely choose whether or not they wish to be represented by a labor organization in a government-supervised secret ballot election has been a cornerstone of federal labor policy for nearly six decades. This hallmark of American industrial democracy is currently under attack by those that would deprive workers of the right to vote on this critical workplace issue in a free secret ballot election. Congress must act decisively to preserve and strengthen this fundamental right for all American workers.

Biennial Budgeting

The Committee applauds the President for again proposing biennial budgeting, which would allow Congress to spend more time on program oversight and legislating. This change would promote longer-term fiscal planning and ultimately save taxpayer money. I am currently drafting a variation of this proposal, and look forward to working with my colleagues on the HELP and Budget Committees to advance this policy.

Thank you for your consideration. If you have questions and are unable to reach me, please have your staff contact Katherine McGuire at 4-6770.

Sincerely,

Michael B. Enzi

Michael B. Enzi
Chairman

United States Senate

COMMITTEE ON HEALTH, EDUCATION,
LABOR, AND PENSIONS
WASHINGTON, DC 20510-6300

March 2, 2006

The Honorable Judd Gregg
Chairman
Senate Committee on the Budget
624 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Kent Conrad
Ranking Member
Senate Committee on the Budget
624 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Judd and Kent:

I write to provide Democratic views and estimates from the Health, Education, Labor and Pensions Committee for your consideration as you prepare the fiscal year 2007 budget.

The Bush Administration's proposed budget clearly demonstrates the devastating long-term impact of the President's irresponsible tax policy. It would cut discretionary domestic spending, other than Homeland Security, by $16.8 billion, or 4.6% in FY2007. This would result in an unprecedented decline in real spending on domestic priorities over the next five years, as inflation and population growth seriously erode the capacity of programs. Consider what this would mean for our most urgent domestic priorities. By FY2011, funding for education and training would be reduced by 12.6% in real dollars; funding for health programs would be reduced by 8.8% in real dollars. This letter details the destructive impact such cutbacks would have on national policies within the jurisdiction of the HELP Committee.

Even with the draconian cutbacks the Administration has proposed, the long-term deficit outlook gets worse, not better. It would be the worst of all budgetary worlds – our most basic domestic needs going unmet while large deficits accumulate as far as the eye can see. The Administration concedes that there will still be an on-budget deficit of $420 billion in FY2011. That figure fails to consider a number of major costs within the next five years, including AMT reform to protect middle class taxpayers. While the administration has finally included $120 billion for the short-term costs of our military commitments in Iraq, Afghanistan, and elsewhere – likely not enough – it fails to include anything beyond 2007. The Congressional Budget Office's conservatively estimates $298 billion more will be necessary between FY2007 and FY2016.

Indeed, the most misleading aspect of the Administration's projection is its failure to look beyond five years. Once all of the distortions in the Bush budget are factored in, it becomes clear that the long-term trajectory of the budget deficit is sharply upward. Enormous new costs would hit between FY2011 and FY2016 if President Bush's proposals to make the tax cuts permanent were ever enacted. The ten-year cost of making the Bush tax cuts permanent exceeds two trillion dollars, including interest costs. In fact, the federal debt would soar to $12 trillion by

FY2011. The impact of such huge additional costs would make it virtually impossible for the federal government to continue meeting its traditional responsibilities.

In light of this extraordinarily bleak budget picture, I strongly urge the Budget Committee not to provide for any new tax cuts and not to provide for extensions of expiring tax cuts beyond FY2007. Congress' first responsibility is to do no more harm to the nation's finances. If the Bush Administration's tax cuts are made permanent, the deficit will become permanent as well.

Rather than considering an extension of those Bush Administration tax cuts that primarily benefit the wealthiest taxpayers, Congress should be rescinding them. The cost of continuing these tax cuts is unaffordable and the distribution of the tax benefits from them is very unfair. The tax rates on the top income brackets should be restored to their 2001 levels, the reduced value of exemptions and deductions for high-income taxpayers should be maintained (PEP and Pease), and the tax breaks for capital gains and dividend income should be eliminated. Taking these actions would be a major step to restoring financial stability and providing the resources necessary to meet our most urgent national needs.

Furthermore, at a time when resources are so scarce, we should not be tolerating corporate tax loopholes which allow major corporations to avoid paying their fair share of tax on their income. Recent corporate scandals have focused public attention anew on the serious problem of transactions undertaken for tax avoidance rather than for legitimate business purposes. These dubious tax shelters result in billions of dollars in lost revenue each year. The rules governing the shifting of income between a corporation's domestic and foreign affiliates need to be substantially tightened. Corporations should not be receiving tax benefits for sending American jobs abroad. The budget should make provision for legislation that would generate significant additional revenue from the closing of these corporate tax loopholes.

HEALTH

America faces a health care crisis. The number of the uninsured has risen to an unprecedented 46 million, and no American family is more than one pink slip or one employer decision away from being uninsured. Costs are rising out of control, making health care coverage less affordable, and undercutting American industry in the global marketplace. Insurance premiums have increased a whopping 73% in the last five years. That rate is more than five times higher than the growth in earnings – putting quality health care out of reach of millions of Americans.

The President's proposed budget fans the flames of this crisis, by failing to offer real solutions. Instead, it includes disastrous cuts in essential health programs. Medicare, Medicaid, cancer research, newborn screening, trauma services for children, and many other essential programs will be severely reduced or even eliminated. The budget is a prescription for disaster for the health care crisis.

The real solution to the health care crisis is to make Medicare available to every American who wants to enroll in it. Administrative costs are low, patient satisfaction is high, and patients have the right to choose any doctor and hospital they think is best. Those who prefer private insurance should be able to choose any plan offered to members of Congress and the President. The budget resolution should reflect a commitment to seeing that every American can have access to quality health care. Our budget priorities should also respect America's commitment to finding new cures for serious illnesses, and to aiding those affected by the challenge of disease by supporting health programs.

The budget resolution should also reflect the extraordinary potential of health information technology to improve the quality and efficiency of health care. It is unconscionable to slash the budgets of essential health programs while squandering over $500 billion every year on the administrative costs of health care. Targeted investments in health information technology can help save billions of dollars every year and help avoid thousands of medical errors. Despite this great promise, the budget calls for an investment in health IT that is far below the level of our economic competitors. The budget resolution should provide at least $222 million for health IT, doubling last year's appropriation.

Medicare

Passage of Medicare in 1965 was one of the great triumphs of public policy of the past half-century. Congress and the President made a solemn promise to every senior citizen that if they worked hard and played by the rules, they would be assured of quality health care in their golden years.

Enacting the proposals in the President's budget would seriously undermine that promise. The budget proposes a $105 billion in cuts over 10 years to Medicare. These cuts will undermine the quality of care provided to the nation's seniors. The budget allocation for Medicare should be increased by $105 billion over ten years to reverse these cuts.

Instead of proposing disastrous cuts in Medicare, the budget should include serious proposals for improving the flawed Medicare drug benefit. The budget should provide for giving the Secretary the authority to negotiate prices for prescription drugs sold under the program. Using the bargaining power of 40 million Medicare beneficiaries can reduce the cost of these medicines substantially for both the elderly and disabled and for the Medicare program. The current ban on such negotiation is indefensible. Savings should be used to improve the benefit and to reduce the overall cost of the program.

The budget should include proposals to rectify the many gaps and inadequacies of the drug coverage provided under Medicare Part D.

In addition, the current system of paying Medicare HMOs and other private insurance plans more to care for Medicare beneficiaries than it would cost to serve the same individuals under the traditional program is anticompetitive and wasteful. These unjustified subsidies should be eliminated.

Medicaid

Cuts in federal support for Medicaid are the wrong solution to the deficit problem at a time when the number of uninsured is rising and state budgets are already stretched to the limit. A deficit created by tax cuts for the wealthy should not be addressed by cutting essential health services for low income children, elderly and disabled Americans. The President's budget proposes cuts of $14 billion for Medicaid. The Committee's budget should reject these cuts. On top of the draconian reductions already approved in the Deficit Reduction Act, these cuts will mean worse health for poor families, the disabled, and those facing the challenge of mental illness.

The Administration has also stated that it wants to expand enrollment of eligible children in the CHIP and Medicaid program. A first step to achieving this objective would be to restore more than $1 billion in CHIP authorized funds that lapsed to the Treasury at the end of the last fiscal year. Each time funds have lapsed in the past, Congress has acted to restore them, and the need this year is greater than ever.

Expanding health insurance coverage

Since President Bush took office, five million jobs providing health insurance have been lost. Over the course of the last two years, more than 80 million Americans—one in every three Americans under 65—have been without coverage for an extended period. Expanding health insurance coverage should be a priority. The budget fails to take effective action on this crisis, and instead lavishes tens of billions of dollars in subsidies on gimmicks, such as health savings accounts, that primarily benefit the wealthy and undermine coverage for millions of Americans. These proposals should be rejected.

Minority Health and Health Disparities

The nation continues to lose ground in minority health. Whether it is cancer, diabetes, or heart disease, minorities continue to live sicker and die sooner. For some diseases, such as HIV/AIDS and obesity, minorities are experiencing genuine epidemics. The 2006 AHRQ Healthcare Disparities report showed that the healthcare gap for Hispanics is widening. African Americans, in particular, are at risk—research has found that almost 900,000 deaths could have been prevented from 1991 to 2000 if African Americans had received the same level of health care as whites. Significant federal investment is critically needed to support and expand research and programs to improve minority health and eliminate disparities. The budget not only fails to respond to the health needs of minorities, it actually reduces the national commitment. The Congressional budget should invest $610 million in the Minority HIV/AIDS Initiative, expand the Title VII diversity training programs, and maintain if not expand funding for the HHS Office of Minority Health, the NIH Center on Minority Health and Health Disparities, and the HHS Office of Civil Rights.

Health Personnel Training

Quality health care is contingent upon an adequate supply of well-trained health professionals in the medical, nursing, dental and allied health fields. Many communities, particularly minority and rural communities, are facing a severe and unrelenting shortage of health providers. In light of 6 years of decline in applications to medical schools, ongoing challenges with faculty recruitment and retention for all the professions, and continued nursing shortages, these needs are growing, not lessening. The Administration's budget turns a blind eye to this problem by slashing funding for the health professions programs, and the Congress reject these cuts and increase funding for these programs.

Prevention

In light of the epidemic of chronic disease in the nation, particularly diabetes, obesity, and heart disease, programs focused on disease prevention and health promotion deserve expanded funding. Prevention programs have been shown conclusively to improve quality of life, add years of life and save money. The President's budget cuts $197 million from the CDC's budget, including $99 million in state grants for preventive health and health services and $20 million in funds for chronic disease prevention. This short-sighted focus will cause needless suffering and death for millions of Americans, and impose greater financial burdens on the nation's already strained health care system long-term. The budget resolution should reject these cuts and expand funding for the Centers of Disease Control and Prevention sufficient to keep up with inflation.

Information technology

The adoption of modern information technology in health care, including an electronic medical record, is the single most important step that can be taken to reduce costs and improve quality. The Administration estimates that widespread adoption of such technology can reduce health costs by as much as $140 billion a year.

Federal financial incentives, assistance, and standards are needed to assure the promise of health information technology is achieved. Despite the possibility of long-term savings, many providers are unable to make the initial investment necessary to install a health information technology system and conduct the necessary training of staff.

The budget calls for only $169 million for health information technology. This figure pales in comparison to the investments made by our economic competitors. From 1997 to 2004, Canada invested over $1.2 billion in health information technology. The Canadian government is partnering with the private sector to leverage these funds. In 2002, the U.K. established a national program for health information technology, with nearly $11 billion invested by the government to date. It is projected that the U.K. will have invested as much as $16 billion by 2010. The budget resolution should include investments comparable to those of our economic competitors by providing at least $222 million for health IT, doubling last year's appropriation.

Bioterrorism

The President's budget makes significant cuts in several important bioterrorism programs. At CDC, lab capacity and anthrax research would be cut by $15 million. Public health improvement activities would be slashed by $75 million. At HRSA, funding for the hospital preparedness grants is flat-funded at last year's level of $483 million. Bioterrorism Training and Curriculum Development for health care providers would be cut by $7 million. In addition to these cuts, CDC grants to states, to upgrade capacity and prepare public health agencies for bioterrorism, are flat-funded at the 2006 level of $797 million. The budget cannot truthfully claim to be keeping America safe while continuously draining resources for vital programs such as these. I urge the Committee to increase funding for bioterrorism and public health preparedness activities by $393 million, including HRSA programs for bioterrorism training, as well as CDC programs for bioterrorism research, state public health preparedness, and public health improvement.

NIH

Once again the Administration has failed to maintain an acceptable level of commitment to the National Institutes of Health (NIH). The fiscal year 2007 budget does not increase funding over 2006. The FY 2006 budget was a cut from FY 2005, meaning that this is the first time since 1953 that the NIH budget has been cut over a two-year period. In addition to inadequate funding overall, 18 of 19 Institutes suffer cuts. The inadequate funding of NIH will result in cutbacks to existing grants. The rate of inflation for biomedical research is over 4 percent, yet the budget proposes no increase for renewals of existing grants, which will result in decreases in inflation-adjusted dollars. Flat-funding NIH overall, then robbing Institutes to fund the Office of the Director threatens our progress against such dread diseases as cancer and heart disease. It reduces our nation's ability to respond to bioterrorist threats. It undercuts future economic growth, which, in this new century of the life sciences, may depend as heavily on biotechnology and advances in medicine as economic growth in the last quarter century depended on the development of computer technology. The new budget should not only avoid cuts to NIH but should provide sufficient funding to allow for healthy program growth. To do so, the budget resolution should add $2.84 billion to the funding for NIH.

FDA

The Food and Drug Administration overseas the Nation's drugs, medical devices, much of the food that we eat, and other consumer products as well. The budget should fully fund the FDA's vital public health mission. Most notably, monitoring the safety of drugs and other medical products once they are approved or cleared for marketing has been seriously under-funded in recent years, and substantial additional funds for this function should be included in the budget. The budget should also include additional funds to enhance food safety and to fund fully the medical device, prescription drug, and animal drug user fee programs.

Children's Hospitals Graduate Medical Education

Children's hospitals train nearly one-third of all pediatricians, almost half of all pediatric specialists and the majority of pediatric researchers. The program has been a tremendous success and enjoys broad bipartisan support. The Children's Hospitals Graduate Medical Education program has reversed the decline in pediatric residency programs and has a significant impact on reducing the financial drain the lack of graduate medical education funding had on Children's Hospitals before the CHGME program was enacted. The Administration's budget cuts the program by $198 million dollars, two-thirds of the total CHGME budget. I urge the Budget Committee reject these proposed cuts and provide full funding for this important program that is vital to training the Nation's future pediatricians.

Healthy Communities Access Program

Community health centers provide care to many of the neediest Americans. Although the President's budget provides increased funding for community health centers, it neglects the important Healthy Communities Access Program (HCAP). Study after study has shown that proper care coordination can improve health and reduce costly and painful hospitalization. Grantees of the HCAP program have improved care coordination networks among community health centers, invested in information technology systems to integrate patients' medical records, and have implemented many other innovations to improve the health of the communities they serve. It is irresponsible for the President's budget to eliminate funding for this important program by over 95 percent, and I urge the Budget Committee to provide HCAP with the funding it needs to continue its essential work.

Family Planning

The Administration has continually stated its desire to reduce the number of unwanted pregnancies, and abortions among women. In order to accomplish this goal it is essential to fully fund Title X, the nation's family planning program. Title X provides service delivery grants to 85 public and private grantees located in every state. Title X clinic services prevent unintended pregnancies, reduce the need for abortion, lower rates of sexually transmitted diseases, including HIV, detect breast and cervical cancer at its earliest stages, and improve women's health. Clinics receiving Title X funds must provide a wide array of confidential preventative health services including contraceptive services; pelvic exams; pregnancy testing; screening for cervical and breast cancer; screening for high blood pressure, anemia, and diabetes; screening for STDs; basic infertility services; health education; and referrals to other health and social services.

President Bush has not proposed any increase in Title X funding since taking office in 2001. Because the program has remained under-funded for so long, clinics are struggling to pay for newer, more effective, but more costly, long-lasting methods of contraception and state of the art diagnostic tests that promise improved rates of detecting STDs and cervical cancer.

In addition, the Administration's proposed funding level for international family planning programs funded through USAID would be reduced by approximately $80 million, a cut of nearly 20%. While the budget allows for a contribution to the United Nations Population Fund

(UNFPA) of $25 million, it is still less than the $34 million approved by Congress in FY05. Funding is also contingent upon the Administration's determination that the UNFPA has not violated the Kamp-Kasten law, something that has not happened since 2002. I urge the Committee to increase funding for international family planning, by adding $83 to the budget resolution for these activities.

Maternal and Child Health Block Grant

The Administration also recommends flat funding for the Maternal and Child Health (MCH) Block Grant. The MCH Block Grant is authorized under Title V of the 1935 Social Security Act. It is the only federal program solely devoted to improving the health of all mothers and children, including those with special health care needs. The MCH Block Grant must be maintained if not expanded in the FY'06 Congressional budget.

Programs devoted to the care of mothers and children are also being cut internationally, with $37 million in cuts to USAID's child survival and maternal health programs. Child immunizations, safe birthing, and basic disease prevention and treatment for the world's poorest women and children will suffer if these budgets are not maintained or increased. I therefore urge the Committee to add $39 million to the budget resolution for these activities.

EDUCATION

Few things more affect the way we live than our shrinking and rapidly changing world. Unless we begin to address this immense challenge more effectively, the nation will pay a high price for years and years to come. To do that, we must make a commitment to lifelong education, to prepare every man, woman and child for the new world of intensifying competition and increasingly sophisticated technologies.

President Bush has highlighted the critical need to ensure America remains competitive in the global economy. But the reality of his Fiscal Year 2007 budget proposal fails to match his rhetoric. This is especially true in his education budget, where the President's response to the global challenge is to propose the largest cut in education funding in the history of the Department of Education.

We will not move forward as a nation if we cut our investment in education. America will need the talent and creativity of every individual if we are to meet the global challenge we face. Now more than ever, one of our highest budget priorities must be a world class education for every American. While we must focus on improving math, science, technology and engineering and critical-need foreign language education, we cannot ignore this fundamental need to improve educational opportunity for every individual.

The President's budget ignores this critical need, and instead takes us a step backwards by cutting proven education and job training programs that will help Americans compete in the future.

This budget request cuts funds for the Department of Education by $2.1 billion, or 3.8% below the comparable 2006 level, which represents the largest cut since the Department was established 26 years ago. I am especially concerned about the elimination of career and technical education, the elimination of key programs that promote access to and retention in postsecondary education, and once again underfunding the bipartisan No Child Left Behind Act public school reforms.

To keep America competitive in the global economy, we must increase our investment in education by at least $22.7 billion in this year's budget, including $15.9 billion to fully fund the No Child Left Behind Act, at least $4.3 billion to immediately increase the maximum Pell grant to $4,500 and funded $2 billion to provide scholarships and incentives for teachers who teach in high poverty schools, and at least $500 million for teacher training and education programs at the National Science Foundation. In addition, I urge the Committee to reject the President's proposed cuts to education programs and to restore the funding cuts that many programs sustained in Fiscal Year 2006. These investments are critical to keeping our promise to our children through the No Child Left Behind Act and to helping hard-working families afford the American dream of a college education for their children. To secure America's future, we will need to sustain and expand on this increased investment in the coming years.

In higher education, I am especially disturbed by the President's proposed cuts to the GEAR UP, TRIO Upward Bound and Talent Search, the Perkins loan programs, and his failure to propose an increase in the Pell Grant. Last Spring, in response to a similar proposal by the Administration, the Senate responded by adding $5.4 billion back into the education budget to increase the maximum Pell grant to $4,500 and restore funding for these key programs. But the Senate provision was stripped in conference. Again, last fall, the Senate voted to increase the maximum grant for Pell recipients to $4,500, with $6 billion over 5 years in mandatory spending in the budget Reconciliation bill. But again, the conferees rejected the Senate proposal. I urge you to include $4.3 billion in either mandatory or discretionary spending to immediately raise the maximum Pell grant to $5,100 or at a minimum include the amount previously approved by the Senate with an increase of $1.85 billion in either mandatory or discretionary spending to immediately raise the maximum Pell grant to $4,500.

GEAR UP and TRIO are time-tested programs that change lives. The Council for Opportunity in Education estimates that 91 percent of students in Upward Bound and 73 percent of students in Talent Search enroll in college, compared to 41 percent for students similarly situated economically but who do not receive the enrichment programs. The budget should invest more in these proven programs, not discontinue their funding.

Perkins loans, formerly known as National Defense Student Loans, provide undergraduates with up to $4,000 a year in college aid, and often make all the difference in a student attending college. To eliminate Perkins loans while not increasing the maximum Pell Grant a dime, as the President proposes, would make college *more unaffordable* for most of the 673,000 annual Perkins loan borrowers. Funding for Perkins loans and an increase in the maximum Pell grant, which President Bush has called for repeatedly, would go a long way in helping families offset expensive college tuition and fees, which have risen 46% at public colleges since President Bush took office.

As you know, the budget Reconciliation bill signed into law last year also shifted $600 million in essential funding for student aid administration from the mandatory budget to the discretionary budget. This misguided action should be reversed. I urge you to either restore these funds in the mandatory budget or fully fund the account through the discretionary budget to ensure the viability of the Direct Loan program and the administration of federal aid.

Another program critical to the success of students and workers in this era of globalization is career and technical education. The Administration has proposed the elimination of the $1.3 billion Perkins vocational education program, a misguided policy that will rob students of critical resources that will help them compete for the jobs of the 21st century. Career and technical programs give high school and postsecondary students the challenging academic courses and state of the art technical skills they need to get good jobs or continue their education.

We need to prepare all students to compete in the global economy, and to help the millions of students in our public schools, we must see that the reforms in the No Child Left Behind Act are well implemented, which requires funding the programs in the law at the levels carefully negotiated when it passed. America's students and families deserve a budget that supports school improvement, small classes, better teaching, after-school programs and extra help for students that need it.

We must increase funding of the Title I education program for disadvantaged students to its authorized level next year in order to reach the 3.7 million children who would be left behind under the President's proposal, to ensure they are not shortchanged in the promise of school reform. The nation's budget should live up to the promise of No Child Left Behind, and that includes increased investments in the Math and Science Partnerships program, limited English language learner programs, Star Schools, Ready to Learn and Ready to Teach programs, dropout prevention and the Reading First and Early Reading First programs.

I support the President's call for improving our nation's high schools so that our students can meet the demands of the 21st century, but we need to provide real resources to do so. The President has proposed $1.475 billion for his high school initiative, but pays for it through a cut of nearly $2 billion in Perkins, GEAR UP and TRIO alone. We cannot ask the states to make up the shortfall in Title I, continue Perkins, GEAR UP, and TRIO, and meet new high school requirements all with fewer resources. We should provide new funds to meet this challenge.

For America to remain competitive, we need a significant and sustained increase in investment in teachers. This is critical to improving math and science education in our country, but also to helping us meet the goals of the No Child Left Behind Act. To meet this challenge, I urge you to include a $2 billion increase in funding for the Title II Teacher Quality program in the No Child Left Behind Act to provide scholarships and other incentives to attract and retain high-quality teachers in high-need schools.

We must also reverse the disturbing trend in funding for programs at the National Science Foundation (NSF) that focus on improving math, science, technology and engineering education. It is appalling that these programs have sustained cuts in recent years, as the international educational challenge we face becomes ever more acute. The President's request for the NSF's

Education and Human Resources (EHR) Directorate would not even restore funding to the 2005 level.

I am especially concerned that the President has proposed a 27% cut in funding for the Math and Science Partnerships at NSF that provide cutting-edge teacher training through innovative partnerships with higher education. The National Science Board has advocated for sustained, full funding of the partnerships as an essential component of improving math and science education in the U.S. I urge you to reverse this trend by increasing EHR funding by at least $500 million – to increase funding for the Math and Science Partnerships to their $400 million authorized level and put us on a path to doubling funding for other EHR programs over the next five years.

Finally, we must do more to see that all children begin school ready to learn. Children that participate in high quality early education programs are less likely to be held back a grade and less likely to need special education. Conversely, such children are more likely to complete high school on time and succeed later in life. It's far less costly to society to spend millions to put young children on the right track from the start, instead of spending billions to rescue them from the wrong track later. In fact, one study concludes that in the long run we save $13 for every dollar invested in the early education of our youngest citizens.

Unfortunately, the Administration proposes no increase in Head Start funding and the elimination of the Even Start program, which was cut by 56% last year. Due to increases in program costs, 19,000 children would be dropped from Head Start classrooms under the President's proposal. By eliminating Even Start, the President's budget would eliminate the only federal program aimed specifically at supporting literacy through the development of children and their parents. Its services target and reach young children most in need of assistance, integrating early childhood education, adult literacy, and parenting education into a unified strategy to support their families. I urge you to recognize the critical role of quality early education for our children by reversing the cuts to the Even Start program in recent years, and by increasing funding for the Head Start program by at least $520 million for FY07 and increasing funds for child care by at least $540 million.

ECONOMIC SECURITY

For America's working families, the current economic recovery has been a rocky one. Wages are stagnant, while prices for necessities like gasoline, housing, and health-care have skyrocketed. The cure for these ills is good jobs, with good wages and good benefits, but the Bush economy is not providing these opportunities. The employment market is limping along, creating the worst jobs recovery record since World War II. More and more good American jobs are being shipped overseas, and global competition is pushing workers' wages down still further. There are twice as many unemployed workers as available jobs in our economy, and there are 1.2 million Americans that have been unsuccessfully looking for work for more than six months.

In our increasingly shrinking world, where Americans compete against businesses and workers across the globe, our government needs to focus on creating the good jobs of the future, training American workers to take these jobs, and helping working families adjust to the new economy. These investments are critical to the survival of the American middle class.

To create the workforce of the future, we need to substantially increase funding for job training programs under the Workforce Investment Act, and make sure that every worker who loses a job because of trade can receive training through the Trade Adjustment Assistance Program. To achieve this goal, we must eliminate caps on training grant funding for TAA, so that no eligible worker is left out of the program. TAA should also be expanded to cover service sector workers and workers affected by trade with countries (like China and India) with whom we do not have preferential trading agreements.

To help those workers that are struggling adjust to the profound shifts in our economy, we must modernize our unemployment system to meet the needs of the 21st Century. Our current, outdated system does not allow us to automatically extend benefits during difficult economic times, and excludes many of the most vulnerable workers from the unemployment system. We need to bring this system up-to-date by guaranteeing unemployment benefits to part-time and low-wage workers, broadening eligibility requirements for extended benefits, and lowering the threshold that triggers an automatic extension in benefits.

To level the playing field so that American companies and American workers can compete fairly, we must be the world leader in fighting to end abhorrent practices like child labor and forced labor that produce cheap goods under immoral conditions. Fully funding the International Labor Affairs Bureau is critical component of our national commitment to this important mission. We must also reaffirm our commitment to protect the rights of American workers at home. The critical agencies that protect American workers' safety and workplace rights are woefully under-funded. This year's budget must provide for increased enforcement activities at the Occupational Safety and Health Administration and the Mine Safety and Health Administration, with funding specifically designated for additional safety inspectors. We must also combat workplace discrimination and preserve workers' voice at work by providing at least an inflationary increase in the budget of the Equal Employment Opportunity Commission, and a substantial increase in the budget of the National Labor Relations Board to ensure that these important agencies can enforce the law without undue delay.

Unfortunately, the Administration budget does not reflect these priorities, but instead makes deep cuts to vital programs that threaten our future economic vitality.

Job Training and Unemployment Insurance

In his State of the Union address, the President acknowledged that "to keep America competitive, one commitment is necessary above all: We must continue to lead the world in human talent and creativity. Our greatest advantage in the world has always been our educated, hardworking, ambitious people -- and we're going to keep that edge." Yet, the President's budget ignores this commitment, slashing overall job training funds by more than $819 million, or almost 9 percent.

Instead of investing in the American workforce, the Administration is playing a shell game with job training money, taking money from existing job training programs to give the illusion that they are helping workers get the skills that they need. The Administration's proposal to combine adult and dislocated worker funding under the Workforce Investment Act (WIA) and Employment Service (ES) programs into a single block grant has been rejected for years because it effectively guts our job training system. This change would result in the elimination of discrete programs that provide vital services to groups with special needs, and could pit welfare recipients against unemployed workers in competition for limited funds.

The Administration's proposal to create "Career Advancement Accounts" is similarly misguided. These accounts provide workers with a far less valuable benefit than they receive today. Under this system, workers are required to pay for federal training services that are currently available for free. There is no mechanism to ensure that workers receive the services that are best-suited to their circumstances, or that federal tax dollars will be spent on effective training programs, rather than lining the pockets of fraudulent providers. The Administration foolishly seeks to devote 75% of federal job training funds to this ill-advised program, while devoting only 22% of funds to core job training services. This allocation would effectively destroy the one-stop centers that have formed the backbone of our job training system since the bipartisan enactment of WIA in 1998.

Finally, the Administration also proposes to slash Job Corps funds for youth training by $55 million, and to eliminate the Migrant and Seasonal Farmworker grants that help migrant and seasonal farmworkers and their families achieve economic self sufficiency, the Youth Offender grants that address the specific workforce challenges of youth offenders, and the Work Incentive grants that help job training centers provide comprehensive services for people with disabilities. The elimination of these targeted assistance programs for vulnerable workers is inexcusable. Congress has rejected the Administration's attacks on these programs in the past, and should continue to do so.

Trade Adjustment Assistance

The disappearance of good jobs for American workers is hurting our standard of living and threatening the very existence of the American middle class. More and more American jobs are being shipped overseas. We've lost nearly 3 million manufacturing jobs in forty-seven states since 2001. Most are good, middle-class jobs, with decent wages and benefits. And it's not just blue-collar jobs--millions of high-paying white-collar jobs are now at risk of being shipped overseas, especially computer jobs, and even many business and management jobs. Fifty-four percent of America's top companies have already shipped jobs overseas.

The Trade Adjustment Assistance (TAA) program that provides training, income support, and health care coverage for workers that lose their jobs because of increased global trade historically has been woefully under-funded by the Bush administration. Many states exhaust their training funds before the end of each fiscal year, precluding numerous workers from being able to take advantage of training programs to which they are entitled. Unfortunately, as in previous years, the President's budget includes insufficient resources to fully support this important program. The budget seeks only $260 million in training funds, a $5 million cut in real dollars compared with FY 2006.

Investing in High Quality Jobs of the Future

Many of good, middle-class jobs that our country is losing are in the manufacturing sector. Yet the President's policies have undermined the competitiveness of American companies in manufacturing industries that create good-quality jobs for American workers. The Bush budget cuts funding for the Manufacturing Extension Partnership – which helps small manufacturing businesses adopt the latest procedures and technology – by $67 million, or 59%, and eliminates entirely the Advanced Technology Program – which provides seed money for high-risk, high-reward research and development in technology. These cuts should be rejected.

Enforcing International Labor Standards

One of the reasons that American companies are struggling in the global economy is that many foreign governments don't play by the rules. They refuse to enforce basic labor protections like a minimum wage or maximum working hours. Some use abhorrent practices like child labor and forced labor, where modern slaves are compelled to work against their will. As globalization brings American companies and American workers in closer competition with these countries, it's more important than ever that we invest in efforts to improve working conditions in the international community. Yet, the President's budget slashes funding for the International Labor Affairs Bureau (ILAB) by $60.2 million, or almost 83 percent. In its explanation of "Major Savings and Reforms" in the budget, the Administration expressly states that the purpose of this drastic reduction in ILAB's funding is to restore the agency to its "original mission of research and advocacy" by eliminating the agency's "grant-making mission intended to combat international child labor . . . [and] support core labor standards development." In the modern global economy, this proposal is simply nonsensical. America must be the leader in promoting fair labor standard throughout the world.

Protecting workers' rights at home

The United States must reject the "race to the bottom" in labor standards that globalization creates, by reaffirming our commitment to protect workers' rights here at home. Yet the President's budget cuts funding for the already under-funded Equal Employment Opportunity Commission by $8 million, and inadequately funds the National Labor Relations Board by providing a minimal increase that is not sufficient to keep pace with inflation.

The NLRB has labored under serious financial limitations for years, which has generated a troubling backlog of uninvestigated and unresolved cases. For several years, the NLRB has barely had sufficient funds to maintain current staffing levels, much less enough to hire additional employees who can investigate cases and reduce the backlog. We must fully fund the Board to enable it to reduce this significant backlog of cases

We must also make certain that the Equal Employment Opportunity Commission has a strong budget to continue fighting for discrimination-free workplaces. The proposed cuts to the

Equal Opportunity Employment Commission are difficult to explain, as the Administration's request projects rising backlogs and decreasing case resolutions, but provides the agency with $8 million fewer in operating funds.

The Administration also seeks to eliminate a proviso in recent budget appropriations stating that the Commission "may take no action to implement any workforce repositioning, restructuring, or reorganization until such time as the [Senate and House] committees on appropriations have been notified of such proposals." This oversight provision is critical as the Commission continues its controversial restructuring program. This year the Commission will be implementing phase 2 of its restructuring (the reorganization of district and regional offices around the country) over Congressional objection, introducing phase 3 of the plan (the restructuring of headquarters), and trying to make phase 1 of the restructuring (the implementation of a call center) a permanent change. These ongoing reorganization efforts have generated significant concern from the Commission's constituent groups and its own employees, and Congressional oversight remains a relevant and necessary protection.

Prioritizing Safety and Health

As the recent, tragic events in West Virginia illustrated all too clearly, we need to make the protection of worker safety and health a stronger priority in this country, with better enforcement of safety laws and higher workplace safety standards. Yet, the President's budget for worker safety and health simply maintains the status quo. Adjusting for inflation, the FY 2007 budget would provide the same level in overall funding and program activity for both the Occupational Safety and Health Administration (OSHA) and the Mine Safety and Health Administration, as compared to FY 2006. However, it provides a 10% cut in coal safety enforcement spending levels, compared with FY2001 inflation-adjusted figures. The MSHA proposed budget also includes a scant $.2 million increase for safety standards, which is clearly inadequate. No provisions are made for increased enforcement activities at OSHA or MSHA, and no funds provided for any additional safety inspectors. I urge the Committee to restore the number of safety enforcement staff to at least FY2001 levels, and to specifically designate increased funds to develop mine safety regulations, provide training to mine rescue teams, and to develop and implement new technologies to help save miners' lives.

Also very troubling is the Administration's proposal to eliminate all funding for worker safety training programs ($10.1 million appropriated by Congress in FY 2006), while at the same time seeking increases for employer assistance programs. A total of $130 million is proposed for programs to provide compliance assistance to employers, compared to zero funding for programs to provide outreach to workers. Congress has repeatedly rejected the Bush Administration's attempts to totally eliminate funding for worker safety and health training and education programs in past years, and should continue to do so.

The President's budget also proposes to cut the budget for the National Institute of Occupational Safety and Health to $250 million. This funding request is $4.5 million less for NIOSH program activities than appropriated in FY 2006, and in inflation adjusted terms represents nearly a $10 million cut for the job safety and health research agency. This is a significant reduction in the nation's commitment to preventing workplace injuries, diseases and deaths. We must preserve the valuable research, information, and education services that NIOSH provides by maintaining current funding levels.

Preserving Retirement Security

The Administration's budget proposal again proposes to create Lifetime Savings and Retirement Accounts (LSAs and RSAs). I continue to be troubled by these proposals, which Congress wisely rejected last year, because they would pile on more tax breaks for the wealthy to save for retirement, while leaving ordinary working people behind. These accounts reward wealth instead of work, by giving the richest Americans tax breaks on tens of thousands of additional dollars each year. And this proposal would drastically increase our deficit by eventually costing our country billions of dollars outside the budget window. I strongly urge the Budget Committee to reject these enormous tax cuts which would only benefit the wealthiest of Americans and would further exacerbate the existing budget crisis.

Valuing Federal Employees

The President's budget reveals that the Bush administration is continuing its longstanding attack on federal employees. The proposed 2.2 percent pay raise for federal civilian employees and members of the armed forces will not allow the salaries of federal employees to keep pace with the rate of inflation. The President is also seeking authority from Congress to provide special pay increases for hard-to-fill jobs or occupations, using funds from the pool of money that traditionally has been used for across-the-board increases and raises that vary by location. I am concerned that this change could negatively affect raises in base pay for ordinary federal workers, and I urge Congress to protect our valued federal workforce by denying the Administration's request.

Preserving Valuable Economic Data

In these rapidly changing economic times, when too many working families are struggling to get by, it is important that we have as much information as possible about the economic well-being of American families. Yet, the Bush Administration is continuing its quest to eliminate the collection of important data about the state of the economy and the status of the American workforce by proposing to eliminate the Census Bureau's Survey of Income and Program Participation (SIPP).

The SIPP is the only nationally representative survey that allows us to understand the implications of these and prior years' budget cuts on family economic well-being. The SIPP is a unique source of high-quality data on the economic well-being of the U.S. population. The United States currently has no other survey that provides longitudinal data on this range of topics with a sample large enough to do meaningful policy analysis. These features have made the SIPP the preeminent survey for analyzing the effects of social policy, from the Earned Income Tax Credit to the 1996 Personal Responsibility and Work Opportunity Reconciliation Act (welfare reform).

Without the SIPP, we will not be able to evaluate how many workers move up and out of minimum wage jobs, whether former welfare recipients are faring better today than they were prior to welfare reform, whether low wage workers are more or less likely to receive unemployment insurance, or what share of the population had health insurance coverage for the whole year last year. Without this vital information, we are left with an incomplete and often inaccurate understanding of the state of the economy, the status of working families, and the success or failure of our social programs. The elimination of the SIPP is yet other example of this Administration's selective elimination of routine economic and workforce data, where the President has politicized the information gathering process to serve partisan political goals.

HUMAN SERVICES

The Budget Resolution should include sufficient funding for essential anti-poverty programs. The Bush budget makes substantial cuts in human services spending. Key low-income programs are hit despite the annual rises in poverty and hunger since 2000. 5.4 million more people are living in poverty than in 2000, and the number of individuals who are hungry or on the verge of hunger has increased by 5 million in that same period. Funding for the Community Service Block Grant (CSBG) should be maintained and the President's proposed $1.7 billion cut to the Social Services Block Grant (SSBG) should be rejected. The Resolution should include full funding for the Low-Income Home Energy Assistance Program at $5.1 billion. In addition, the Budget Resolution should include sufficient funding for programs under the Older Americans Act, rejecting proposed cuts and ensuring that funding levels are increased so that – at a minimum – the current level of services can be maintained. The President's proposed changes to nutrition programs and cuts to housing programs should also be rejected.

CSBG

The Administration's proposal to eliminate the CSBG should be rejected. CSBG provides the core funding for a network of 1,100 Community Action Agencies (CAAs) that fight poverty and promote self-sufficiency for low-income individuals, families and communities. CAAs provide a broad range of programs and services, such as affordable housing, health care, job development and placement, education, elderly services, energy assistance, homeless prevention and services. CSBG currently serves over 15 million individuals nationwide. CSBG enables the 24 Community Action Agencies in Massachusetts to serve over 472,000 individuals, including more than 161,000 children and youth, and a total of nearly 240,000 families. After the hurricanes, Community Action Agencies were some of the first organizations to respond, and provide necessary assistance to the poor and displaced. To date the CSBG Network has assisted over 355,664 Katrina and Rita evacuees. By targeting this program for elimination, the President is ignoring the needs of our most vulnerable citizens.

LIHEAP

The Administration proposes $1.782 billion in regular funds for LIHEAP. LIHEAP is a highly successful federal program available to prevent the poorest of poor from making impossible tradeoffs. LIHEAP grants money to low-income families who can't afford the steep cost of energy. Unfortunately, this program continues to be severely under-funded. Under the

President's budget Massachusetts will only receive a little over $73 million. If the program were fully funded at its authorized level of $5.1 billion we would receive almost $158 million. It's long past time to fully fund this important program.

SSBG

Congress should reject the Administration's proposal to cut $500 million from the Social Services Block Grant (SSBG). SSBG funds programs for domestic violence, meals on wheels, child welfare services, services for disabled children and adults, child care, long term care, and many other services. If this cut is maintained, Massachusetts will lose over $10.8 million.

Older Americans Act

The Administration's budget also ignores the needs of older Americans, cutting $28 million from the program. This includes $3 million in cuts to essential nutrition programs, $2 million in cuts to the National Family Caregiver Support Program, and the proposed elimination of preventative health services, and the Alzheimer's disease demonstration grants. These cuts should be rejected.

Nutrition Program

I oppose the Administration's proposal to restrict categorical eligibility to the Food Stamp Program. Under current law, individuals receiving Temporary Assistance for Needy Families (TANF) or TANF-funded services are categorically eligible to participate in the Food Stamp Program. The President's proposal would continue to allow families receiving cash assistance through TANF to automatically receive food stamps, but it would prohibit individuals who are receiving TANF-funded services (transportation, child care, etc) from being automatically eligible as well. According to CBO, this change would eliminate food stamp eligibility for approximately 225,000 individuals. In addition, the Administration's proposal to cap Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) administrative and nutrition services funding at 25 percent should be rejected.

The Commodity Supplemental Food Program provides modest food packages to low-income seniors and to mothers and children up to age six. However, the vast majority of CSFP participations are seniors. FY2006 obligations for CSFP were $111 million. The President's budget proposes eliminating the Commodity Supplemental Food Program entirely. Elimination of CSFP would eliminate CSFP benefits for approximately 500,000 individuals.

Housing

The President continues to under-fund the Public Housing Capital Fund even while there is more than a $20 billion backlog of public housing modernization needs. For FY2007, the President requests $2.178 billion for the public housing capital fund. This is a 10.7% reduction from FY06. The cut in funds ignores the real need to rebuild the public housing stock lost or damaged by the 2006 hurricanes.

The President's FY2007 budget request calls for $3.564 billion for pubic housing operating funds. This is the same level of funding provided for FY2006. According to the National Association of Housing and Redevelopment Officials, an FY2007 operating fund amount of $3.564 billion would represent only 81% of actual operating subsidy need in FY2007 as housing authorities shift to asset-based management.

In addition, the Administration targets Hope VI for elimination calling for the rescission of the $99 million provided by Congress in FY2006. I strongly oppose this proposal.

This is the second year that the President's budget request seeks drastic changes in the Community Development Block Grant program. The request would cut the overall Community Development Fund from $4.178 billion to $3.032 billion. CDBG formula grants would be cut by $3.711 billion to $2.975 billion under the President's request. Congress should maintain funding for this important program.

I also oppose the Administration's proposal to cut much needed fund for both elderly housing and housing for individuals with disabilities. The request would cut the Section 202 housing program for the elderly from $735 million to $545 million. The President's budget request would cut housing for the disabled in half from $237 million to $119 million.

VAWA

The Administration also makes significant cuts to programs aimed at preventing violence against women. The budget proposes a 12 percent real cut in funding for the Violence Against Women Prevention and Prosecution programs in the Department of Justice. The budget fails to increase funds for the National Domestic Violence Hotline. Funds are also not provided for new programs that provide protection from domestic violence and stalking, services for youth victims, training for health care professionals, and services to specific Native American women. We can and should be doing more to protect women and children.

DISABILITY AND SPECIAL NEEDS POPULATIONS

IDEA

Among our top education priorities should be meeting our federal obligation to fully fund the newly reauthorized Individuals with Disabilities Education Act (IDEA). According to the Congressional Research Service, at the President's rate of increase special education will never be fully funded. IDEA should not be subject to the vagaries of annual federal budget deliberations – the educating of students with disabilities is far too important. Providing special education is a mandatory function for states and local communities and its full funding should be a mandatory function in the federal budget. The new IDEA law sets out appropriation targets to reach full funding by fiscal year 2011. In accordance with that law, IDEA should be funded at $16.9 billion, which requires an increase of $6.36 billion over last year. The President has only requested an increase of $100 million.

In IDEA, steps were included to resolve complaints without relying solely on litigation. In order for these provisions to be effective, parents need to understand how to navigate the system. State Protection and Advocacy programs which have multiple foci, now spend 42% of their funds to help make IDEA work. The budget resolution should increase funding for Development Disabilities Protection and Advocacy programs by $7 million in order to focus more state attention on successful complaint resolution in special education.

Vocational Rehabilitation

Given the President's new focus on improving transition outcomes for disabled students, it is counterproductive that he cuts funding for or entirely eliminates programs that help people with disabilities find employment. Overall, his budget cuts discretionary Vocational Rehabilitation (VR) spending on employment and training programs by $52.5 million, which includes a $29 million cut to the Supported Employment State Grants program, which primarily serves people with intellectual disabilities. Cuts to this program and other VR programs should be rejected.

Tech Act

The Congress reauthorized the 50-state Assistive Technology Act programs, which provide access to wheelchairs, voice recognition devices and other technology to help people with disabilities live independently. Yet the President now proposes to cut overall funding for Tech Act programs by nearly $8.1 million. He proposes no funds for the low-interest loan programs and zeroed out protection and advocacy activities. Funding for the full Tech Act should be restored to $30.5 million.

SAMHSA

I strongly oppose the President's decision to cut funding for priority mental health programs at the Substance Abuse and Mental Health Services Administration (SAMHSA) by $35 million. These cuts come at the expense of proven programs of effectiveness in treating mental illness among at-risk children and adults and are in direct contradiction to the findings of the President's New Freedom Commission on Mental Health which called for a greater investment in our broken and fragmented mental health systems of care. I also strongly oppose the President's elimination of the $4.9 million Mental Health Integration in Schools grant program at the Department of Education. We know from SAMHSA-funded research centers, that improving mental health care in schools is integral to finding and treating mental illness in adolescents. We should continue our efforts, not halt them.

With respect to funding for substance abuse prevention and treatment at SAMHSA, I am alarmed by the President's $36 million cut to Programs of Regional and National Significance. This funding helps states and communities improve the infrastructure and services targeted at substance abuse prevention and treatment. We know that prevention works and that many of these programs have demonstrated their effectiveness. Given that many states have a little or none of their own funding dedicated to substance abuse prevention, the $12 million cut will have a substantial and deleterious effect on rates of addiction in our communities. The proposed $24 million reduction in funding dedicated to substance abuse treatment is also troubling, particularly as this reduction come at the expense of programs targeted at vulnerable populations such as pregnant and postpartum women, children, adolescents, and the homeless.

Ryan White

We are still facing an epidemic of domestic AIDS. According to the Centers for Disease Control and Prevention, new infections recently rose for the first time in over 10 years and we are continuing to witness alarming new trends in the disease as it begins to take a greater toll on women and minorities. Programs within the Ryan White CARE Act are vital in providing proper care and treatment for nearly 600,000 individuals and families affected by AIDS, and with cash-strapped states cutting these vital health services, more necessary now than ever.

Although I find it somewhat encouraging that the President has proposed $188 million for a new Domestic HIV/AIDS Initiative, only $70 million of this amount is targeted towards providing care and treatment and increasing access to life-saving medications. These funding levels are not sufficient. According to AIDS Action, which represents community-based HIV/AIDS organizations across the country, a funding increase of over $300 million is needed just to avoid waiting lists and meet the increased need in the state-run AIDS Drug Assistance Programs (ADAPs) in FY 2007. Other than the funding made available for limited Ryan White activities under the Domestic HIV/AIDS Initiative, the proposed budget provides only level funding for all other Ryan White programs. The budget resolution should provide for an increase of $388 million for non-ADAP Ryan White core programs and full-funding for state ADAP programs.

Thank you for your consideration of these views. I look forward to working closely with you once again this year to improve education, health and work opportunities for all Americans.

Sincerely,

Edward M. Kennedy

United States Senate

COMMITTEE ON
HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
WASHINGTON, DC 20510-6250

March 8, 2006

The Honorable Judd Gregg
Chairman
Committee on the Budget
U.S. Senate
Washington, D.C. 20510

The Honorable Kent Conrad
Ranking Member
Committee on the Budget
U.S. Senate
Washington, D.C. 20510

Dear Judd and Kent:

I appreciate the opportunity to provide the Budget Committee with my views and estimates regarding the President's Fiscal Year 2007 budget as it affects programs under the jurisdiction of the Committee on Homeland Security and Governmental Affairs. I am submitting this letter pursuant to section 301(d) of the Congressional Budget Act and hope that it will assist you in preparing a budget plan for the federal government.

Department of Homeland Security

State Homeland Security Grant Program and Law Enforcement Terrorism Prevention Program. Last year, Congress approved $550 million for the State Homeland Security Grant program, the main source of assistance to State and local governments and first responders responsible for protecting our homeland. Communities use these funds for first responder preparation activities, such as emergency planning, risk assessments, mutual aid agreements, equipment, training, and exercises. Congress also approved $400 million for the Law Enforcement Terrorism Prevention Program (LETPP), a program to provide state and local law enforcement with the tools needed to ensure adequate homeland defense. The LETPP program is critical to ensure that we are not just focused on responding to the next terrorist attack – but that we work to prevent it before it occurs. Unfortunately, the Administration's budget request for fiscal year 2007 would eliminate the LETPP and provide the State Homeland Security Grant program with only $633 million. Combined, these changes could cost our first responders $317 million from the amounts approved last year – which were themselves post-9/11 historic lows. I have serious concerns about the adequacy of these funding levels and urge you to provide for at least the FY 2005 level of funding for both the State Homeland Security Grant Program and Law Enforcement Terrorism Prevention Program.

The budget has also proposed a formula change that would devastate the ability of states to adequately plan and prepare for terrorist attacks or other catastrophic events. Under the budget proposal, states would only be assured an inadequate $1.58 million, down from $7 million last year. This proposal would deprive each state of a predictable, critical source of funds needed to ensure basic levels of preparedness. It would require many states to abandon key terrorism prevention or response efforts begun since 9/11. This proposed cut comes as new federal homeland requirements mandate positive, but costly, new state requirements on planning and NIMS compliance. States need a dependable and predictable level of homeland security funding to prepare for the next attack. Unfortunately, this proposal falls short in that regard.

Technology Transfer Program. I am also concerned that the Administration's budget eliminates the Technology Transfer grant program. This program puts needed anti-terrorism and homeland security technology and training into the hands of law enforcement and other first responders quickly and efficiently. The program is based on legislation I sponsored that passed the Senate by unanimous consent in the last Congress. The program is supported by the Major Chiefs Association, the Major Sheriffs Association and the National Sheriffs Association. Funding for this important program should be restored by Congress.

Assistance to Firefighters Grant Program. The budget proposal would reduce funding for FIRE Act grants. Recognizing the critical role America's fire service plays in protecting our communities, and that basic training and equipment form the foundation of a national homeland security strategy, Congress created the Assistance to Firefighters Grant Program to address deficiencies in training, equipment, and staffing throughout the fire service. Since the creation of the program, thousands of fire departments all over the nation have benefitted, increasing their level of readiness to potential threats not only within their jurisdictions, but throughout the country. Last year, the Department of Homeland Security received over $3 billion in applications for the Assistance to Firefighters Grant, yet the Administration's Fiscal Year 2007 budget proposal only funds the program at $293,450,000 and eliminates the SAFER hiring program. We encourage funding of at least last year's levels or higher.

Disaster Relief Fund and the Disaster Assistance Direct Loan Program The Fiscal Year 2007 budget for these two programs has increased from $1.8 billion in FY2006 to $1.9 billion. The FY2007 budget maintains staffing at FY2006 levels for a total of 3,496 Full Time Equivalents (FTEs). The DRF provides a significant portion of the total Federal response to victims in declared major disasters and emergencies. The DADLP funds loans to States for the non-federal portion of cost sharing funds and community disaster loans to local governments incurring substantial loss of tax and other revenues as a result of a major disaster. I recommend that you support the Administration's modest increase as a baseline in these two programs. These funds are continually subject to change due to natural disasters.

The Pre-Disaster Mitigation Fund and the National Flood Mitigation Fund. These two program would receive an increase of $103 million and 40 FTEs for FY2007. The President's Budget calls for $181 million, which includes $150 million for the Pre-Disaster Mitigation Fund and $31 million for the National Flood Mitigation Fund. The $31 million for the National Flood Mitigation Fund supports activities to eliminate at-risk structures that are repeatedly flooded and is funded through fee-generated discretionary funds transferred from the National Flood

Insurance Fund (NFIF). These programs are essential to reduce the risk to populations, structures, and critical infrastructure from natural disasters. I urge you to support this increase.

Port Security Grants. In the President's FY2007 request, the Administration again proposes to consolidate critical infrastructure and transportation security grants into one account. I am very concerned that this eliminates the separate line item that Congress has provided since FY2002 for port security grants. In the past four years, $815 million has been appropriated in grant funding to enhance the security of our ports, addressing widely acknowledged security concerns. During that same period, the Administration has only requested a separate line item for port security grants one time – in FY2005 for only $46 million. Our ports have also borne significant costs to implement certain security requirements under the Maritime Transportation Security Act (MTSA). The Coast Guard's original estimates for our ports and maritime industry to comply with MTSA were nearly $9 billion over 10 years ($1.5 billion in FY2004 plus $7.3 billion over 10 years). The American Association of Port Authorities (AAPA) is reassessing those estimates to provide updated cost figures. Yet, our port security is critical to our national security and requires dedicated federal funding to assist our ports in protecting this sector of our economy, through which 95% of our trade passes. Last year, I introduced S. 855 to authorize $400 million for port security grants in each of the next five years, a number supported by AAPA. The Budget and Appropriations Committees have increased the funds for port security grants steadily each year, with the FY2006 appropriation at $175 million, but the levels remain dangerously low. I therefore recommend funding of $400 million in FY2007 for port security grants.

U. S. Coast Guard Deepwater Integrated System. The $934 million requested for Deepwater in the President's FY 2007 budget is $32 million less than the request of FY 2006, and it is only $1 million more than what was enacted for FY 2006. This amount will not accelerate in any appreciable manner what is now a 25 year, $24 billion program expected to be completed in 2027. The Deepwater replacement project was originally planned for as a 20-year, $17 billion program in the pre-9/11 environment.

Without acceleration, the Coast Guard will struggle significantly to keep its aging assets operational while maintaining its relentless workload. The Coast Guard continues to spend large amounts of money to repair what is being called the "declining spiral phenomenon." This phenomenon results in reduced readiness, increased maintenance costs, and increased total ownership and acquisition costs. The Coast Guard's fleet is the 40th oldest out of the world's 42 major naval fleets. These aging assets face declining readiness at a time when the Coast Guard must be on the highest alert in the post 9/11 environment. Replacing these less reliable ships and aircraft sooner is simply good government practice, and as a Rand report detailed last year, could result in savings over the course of this acquisition of $4 billion.

I support a funding increase to accelerate the Coast Guard's Integrated Deepwater System project to 10 years. The nation simply cannot afford to wait another 21 years - to 2027 - or more for the Coast Guard to employ more effective and reliable assets to ensure better homeland security.

Funding for the Coast Guard's Polar Icebreaking Fleet. I am concerned that the FY 2006 budget had transferred $47.5 million of base funding for the operation and maintenance of the Coast Guard's Polar Icebreaking Fleet to the National Science Foundation (NSF). I am more concerned that this practice continues in the FY 2007 budget. Under this arrangement, the NSF is simply to transfer the funding back to the Coast Guard through a Memorandum of Understanding (MOU) that appears to be an unneeded bureaucratic hurdle layered on top of the many missions that the Coast Guard performs. My concern is further heightened by the fact that in the recent interim report from the National Academy of Sciences on the Coast Guard icebreaking mission required by the FY 2005 Appropriations Bill, the Academy said that budgetary authority for the polar icebreakers, which was recently assigned to NSF, should be returned to the Coast Guard. The Academy questioned the soundness of spreading management decisions across two agencies for the same asset and making NSF fiscally responsible for missions outside its core area of expertise. I believe this funding should be returned, as the Academy suggests, to the Coast Guard's budget.

Chemical Security. I am pleased that the Administration has recognized the importance of chemical security through its request for $10 million to establish a chemical security office within the Office of Infrastructure Protection. This funding addresses one of the Nation's greatest vulnerabilities: the threat of a terrorist attack against a chemical facility. These funds will begin to provide DHS with tools to address the threats facing the chemical industry. The office will be charged with reducing the risk across the chemical sector. Chemical security is a high priority for my committee and I urge you to support this funding request.

Immigration and Border Security. The President's FY 2007 Budget requests $281.3 million to hire, train, and equip 1,500 additional Border Patrol Agents, and $35.5 million for 506 new support personnel to allow agents to focus their efforts on enforcement functions. Added to Border Patrol increases in Fiscal Year 2006, these additional agents will make a significant contribution to U.S. Customs and Border Protection's (CBP) ongoing efforts to achieve operational control of our borders. We must remain committed to the effort to stem the flow of illegal immigration, disrupt the operations of smugglers of both humans and contraband, and secure our borders against terrorists. I fully support this request.

At the same time, we must ensure an appropriate balance of resources between our border enforcement efforts and our detention and removal capacity–particularly if we are to maintain the deterrent effect of CBP's alien apprehension efforts and end "catch and release." The continued growth in CBP's apprehension capabilities, coupled with the expanded use of Expedited Removal, will place a significant strain on our already-limited detention and removal resources. In recognition of this fact, the Budget requests funding that would permit U.S. Immigration and Customs Enforcement to acquire an estimated 6,700 additional detention beds, in addition to associated transportation and removal services and 560 additional positions (Immigration Enforcement Agents, Detention Officers, and support staff). I support efforts to ensure that, as our enforcement resources are increased, our detention and removal capabilities grow accordingly.

Domestic Nuclear Detection Office. In April 2005, the Domestic Nuclear Detection Office (DNDO) was formally created within DHS. The DNDO serves as the primary entity within the U.S. government for global nuclear detection, which entails the detection and reporting of any unauthorized nuclear explosive device or fissile or radiological material within the Nation's borders. Nuclear terrorism continues to be a top priority and the DNDO's mission is to advance cutting edge nuclear detection technologies that will protect the Nation against this threat. The President's FY06 budget request included $227.314 million for creation of the DNDO as part of the S&T budget. This year, the DNDO request is a stand-alone item, separate from S&T, and proposes a significant increase, totaling $535.788 million. I support continued funding for this important mission.

Intelligence & Analysis. The budget requests $298,663,000 for the Analysis and Operations account, which is an increase of $45.7 million over FY06 enacted. The Analysis and Operations appropriation is new beginning in FY 2006 and was created as part of the Secretary's Second Stage Review. As part of the Second Stage Review, the Information Analysis and Infrastructure Protection (IAIP) Directorate was split apart and the Information Analysis Office was renamed the Office of Intelligence and Analysis (I&A) and its funding transferred to the newly created Analysis and Operations account. The Department is charged with a unique intelligence mission – to provide homeland security intelligence analysis and warning to State and local entities and the private sector, as well as to provide such information to the broader intelligence community. I support the funding for this office as the Department needs the resources to see this important intelligence mission succeed.

Infrastructure Protection. The budget requests $549.1 million for FY2007, a decrease of $70 million over FY2006 enacted for the Office Infrastructure Protection (OIP). OIP is charged with reducing the vulnerability of the Nation's critical infrastructure and key resources, which are predominantly owned by the private sector, to terrorist attack or natural disasters. The Department takes the lead in coordinating across the Federal government and with state and local governments, the implementation of efforts to protect critical assets. I am concerned about this decrease in funding for such an important homeland security mission.

Chief Medical Officer. The Chief Medical Officer (CMO) was created in 2005 as part of the Second Stage Review. The CMO advises the Secretary and Deputy Secretary on medical issues, coordinates and oversees the Department's biodefense programs, and works with the U.S. health community to coordinate a unified approach to medical preparedness and response. The CMO engages with state and local authorities, medical associations and other stakeholders that deal with medical consequences of natural disasters or terrorist attacks. The budget proposes an increase from $1.98 million in FY2006 to $4.98 million for FY2007. I support this increase in order to bolster the Department's homeland security medical mission.

Office of the Chief Information Officer. The President's budget requests $323.7 million for DHS's Office of the Chief Information Officer (OCIO), which is responsible for Department-wide information technology investments. This is an increase over 2006 funding of $29.5

million. The OCIO is engaged in an effort to create "One Infrastructure" to support unification of components from DHS's 22 legacy agencies.

Last year, Congress included language requiring the OCIO to submit an expenditure plan for IT projects to the Appropriations Committees. I look forward to working with you on appropriate oversight of DHS IT investments.

Office of the Chief Financial Officer. The President's budget requests $44.4 million for DHS's Office of the Chief Financial Officer, of which $18 million is intended to fund *eMerge²*, the Department's effort to consolidate financial systems and accounting providers. DHS is now pursuing the *eMerge²* "Centers of Excellence" concept, rather than continuing previous efforts to create a single, unified financial management system.

DHS Human Resources Management System, MAX^{HR}. The budget requests $71.4 million for the costs associated with the design, training, and technological components related to the Department's new personnel system, MAX^{HR}. The Department is at a critical stage with respect to MAX^{HR} implementation. The reform of the personnel system addresses the needs of the Department's most vital resource: its dedicated workforce. I fully support this request, and expect the Department to continue to engage in meaningful discussions with its employees and their representatives as it proceeds with design and implementation.

Privacy and Civil Liberties Oversight Board

Last year, I supported Congress' doubling of the President's requested budget for the Privacy and Civil Liberties Oversight Board, funding it at $1.5 million. I strongly encourage continued funding of the Board at a level adequate for it to carry out its important mission.

At present, the budget for FY2007 does not contain a specific request for funding this Board. I believe that such funding should be requested and appropriated but that it should not be included in the President's requested "consolidation and financial realignment of the Executive Office of the President (EOP) accounts that directly support the President." The Board has responsibilities beyond advising the President. The purpose and responsibilities of the Board, as reflected in statute, include not only advising the President, but also advising all departments and agencies, oversight of Executive branch actions related to protecting the Nation, as well as involvement in the development and implementation of the information sharing provisions of the Intelligence Reform and Terrorism Prevention Act. This Board was a key component of the intelligence reform legislation Congress passed in 2004. It should be funded at a level that allows it to carry out the responsibilities Congress gave it.

Postal Reform Legislation

On February 8th, the Senate took an important step toward strengthening the financial future of the Postal Service by approving S. 662, the "Postal Accountability and Enhancement Act of 2005." I was joined by my colleague, Senator Carper, in authoring this legislation, which makes the most sweeping reforms to the Postal Service in more than 30 years. Our bill modernizes the rate-setting process to provide more predictability for its users and helps ensure a stronger financial future for the organization.

In 2003, this Committee was responsible for legislation, P.L. 108-18, the Postal Civil Service Retirement System (CSRS) Funding Reform Act of 2003. Without enactment of this legislation, the Postal Service was on track to over-fund its CSRS obligation by an estimated $78 billion. P.L. 108-18 defined what would have been done with the "savings" – the difference between the contributions that the Postal Service would have made if this Act had not been enacted and the contributions actually made by the Postal Service. In FY2003, FY2004 and FY2005, the savings were used to pay down USPS debt and to hold postage rates steady. Beginning in FY2006 and for all years thereafter, P.L. 108-18 requires that the Postal Service place the savings in an escrow account, subject to Congressional release of the funds.

The Administration's FY2007 budget proposes to put the entire escrow amount into a retiree health benefit trust fund. Under this proposal, the Postal Service would pay the entire amount that would have otherwise gone into the escrow account into a Retiree Health Benefits Trust Fund. [FY2007 payment = $3.2 billion]. This payment would be in addition to the retiree health benefit premiums the Postal Service is already required to pay. Over a ten year period, these payments will total roughly $32 billion.

P.L. 108-18 corrected a statutorily mandated Postal Service overpayment into the Civil Service Retirement System, and the mailing community and the Postal Service have benefitted from these corrections. Yet, to require the Postal Service to use the entire overpayment amount for retiree health benefits would deprive the American mailing community of any continued benefit from this law. Moreover, to layer additional Postal Service retiree health benefit premiums on top of what would have gone into the escrow account would penalize the American mailing community by driving up rates unnecessarily.

My postal reform bill, as passed by the Senate, reflects the need to balance the pre-funding of retiree health benefits with the ability of the mailing community to withstand continued rate increases. My bill sets up within the U.S. Treasury, a "Postal Service Retiree Health Benefit Fund." Upon enactment of this bill, the Postal Service will be required to pre-fund its post-retirement health benefit obligations over forty years. The difference between these payments and what would have gone into escrow will be used to pay down any outstanding debt to Treasury and for operating expenses – thereby holding down rate increases as well. My postal bill includes language to abolish the escrow requirement.

In addition to creating a new formula to determine the Postal Service's CSRS obligations, P.L. 108-18 transferred the responsibility for funding the cost of CSRS benefits earned by military service. This, in effect, transferred a $27 billion responsibility from the U.S. Treasury to the Postal Service. Part of this transfer was retroactive. It is important to note that no other agency is required to pay such (retroactive) costs for its retirees under the CSRS; instead, these obligations are paid for by the Department of Treasury through appropriations.

My bill returns this obligation to the U.S. Treasury. It is important to reverse this transfer. Doing so will allow the pre-funding of retiree health benefit obligations without placing undue pressure on postage rates and the mailing public.

The Postal Service is the linchpin of a $900 billion mailing industry that employs 9 million Americans and represents 9 percent of the Nation's gross domestic product. I urge you to ensure that the budget resolution allows for the enactment of this legislation this year, without fully committing the escrow funds to a retiree health benefit trust fund. On July 1, 2005, CBO scored S. 662 at $1.5 billion from 2007-2011. According to CBO, the bill would actually save money over a fifty year period. I stand ready to assist you and look forward to addressing this problem for the benefit of the Postal Service, ratepayers and the economy.

Federal Employee Pay

The budget proposes an average increase in federal employee pay of 2.2 percent. I am pleased that the President has recognized the importance of pay parity. Providing equitable pay raises for federal employees is not just an issue of fairness, it is also critical to the recruitment and retention of a highly-qualified public workforce.

Government-wide Personnel Reform

The budget makes reference to the Administration's draft proposal for government-wide civil service reform, the *Working for America Act.* While the Committee is open to considering proposals that will help the federal government better recruit, reward, and retain a highly qualified federal civilian workforce, it continues to question whether now is the time to proceed with further civil service reforms in light of the ongoing implementation of significant changes at the Departments of Defense and Homeland Security. The decision on whether, how, and when to proceed must be made after careful deliberation of the technical, practical, and cultural challenges associated with such reform.

Office of Personnel Management

The budget proposes that the Office of Personnel Management take steps to develop a new pay system for the federal civil service in order to replace the current annual pay adjustment with a new process that allows for more targeted adjustments. While the Committee supports pay-for-performance systems, including the associated market-based pay components, it believes that OPM should proceed with caution until the results of the pay-for-performance systems at the Departments of Defense and Homeland Security can be examined.

The budget also requests $27 million to improve the efficiency and accuracy of federal annuity payments. While the Committee fully supports this initiative, it is mindful of the thousands of federal annuitants awaiting relief from OPM as a result of being placed in the wrong retirement system through no fault of their own. In 2000, the Federal Employees

Retirement Coverage Corrections Act[1] (FERCCA) was enacted to provide relief to these individuals. The Committee is disappointed that FERCCA was not included among OPM's priorities for FY 2007 given the fact that only a handful of the eligible cases have been settled.

National Archives and Records Administration

The President again proposes cutting the NARA grants program administered by the National Historical Publications and Records Commission (NHPRC), the grant-making arm of NARA. In October of 2004, Congress passed and the President signed into law, Public Law 108-383, the National Archives and Records Administration Efficiency Act of 2004. The Act contains a four-year reauthorization of the grants program for $10 million each year.

It remains unclear why the Administration proposes cutting this program, especially given the recent reauthorization. The grants program is structured so as to maximize the impact of Federal dollars. It awards grants competitively and leverages Federal dollars by imposing a cost-sharing requirement. The NHPRC has a long-standing history and plays an important role in helping state and local governments preserve their records. The NHPRC was established by Congress in 1934 and is comprised of a 15-member body which includes the Archivist as chair, representatives of the President, the Senate, the House, the Supreme Court, and the Departments of State and Defense as well as representatives of leading professional associations of archivists and historians.

Last year, even though no funds were requested in the President's budget, Congress funded the program at $7.5 million. I ask that funding for this important program be continued in the FY2007 budget, pursuant to Public Law 108-383.

District of Columbia

The budget request for the District of Columbia calls for a Federal payment of $597.2 million. Approximately 80% of this amount supports the District's court and criminal justice systems, which are funded and overseen by Congress rather than the local government. I encourage continued support of the court and criminal justice systems at the requested level.

The President's proposal includes funding for the D.C. College Access Program (D.C. TAG). This locally-run, federally funded program provides the difference between in and out of state tuition for D.C. high school graduates to attend public colleges and universities nationwide. It also provides a $2,500 stipend to D.C. high school graduates to attend private colleges in the greater Washington, D.C. area and Historically Black Colleges and Universities nationwide. Since its inception in 1999, the program has been funded consistently each year and I encourage continued support for this program.

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[1] Public Law 106-265.

The FY2007 budget proposal includes funds for two projects requested by D.C. Mayor Anthony Williams: $20 million for upgrades to the Navy Yard metro station and $30 million for a new central library and improvements to existing libraries. The Navy Yard metro station serves Federal Center Southeast, which is expected to serve thousands more federal employees as agencies relocate to the area. Currently, one of the two entrances to this Metro station is not accessible to disabled riders.

The library system improvements represent an initiative by the Mayor to increase the literacy rate among District citizens. It is also expected that the new central library will be located on or near the site of the old convention center, an area that is an important part of the District's development plans.

Conclusion

I look forward to working with the Budget Committee on crafting a fair and fiscally sound budget measure that addresses the government's major management challenges, thereby helping to strengthen the trust of the American people in their government.

Sincerely,

Susan M. Collins

Susan M. Collins
Chairman

United States Senate

COMMITTEE ON
HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
WASHINGTON, DC 20510-6250

March 2, 2006

The Honorable Judd Gregg
Chairman
Committee on the Budget
United States Senate
Washington, D.C.

The Honorable Kent Conrad
Ranking Minority Member
Committee on the Budget
United States Senate
Washington, D.C.

Dear Chairman Gregg and Ranking Member Conrad:

Thank you for affording me the opportunity to provide my views and estimates regarding the President's Fiscal Year 2007 (FY2007) Budget as it affects matters within the purview of the Homeland Security and Governmental Affairs Committee (HSGAC). I hope the comments and recommendations that I will outline in this letter will assist you in preparing a budget plan for the federal government.

Homeland Security

For the past three years, I have criticized the Administration's proposed homeland security budget for failing to provide the resources needed to adequately protect this country. This year is no different. The Administration's FY2007 Budget reflects an inadequate investment of resources that will prevent us from doing what is necessary to prevent, protect against, respond to, and recover from acts of terrorism and natural disasters. The budget is shortsighted and short-funded given the dangers–both natural and terrorist–that the Department of Homeland Security (DHS or Department) was created to confront.

A new hurricane season is now precisely three months away. And as we've seen in London, Madrid, Bali and other places–despite the best efforts to prevent it–a terrorist attack could happen almost anyplace at anytime. DHS must be more ready than it is now to detect, prevent, and respond.

The Administration's government-wide spending request for homeland security is $58 billion. The President's total request for DHS is $42.7 billion, including fee collections and $30.9 billion in net appropriated funding. The Administration is proclaiming a $2.2 billion - or 6% percent - increase over last year in total spending, but this increase is largely contingent on the President's proposal to raise aviation passenger fees, an idea that Congress rejected last year. When comparing the President's net appropriations spending request from FY2006 to FY2007, there is a meager 1% increase for FY2007, less than the rate of inflation. Moreover, some key homeland security programs in areas that history has shown are most crucial when responding to disasters would actually be cut significantly while others would be completely elminiated.

In reviewing the President's budget proposal, I have identified significant shortfalls in an array of homeland security needs. I am calling for $8.1 billion in additional funding above the Administration's proposal to support some of our most urgent homeland security needs. This increase, for example, would restore dangerous cuts in preparedness funding for first responders and public health officials, and would make significant new investments in these programs as well. It would further strengthen our rail and transit security, port security, chemical plant security, Coast Guard readiness, bioterrorism preparedness, aviation security, and border security.

These are not gold-plated expenditures. On the contrary, they represent only a small down payment on the investments we need to address the clear and persistent threat of terrorist attacks on U.S. soil and to ensure our readiness for inevitable catastrophic natural disasters. In the aftermath of the response to Hurricane Katrina, which exposed deep flaws in the federal preparedness and response system, we must act with a sense of urgency and purpose to make the homeland security investments we need to keep our citizens as safe as they can possibly be.

The Committee is now finishing its investigation into the preparation for and response to Hurricane Katrina and will soon issue significant recommendations as part of its final report. Among the recommendations may well be changes to the Department's operations that will likely impact the Department's budget.

Preparedness/First Responders

Following the Department's Second Stage Review, the Secretary announced the creation of a new Preparedness Directorate and emphasized that enhancing preparedness, particularly for catastrophic events, was one of the Department's chief objectives. Unfortunately, the Administration's budget proposal, which slashes preparedness funding by 16%, does not support this goal. Substantial reductions in preparedness funding are particularly startling in the wake of Hurricane Katrina, which demonstrated once again the importance of preparedness in mitigating the damage and human suffering from a catastrophe, whether natural or man-made and the devastating effect that lack of preparedness can have. Secretary Chertoff has testified that planning was one of the key failures of Katrina, and that, in terms of preparedness "we were not where we needed to be."

I advocate adding $2.8 billion in FY2007 above the Administration's request to ensure our nation is prepared to respond to both terrorism and natural disasters, and help make sure our nation's first responders receive the training and equipment they need to prevent, protect against or respond to disasters of all types.

First Responders: The Administration's request represents an unwise assault on programs that support the men and women who are on the front lines in the fight against terrorism and natural disasters. It would continue the devastating trend of cutting programs that state and local governments and first responders depend upon just months after Hurricane Katrina demonstrated that our country remains dangerously unprepared for terrorism or catastrophic natural disasters.

The President's Budget would cut DHS first responder grants by 23% from FY2006. If passed, this would mean that these programs have been reduced by over 50% from FY2004. The President would eliminate entirely the Law Enforcement Terrorism Prevention Program (LETPP), which provides much-needed grants focused on preventing terrorism.

In addition to the overall funding reductions, the President's request would slash the minimum guaranteed funding for states to approximately $1.58 million – down from $7.13 million in FY2006, a reduction of nearly 78%. This is a result both of a decrease in the overall funding level for first responder grants and the proposed reduction in the guaranteed minimum from .75% of state grants to .25%.

The President has also proposed sizeable cuts in the important Fire Assistance Grant Program – which provides direct assistance to fire fighters across the country - reducing the program by $247 million, or 46% from last year's approved budget; a 61% reduction over the past three years. The President includes no funding at all for the Staffing for Adequate Fire and Emergency Response (SAFER) program, which provides much needed staffing support to fire departments that remain seriously understaffed. Full funding for the SAFER program is needed to hire 10,000 additional fire fighters. Through the SAFER Act, Congress authorized $7.6 billion in grants over 7 years to career, volunteer and combination fire departments to help communities attain the 24 hour staffing needed to protect citizens from fire and fire-related hazards. The Administration has proposed eliminating the $109 million Congress appropriated for this program in FY2006.

For the second year in a row, the Administration has proposed to eliminate funding for the Metropolitan Medical Response System (MMRS) which received $30 million in FY2006. This program, which provides roughly a quarter of a million dollars a year to each of 125 metropolitan areas, is the only federal program that provides direct funding to local governments to help them develop a coordinated medical response to a mass casualty incident such as a catastrophic terrorist attack. The lack of a coordinated response to the medical needs of victims of Hurricane Katrina clearly shows us how important it is to have traditional first responders, hospitals, public health officials, emergency management officials and other health care providers in our major metropolitan areas all planning and coordinating with each other before tragedy strikes. Elimination of MMRS will erode support for the medical planning and response that is essential in the event of a terrorist attack or other large scale catastrophe and will prompt laying off of key planning staff in states at a time when preparedness planning should be a top priority.

The Administration's Budget also reduces key programs that support our nation's law enforcement officers. In addition to eliminating LETPP (a cut of $400 million) and the Justice Assistance Grant (JAG) program (a cut of $416 million.), the Budget cuts the Community Oriented Policing Services (COPS) Program by $376 million, or 78%. The cuts in COPS funding includes elimination of funding to help first responders purchase interoperable communications equipment. The proposed reduction of $1.1 billion in funding for these programs would bring the total cuts to law enforcement programs to more than $2.3 billion since 9/11.

The President's Budget cuts funding for emergency managers – Emergency Management Performance Grants (EMPG), which many states depend upon for all-hazards emergency planning, would be cut by $15 million. This program, which requires a 50% match of state and local funds, is the only source of federal funds specifically for all-hazards planning (including evacuation plans in the aftermath of Katrina); it helps to fund critical full and part-time emergency management positions in states, municipalities and tribal nations.

The Administration has also proposed cutting programs to provide much-needed technical assistance to state and local officials – for example on critical issues such as communications interoperability – by $8.3 million, from $19.8 million in FY2006.

In proposing these cuts, the Administration not only ignores many of the lessons of Hurricane Katrina, but the judgment of non-partisan experts. For example, in June 2003, a non-partisan, independent Task Force sponsored by the Council on Foreign Relations and chaired by former Senator Warren Rudman issued a report entitled *Emergency Responders: Drastically Underfunded, Dangerously Unprepared.* The Task Force concluded that $100 billion over a five-year time span was needed to meet the needs of the nation's first responders. Yet, the Administration has continued the trend of moving in the opposite direction, proposing cuts that make the gap between real needs and funding even more dramatic.

I urge that $1.6 billion be provided to restore cuts in key homeland security grant programs (the State Homeland Security Grant Program, EMPG, and the MMRS program); law enforcement grants (LETPP, COPS and JAG) and firefighter assistance

(Fire Assistance and SAFER grants). This level could bring these first responder programs back to their FY2006 levels.

Beyond restoring cuts in these essential programs, I advocate an additional $1.24 billion be spent to improve first responder preparedness. The lion's share of this money – $1.067 billion – would go to the State Homeland Security Grant Program (SHSGP), restoring it to the funding level it had in FY2004. Funding for the SHSGP program is particularly needed to address sustainable and interoperable communications, and I advocate directing $750 million of these additional funds for that purpose. This past year, we saw that the lack of sustainable and interoperable communications contributed significantly to the failed response during Katrina. Immediately after the storm, local responders, and many of those who streamed into New Orleans from other states, were hampered by the lack of modern, interoperable communications equipment – a long standing problem that will not be fixed without increased investment from the federal government. A 2004 survey of 192 cities by the U.S. Conference of Mayors found that 89% of respondents reported that limited funding was their chief obstacle to communication interoperability. Eighty-eight percent of cities surveyed said they do not have interoperable communications with homeland security agencies, 57% are not interoperable with their state emergency management agency, and 49% are not interoperable with the state police.

I also recommend a 25% increase, or $46 million, over last year's appropriated level for the EMPG program. Katrina has shown the importance of increasing the investment in the foundation of our emergency management system. EMPG is the mechanism for this investment. We continue to rely on our emergency managers to take on increased responsibilities. For example, shortly after Hurricane Katrina, President Bush ordered a massive assessment and review of state and local disaster plans. This effort was undertaken by hundreds of state and local Emergency Management Agencies – virtually all of whom were supported by EMPG funding. I support the need for a comprehensive review of state and local planning capacity, but these additional mandates must be matched with increased funds.

In addition to slashing grant programs, the President's Budget would cut funds for technical assistance by $8.3 million and the Office of Interoperability and Compatibility (OIC) in DHS would receive a small increase of $3.5 million to provide nationwide leadership for interoperability. In her recent report, *The Federal Response to Katrina: Lessons Learned*, White House Homeland Security Advisor Francis Fragos Townsend recommended the development of an overarching National Emergency Communications Strategy as one step necessary to meet the challenge of communications in a disaster. This recommendation is consistent with legislation I introduced with Senator Collins. The Administration's Budget fails to request funding to develop this important national strategy while sharply cutting funds that would be needed to implement it after it is developed. The SAFECOM program, within OIC, has fewer than ten staff to promote solutions to interoperability. No wonder that its director has said that, at the current rate, it will be 20 years before our country achieves a minimum level of communications interoperability. I support a $100 million increase to strengthen federal leadership, increase outreach, and provide technical assistance to state and local officials to address communications interoperability. State and local officials need technical assistance from DHS, and they need DHS to conduct outreach and help forge the state and regional coalitions necessary to succeed.

Finally, I urge you to provide an additional $30 million for the MMRS to support planning and preparedness efforts for potential mass casualty events,

The Federal Emergency Management Agency (FEMA)

The Committee's investigation into the preparation and response to Hurricane Katrina has shown that FEMA is woefully unprepared to deal with a national catastrophe. As I noted earlier, HSGAC will soon issue significant recommendations as part of our final report. While I believe that FEMA as it exists now should be eliminated, the functions that FEMA performs will still need to be adequately funded.

Although the President's FY2007 budget request of $2.965 billion includes an overall funding increase of approximately 10% for FEMA, I am gravely concerned that the request falls far short of what is necessary to prepare FEMA for dealing with future domestic incidents at a time when the agency's resources are heavily strained by its response and recovery efforts resulting from the 2004 and 2005 hurricane seasons.

HSGAC's investigation, the White House's investigation, and the investigation conducted by the House of Representative's Select Committee to Investigate the Preparation for and Response to Hurricane Katrina have identified numerous ways in which FEMA failed. Some of the most serious failures and factors contributing to those failures include:

- FEMA's logistics system was completely overwhelmed and failed;
- FEMA's employees were insufficiently trained;
- FEMA's Emergency Response Teams and Disaster Medical Assistance Teams were unprepared as they were not adequately trained, staffed, or equipped;
- FEMA has long suffered from personnel shortages and from inadequacies with the cadre of reservists it uses to surge up with during disasters which negatively impacted its ability to be prepared for and respond to Katrina;
- Because of budget shortages, FEMA had not done enough planning to be prepared for this event;
- FEMA's Urban Search and Rescue teams were inadequately equipped;
- FEMA had grossly inadequate systems to deliver services to disaster victims; and
- FEMA had insufficient communication assets which greatly impeded its ability to respond.

Simply put, FEMA does not currently have the capability or resources for large response operations. Scott Wells, Deputy Federal Coordinating Officer in Louisiana for Katrina reported to my staff that, "FEMA is not trained, FEMA is not equipped, FEMA is not organized to do very large response operations." Phil Parr, another FEMA Federal Coordinating Officer, stated that 95-98% of what FEMA does is recovery and that it has no response capabilities. According to Wells, "if you want big capability, you got to make a big investment. And there is no investment in response operations for a catastrophic disaster. It's not there. The capability is not there for catastrophic disaster."

This Budget falls far short of addressing the urgent concerns about FEMA. While it is clear that the FY2007 FEMA budget request contains increases, it appears that the Budget requests only $29 million for increases to strengthen operational capabilities, $15.7 million for procurement and financial and acquisition management additional staffing, and $5 million for National Response Plan support.

These proposed increases are completely inadequate to remedy the failures or inadequacies exposed by Katrina. Indeed, in its recent report, the White House itself has identified many necessary improvements, yet the President has failed to request an adequate budget to even begin to fund these improvements and the White House has made clear that the budget request will not be amended to take into account these vital improvements.

In order to begin making the essential improvements necessary to build adequate capabilities at FEMA, I recommend that the President's request for the Readiness, Mitigation, Response and Recovery account be increased by $201 million and the Administration and Regional Operations account also be increased by $255 million.

State and Local Training

National Response Plan Support: The National Response Plan (NRP), issued in January 2005, is intended to serve as a single, comprehensive framework for the management of the federal response to domestic incidents, whether the result of terrorism or natural disasters. Just last week, however, Homeland Security Advisor Francis Fragos Townsend issued a report on *The Federal Response to Hurricane Katrina: Lessons Learned*, which found that, at the time Hurricane Katrina hit, key decision-makers were not familiar with and lacked understanding of the NRP, and that this "not surprisingly resulted in ineffective coordination of the federal, state, and local response." In November 2005, DHS's Inspector General raised a similar issue in his review of the TOPOFF 3 Exercises, in which he found that "the exercise highlighted – at all levels of government – a fundamental lack of understanding for the principles and protocols set forth in the NRP and NIMS [National Incident Management System]."

If we are to have an effective national response to major disasters in the future, it is essential that we have a well-developed plan and that leaders at all levels who may be called upon to respond fully understand that plan. Yet, until now, there has been no staff or funds dedicated to promoting widespread implementation and understanding of the NRP. I am pleased that the Administration has included in its Budget this year a new program for National Response Plan Support within FEMA's Readiness Division that would, among other things, improve NRP training materials, conduct NRP-based exercises, and revise the NRP as appropriate based on lessons learned. I am disappointed, however, that the proposed Budget would provide this program with only 7 FTEs and $5.3 million. I would advocate that this critical program be at least doubled in size and that the FY2007 budget for this program be increased by an additional, but still modest, $5.3 million over the President's request.

Professional Development and a Homeland Security Academy: I believe it is important that we provide the professionals who serve at DHS with the resources and education they need to help the Department fulfill its critical mission of keeping our nation as safe as possible. One of the lessons we are learning following Hurricane Katrina is that there was a severe failure of leadership.

On December 21, 2005 I introduced a bill (S. 2158) with Chairman Collins to create the National Homeland Security Academy to help train homeland security professionals at all levels of governments and to provide them with tools they can use to enhance their effectiveness in their positions. In her recent report to the President on lessons learned following Katrina, White House Homeland Security Advisor Frances Townsend also recommended establishing a professional development and training center for homeland security professionals. A National Homeland Security Academy, modeled in part after the War College or Naval Postgraduate School would help accomplish the goal of ensuring Department professionals understand the full scope and range of responsibilities entrusted to the Department. It would cultivate leaders, teach the full range of skills necessary for robust homeland security, and provide cross-disciplinary and joint education and training to government officials at the federal, state and local levels so that they can develop the bonds and relationships that will make their work more efficient and effective. I advocate $25 million be added to DHS' Management and Operations account for FY2007, so the Secretary may establish a National Homeland Security Academy capable of cultivating the next generation of homeland security leaders.

Transportation Security and Critical Infrastructure Protection

For FY2007, the Administration has once again proposed a consolidated Targeted Infrastructure Protection (TIP) grant program, to help secure critical infrastructure, including transportation, energy, and commercial facilities, including but not limited to chemical and port facilities. This fund would absorb preexisting grant programs for specific infrastructure systems such as ports, rail, transit, bus, and trucking, as well as the Buffer Zone Protection Program.

The proposed $600 million budget for the TIP grants represents an overall increase of approximately $210 million over what Congress appropriated for these programs combined for FY2006, but the $600 million is wholly inadequate to the task of securing the vast array of vital port, transit, energy and commercial networks. For a number of years, I have highlighted my concerns about the Administration's failure to pay adequate attention to rail and transit security. The 9/11 Commission criticized the relative inattention to transportation security beyond passenger aviation. Particularly in light of this historic lack of attention toward the security of other modes of transportation, such as transit and rail, I believe it is vitally important that there be dedicated funding for our most vulnerable transportation infrastructure systems, to ensure that each receives an adequate investment to make the most urgent security improvements. I support the President's budget request for $600 million for the TIP grant program for all other critical infrastructure, but I believe DHS should continue to operate dedicated port, rail and transit, intercity bus and buffer zone protection grant programs. I am calling for an additional $150 million for robust chemical security programs, $1 billion total for the rail and transit security grant programs, $400 million for a distinct Port Security Grant Program, $10 million for an intercity bus security grant program, and finally, $50 million to continue a distinct Buffer Zone Protection Program, for a total of $1.61 billion more than the President requested ($2.21 billion total) for critical infrastructure.

Chemical Security: Last year, Senator Collins and I held four hearings to examine the security of our nation's chemical facilities. We know that terrorists are interested in targeting these facilities. The Congressional Research Service reports that during the 1990s both international and domestic terrorists attempted to use explosives to release chemicals from manufacturing and storage facilities close to population centers. The Justice Department in 2002 described the threat posed by terrorists to chemical facilities as "both real and credible," for the foreseeable future. We also know that too many of these facilities remain vulnerable to attack, and that an attack on these facilities could be devastating.

At these hearings, we heard from DHS, the Environmental Protection Agency (EPA), industry, environmental groups, first responders, and facility employees about what should be done to secure America's chemical facilities. Homeland security expert Steve Flynn likened the nation's 15-thousand chemical facilities to "15 thousand weapons of mass destruction littered around the United States." All agreed that Congress should act, and Senator Collins and I introduced such legislation last December – the "Chemical Security Anti-Terrorism Act of 2005." Despite the voluntary partnership DHS has adopted with chemical facilities to improve their security, the Department lacks any enforcement authority; consequently, as former White House Homeland Security Advisor Richard Falkenrath told our Committee, the federal government has done almost nothing to secure chemical facilities. The Administration's proposal of $10 million for chemical security without a single FTE is woefully inadequate, particularly when compared with the $101.7 million in FY2005 and the $131.3 million in FY2006, that the U.S. Coast Guard spent on 781 FTEs to enforce its authority over chemical facilities under the Maritime Transportation Security Act. Under the status quo, DHS' "Comprehensive Reviews" of chemical facilities are a first step, albeit without enforcement authority, but are taking place only in limited markets and should be expanded. DHS also needs analysts and inspectors who can adequately review and probe the security of our nation's facilities. Accordingly, I believe that an additional $150 million will allow the Department to invest in its review of risk assessments and security plans, inspections of chemical facilities, the establishment of area security committees, and a grants program for the Department to use when the implementation of necessary security measures at high-risk facilities would otherwise be cost-prohibitive.

Rail/Transit Security: The July 2005 attacks on the London transit system repeated the loud warnings of the previous attacks on the Madrid, Moscow, Tokyo, and Israeli rail and transit systems: rail and transit are open, vulnerable, and appealing targets to terrorists. Immediately following the London attacks, Senator Collins and I investigated the state of transit security in the United States and found it in alarming need of investment. For example, the American Public Transportation Association states that transit systems need $6 billion for security, and that passenger rail systems require $1.2 billion for security. At a hearing last September, the former Chief of Security for the Ben Gurion Airport testified about what he called a "pressing need" for investment in "technological Research & Development (R&D) that will result in effective early detection of explosives and chemical/biological materials without disruption of throughput," as well as a need for investment in "counter-terrorist training that includes suspicious behavior recognition techniques."

At least 14 million Americans ride mass transit each weekday, more than16 times the number of daily trips taken by Americans on domestic airlines. Securing rail and transit systems is challenging because they are "open" systems – as opposed to aviation's "closed" systems. But we should meet this challenge presented by the open nature of rail and transit systems, rather than use it as an excuse not to dedicate funding toward it. The Administration must apply its "can do, will do" attitude toward aviation security to rail and transit security.

Therefore, over each of the last three years, I have urged the Administration to provide at least $500 million for transit security and $500 million for rail security. As early as 2003, one year before the Madrid attacks and two years before the London attacks, I have highlighted the imbalance in this Administration's funding of aviation security versus the funding for rail and transit security. For too long, this Administration has focused almost exclusively on aviation security. No different, the FY2007 Budget proposes $6.55 billion for aviation security, and yet proposes that only $13.2 million be dedicated to rail or transit security specifically. Moreover, the Administration proposes that $13.2 million be invested in explosive-detecting canine units, which have limited use and range.

Last year, Congress provided $150 million for rail and transit grants but we must do more in this area. I am advocating $500 million for transit security and $500 million for passenger rail security in FY2007.

Port Security: Ports are a vital gateway for our economy and a critical component of our transportation infrastructure network. Ninety-five percent of all our trade flows through our ports, and a terrorist event in a single U.S. port could cause billions of dollars in economic damages and have long lasting consequences for our economy. The recent debate over the proposed Dubai Ports World acquisition of Peninsular and Oriental Steam Navigation Company has drawn enormous scrutiny to the issue of port security. More than four years after 9/11, there are still major vulnerabilities in our ports. It has been more than three years since the Coast Guard estimated more than $7 billion would be needed just to provide basic physical security at all U.S. ports and to implement the Maritime Transportation Security Act of 2002. Though Congress has appropriated approximately $750 million over the past five years specifically for this purpose, much more clearly remains to be done. Port facilities have submitted individual security plans, which the Coast Guard has reviewed, approved and continues to enforce, but actual security can vary widely from facility to facility, as the DHS has failed to develop minimum standards. I believe the Administration must quickly move to establish robust security standards for port facilities across the United States. The American Association of Port Authorities has called for $400 million for FY2007 to help U.S. ports continue efforts to improve physical security. I advocate that the Port Security Grant Program remain a separate, dedicated grant program, with $400 million for FY2007 to help local port facilities bolster security and meet national minimum standards.

Additionally, I believe the Office of Grants and Training within the Preparedness Directorate, which is currently responsible for administering the Port Security Grant Program, should receive an additional $2 million for FY2007 to hire additional program oversight personnel and implement the DHS Inspector General's recommendations for the program. In a January 2006 report, the Inspector General noted there had been some improvements made in the administration of the Port Security Grant Program, but that DHS had not yet addressed all of the concerns the Inspector General initially identified more than a year earlier. Specifically, the Inspector General recommended that the Department conduct "pre-audits" of proposed grant award decisions, establish a minimum score threshold under the new selection and evaluation process that projects must meet, modify the Grants Management System (GMS) or the National Review Panel (NRP) internal database to require NRP members to enter a reason for adjusting a field review score, and seek more consistent scoring by field reviewers. An additional $2 million for the Office of Grants and Training would provide DHS with the flexibility to hire and train additional staff to review and revise Port Security Grant Program standards and thresholds, thoroughly review applications and conduct pre- and post-award audits to ensure the goals of the program are being met.

General Infrastructure: In addition to distinct port, rail and transit security grant programs, as well as a new, distinct chemical security program, I advocate the continuation of the Intercity Bus Grant Program ($10 million for FY2007) and the Buffer Zone Protection Program ($50 million for FY2007) at the same levels as FY2006. However, a significant amount of critical infrastructure remains throughout the United

States, including telecommunications, energy, financial services and public utility (like water delivery) systems. I support funding the Targeted Infrastructure Protection (TIP) Grant Program at the President's requested level, $600 million for FY2007, to help supplement state, local and private sector efforts to mitigate critical vulnerabilities in these and other systems.

Port and Container Security

In addition to advocating for a separate Port Security Grant Program and additional funds for the U.S. Coast Guard, I believe several other port and container security programs must be strengthened. The Budget provides no new resources for Customs and Border Protection (CBP) to monitor the compliance of companies and ports participating in the agency's various container-security programs. Customs employs just 80 inspectors to monitor the compliance of the more than 10,000 companies which have applied to participate in the Customs-Trade Partnership Against Terrorism (C-TPAT). Moreover, while the Administration's Budget for FY2007 includes $178 million for the acquisition and deployment of radiation detection portal monitors, it includes only $35 million for cargo container imaging equipment, a vital component for CBP's security programs

Customs-Trade Partnership Against Terrorism: The President's proposed Budget for FY2007 keeps funding flat for the C-TPAT program, a program designed to allow expedited border processing for shippers who have voluntarily implemented certain security measures. There is no new money for this program to help alleviate the backlog of audits which need to be completed to ensure members are living up to their end of the deal. CBP has noted that approximately 10,000 companies have applied to become C-TPAT members. However, CBP has only been able to validate a small percentage of the security plans submitted by members. Even with the additional personnel CBP hired in FY2005 and FY2006 to help speed up the process, it would still take years for CBP to initially validate all of its members. Not only should CBP ensure all companies receive a timely, initial validation, the agency should periodically recheck members to ensure they continue to keep security safeguards in place. GAO has noted that CBP's slow rate for performing validations may create serious security vulnerabilities. I therefore request that CBP receive an additional $19 million for the C-TPAT program in FY2007 ($74 million total), to be used to hire and support additional supply chain specialists, or to develop an alternative system for licensing and bonding third party security specialists who could certify to CBP that they have performed validations for C-TPAT members.

Advanced Cargo Container Imaging Systems: The Administration's proposed Budget for FY2007 includes $178 million for Radiation Portal Monitors which will be deployed at ports across the United States. However, the Domestic Nuclear Detection Office budget includes slightly less than $35 million for advanced cargo container imaging equipment, Cargo Advanced Automated Radiography Systems (CAARS). Port Security expert Steve Flynn has noted that in order to effectively inspect cargo containers using non-intrusive inspection equipment, one imaging machine is needed for every two radiation portal monitors. Portal monitors only detect unshielded WMDs or dirty bombs. Imaging systems, like VACIS (Vehicle and Cargo Inspection Systems) or CAARS, don't detect radiation, but they can take a picture of a container to find dense anomalies within the container. These technologies need to be used in conjunction with one another to truly secure our ports and prevent WMDs from entering the United States. I therefore recommended that an additional $105 million be included for the cargo imaging program, which would be used to purchase and deploy another 150 advanced cargo container imaging systems, in conjunction with radiation portal monitors.

Coast Guard

The Coast Guard is a vital linchpin for our homeland security efforts. In the hours and days after Katrina slammed into the Gulf Coast, the U.S. Coast Guard braved difficult conditions and fatigue to rescue more than 33,000 people, or roughly eight times the number of people the Service typically rescues in one year. However, the President's budget request sends a mixed and dangerous signal to both the Coast Guard and the American public. A modest overall increase for the Coast Guard's budget hides significant cuts in funding for the service's research and development and for operations related to traditional missions. The Administration also fails, once again, to accelerate the Coast Guard fleet modernization effort. Therefore, I am advocating an additional $1.137 billion for the Coast Guard for FY2007, which includes $900 million to dramatically speed up the Coast Guard's fleet modernization, $233 million to restore cuts in funding for the traditional missions of the Coast Guard, and $4 million to restore cuts in research and development.

Maintaining Traditional Missions: The Administration's Budget proposes cutting $233 million in funding for the Service's traditional, non-homeland security missions. In the wake of Hurricane Katrina, it is important to remember how critically important the Coast Guard is to the safety and security of this country. Though the Coast Guard was able to rescue more than 33,000 people following Katrina, the Administration proposes cutting almost $75 million from the Coast Guard's budget for search and rescue. The President's request also proposes cutting $63 million from marine safety, $32 million from aids to navigation, $5 million from ice operations, $55 million from marine environmental protection, $21 million from living marine resources, and $8 million from drug interdiction. I urge you to restore these cuts in funding, and provide the Coast Guard with $233 million additional dollars for its traditional, non-homeland security missions. I also note that the President's Budget changes the Coast Guard's drug interdiction mission from a homeland security mission to a non-homeland security mission without any explanation and despite the fact that there have been more than two dozen Congressional hearings held in the past three years which examined the ties between drugs and terrorism.

Deepwater: The Administration continues to ignore the fact that acceleration of the Deepwater fleet modernization program is not only absolutely necessary but will provide long term cost savings for DHS. The Administration has only requested $934 million for the Coast Guard's Deepwater Integrated System program. This will do little to help the Coast Guard meet its increased requirements and expanded mission since 9/11 because it will keep the program on a 25 year life-cycle. The Deepwater program was conceived long before 9/11, as an innovative way to modernize one of the world's oldest naval fleets. Some of the Coast Guard's aircraft are 30 years old and some of their cutters were commissioned during World War II. The President's budget request will only keep the status quo.

Two years ago, a RAND report concluded that accelerating the Deepwater program to 10 years would provide the Coast Guard with almost one million additional mission hours which could be used for homeland security and which would save the federal government approximately $4 billion in the long term. The Coast Guard subsequently reported that it *could* complete the project on an accelerated schedule over ten years, given the resources to do so. Therefore, I support a funding increase for this program to $1.834 billion in FY2007 (an increase of $900 million over the President's request), which is the same amount I've recommended for the past two years. By doubling the amount called for in the President's Budget, the Coast Guard will be able to accelerate the Deepwater project to 10 years.

Research and Development: I am pleased to note that the Administration's Budget for FY2007 finally recognizes the importance of ensuring funding for the Coast Guard's Research & Development (R&D) Center remains under the Coast Guard's direct control. As I noted earlier, the Homeland Security Act established a number of protections for the Coast Guard's non-homeland security functions. Congress has concluded it is important that the Coast Guard maintain control over its R&D, particularly with respect to its traditional missions. However, in the Administration's FY2007 Budget, funding for traditional mission R&D for the Coast Guard has been slashed by $4 million, to just $1 million total. Given the Coast Guard R&D Center's historic and unique ability to focus on R&D related to the traditional missions of the Service, as well as the lessons learned from Hurricane Katrina, I believe the Research Center should continue to receive adequate funding for traditional mission R&D. As Admiral Robert Duncan testified before our Committee on November 9, 2005, during one of the Committee's Katrina hearings, the Coast Guard found itself in a unique position following the hurricane. Processes, procedures and equipment used in typical search and rescue cases weren't always adequate for the task in New Orleans. Servicemen and women were forced to improvise on the fly, and they performed admirably. But I believe, as Admiral Duncan noted, that there are good lessons to be learned from the experience. At a time when the Coast Guard R&D Center should be working to solve some of the problems experienced during Katrina, and developing new equipment and procedures to help the Service deal with the next disaster, the Administration proposes cutting the Center's research funding. I support restoring that proposed funding cut, and providing the Coast Guard with an additional $4 million for traditional mission R&D.

Science and Technology

Domestic Nuclear Detection Office: Preventing nuclear, chemical and biological terrorist attacks is one of the most difficult and important challenges facing the nation's science and technology establishment. After the 9/11 terrorist attacks, President Bush and Congress resolved to end the fragmentation that for so long had compromised the federal government's ability to harness the nation's research and development establishment to the cause of preventing terrorist attacks by weapons of mass destruction. With the support of Administration, Congress passed Title III of the Homeland Security Act, creating a state-of-the-art Science and Technology (S&T) Directorate.

DHS has made no indication that the S&T Directorate has failed to foster aggressive R&D on chemical, biological and radiological detection systems. Nevertheless, the Administration's FY2007 budget request proposes to dismember S&T by transferring one of its most important and successful R&D programs -- radiological and nuclear countermeasures -- into a free-standing Domestic Nuclear Detection Office (DNDO) that will duplicate the existing programs within S&T. The Administration is requesting $535,788 and 112 new positions for DNDO, a 69% increase over FY2006 funding level of $317,392 -- an amount that, itself, was a combination of funds drawn from S&T, the CBP Radiation Portal Monitor Program and other accounts.

I applaud the Administration's decision to increase funding for research and development (R&D). Four years after the 9/11 attacks, this emphasis is welcome, if overdue. Nevertheless, I continue to believe that the DNDO proposal represents a costly and potentially dangerous mistake that will expose this important mission to the well-documented weaknesses of stove-piped R&D programs. In seeking to develop a free-standing R&D office for radiation detection equipment, DHS is ignoring the strong warnings in the 2005 Annual Report from the Homeland Security Science and Technology Advisory Committee about the critical need for DHS to focus on strengthening S&T's ability to "manage and oversee the DHS-National Laboratory relationships."

After members of the S&T Advisory Committee were briefed on the DNDO proposal last May, this bipartisan panel of scientists and security experts immediately raised questions about its impact on S&T autonomy and effectiveness. According to the official minutes, members of the Committee questioned "(1) S&T's ability to carry out its mission with the nuclear threat portfolio removed, (2) the possibility that DHS leadership will see such an organizational partitioning among other counter threat areas (such as biological, chemical, etc.) as an attractive structure and (3) the lack of any external Federal advisory input into the DNDO at its genesis."

Without addressing these concerns, DHS went forward with a proposal that would create a strong institutional rival to S&T that will compete for S&T funding, undermine S&T's Homeland Security Advanced Research Projects Agency (HSARPA), dismantle

S&T's Counter Measures Test Bed system and fragment S&T's relationship with the National Institute of Standards and Technology (NIST).

Moreover, DNDO signals a decision by the Administration to create a second, stove-piped organization to fund homeland security R&D at the National Laboratories. If allowed to proceed, this aspect of DNDO will roll back a critical post-9/11 reform.

In response to evidence of poor coordination and wasteful duplication in the federal government's pursuit of homeland security R&D at the National Laboratories, Congress and the Administration resolved to dramatically change the status quo. The Homeland Security Act of 2002 established the S&T Directorate as a new center of influence and accountability within the federal R&D bureaucracy. Title III of the Act provided S&T the funding and authority it needed to dramatically improve the energy and focus of homeland security research and development focused on combating weapons of mass destruction (WMD). In creating DNDO, the Administration is creating a parallel R&D organization that will duplicate functions of S&T agencies.

Redundant bureaucracies and free-standing procurement programs will not protect us from nuclear terrorist attacks. My fear is that DNDO will end up squandering the hundreds of millions that I and others in Congress want to invest in a coherent and well-managed R&D program that hardens our nation's defenses against weapons of mass destruction. I would therefore request that the Budget Committee reject the proposed transfer of R&D funds and resources from S&T to DNDO and instead provide the increased funding directly to the S&T Directorate.

Bioterrorism/Health Emergency Funding

Notwithstanding the grave threat posed by the outbreak of disease from natural sources, such as avian flu, or a terrorist attack, the Nation continues to be under-prepared for these threats. In December 2005, the Trust for America's Health, a non-profit health policy organization, released its third annual score card on emergency public health preparedness and found that over half the states in the U.S. were unable to meet even half of ten critical benchmarks ranging from their ability to accept and distribute emergency medical supplies from the Strategic National Stockpile to whether their hospitals had adequate emergency plans. Yet, despite these shortcomings, the Administration's FY2007 Budget provides no increase in funding for either the Centers for Disease Control and Prevention (CDC) bioterrorism preparedness grant program to state and local public health agencies or for the Health Resources and Services Administration (HRSA) hospital preparedness program within the Department of Health and Human Services (HHS) budget. And in some cases, the Administration's Budget made drastic reductions in related health emergency preparedness programs. For example, HHS funding for poison control centers, which serve both as a surveillance system to detect a chemical terrorist attack and as a reservoir of expertise for treating victims of such an attack, would be cut almost in half to $13 million. Funding for bioterrorism training and curriculum development for health professionals would also be cut almost in half to $12 million. In addition, funding for CDC's biosurveillance program, which is intended to provide warning of a bioterrorism attack, was cut by 23%.

While no one can predict when an outbreak of a deadly disease will occur, we do know that an outbreak of such a disease could be catastrophic. The national planning scenarios prepared by the Homeland Security Council in July 2004 to guide our national preparedness efforts postulated 13,000 fatalities from a coordinated anthrax attack and as many as 87,000 fatalities from pandemic influenza. Other studies have suggested the numbers of deaths from such events could be much greater. The HHS pandemic flu plan released last year, for example, concluded that deaths in the U.S. could approach 2 million from a virulent strain of flu and would top 200,000 for a more moderate strain. Consequently, it is imperative that the Congress reconsider the Administration's funding levels in this area and increase the funding for these critical public health programs.

Once again, I am recommending that CDC funding for state and local bioterrorism preparedness is increased by $500 million to make it $1.3 billion and that the HRSA bioterrorism program be doubled to $1 billion.

National Disaster Medical System: The Administration has also failed to request increased funding for the National Disaster Medical System emergency response teams. The FY2007 request for $34 million is the same amount the Administration has requested since FY2004. These teams, including the Disaster Medical Assistance Teams, are the federal government's first responders when it comes to medical care, and were employed extensively during Hurricane Katrina. Yet, our staff investigators were told that not a single team had a complete equipment cache and many teams were not completely staffed or trained. Just given the experience of last year's hurricane season, it's clear that these teams need to be brought up to full strength, I therefore recommend doubling the President's FY2007 request for NDMS to $68 million.

Chief Medical Office: The DHS Budget includes a proposed increase in the budget for the office of the Chief Medical Officer. I believe that the creation of the position of Chief Medical Officer as part of the Second Stage Review was a wise decision and I support the proposed expansion in the size and budget for this office in FY2007. Having medical expertise within the Department is essential to assist the Secretary in carrying out his role in the nation's preparation for and response to natural disasters and terrorist threats. In addition, the Department has a number of specific programs ranging from development of bioterrorism countermeasures, to cooperative grant programs, to the operation of the National Disaster Medical System that will benefit from the medical knowledge and perspective that this office will provide. Finally, it is imperative that the Department, as the overall federal emergency coordinator for the nation, has the medical expertise to oversee and guide other federal agencies that have been assigned major responsibilities for food safety, public health preparedness, and other health preparedness and response functions. Given these important tasks, and the enormous consequences of health threats to our country, be they natural, such as pandemic flu, or caused by a terrorist attack, I believe that the additional funding proposed for this office is an important step in the effort to strengthen the capability of this office.

Border Security and Immigration

I support increased funding to improve border security and repair our broken immigration system. The Administration has proposed a $1.5 billion increase to improve border security and repair our broken immigration system. Unfortunately, the Administration's budget request fails to outline a truly coherent strategy in this area. We need a budget proposal that reflects a comprehensive assessment of the threat of terrorist infiltrations into this country from all avenues; instead, the Administration has presented a plan that would plow substantial additional resources into patrolling the land borders (where terrorist infiltration appears to be less likely), while neglecting the clear and present danger of terrorists entering the country with visas. The Administration's effort to stop illegal immigration across the Southwestern border is important – and I support increased expenditures for Border Patrol, internal immigration enforcement, and extra detention beds. But these sizable investments will be ineffective if not paired with workable comprehensive immigration reform. Only a pragmatic approach, such as is called for in the McCain-Kennedy legislation, will protect our national security, reduce illegal immigration, and preserve the historic commitment to immigration that has always fueled our nation's growth.

Border Security: We must take dramatic steps to reduce human trafficking, drug trafficking, and illegal immigration across our land borders. I support the President's request for an additional $281 million to hire 1,500 additional Border Patrol officers – in fact, these hiring increases are long overdue. But because of the vast distances along our land borders, hiring additional officers alone will never suffice. The Border Patrol officers need to be backed up with new equipment and new technologies. I have consistently called for increased spending on equipment and technology, but in recent years our border security initiatives have proceeded in fits and starts.

The Administration's latest proposal for an additional $100 million for border technology establishes an unrealistic timetable and leaves too many unanswered questions. The Department of Homeland Security's recently announced "Secure Border Initiative" (SBI) represents a sudden reversal from its earlier "America's Shield Initiative." The "SBI*net*" program anticipates hiring a contractor to develop an integrated solution "which addresses all aspects of border security"; DHS will offer contractors no opinion as to how this formidable goal should be accomplished. Customs and Border Protection (CBP) will not issue a solicitation until late March or early April, yet it plans to award this huge contract to a single "prime integrator" by the end of FY2006, and the technologies are supposed to be deployed quickly beginning in FY2007. I question the vagueness of these plans and the wisdom of leaving vital border security decisions to a single-award contractor, operating on an indefinite-delivery indefinite-quantity contract.

Federal agencies, and DHS in particular, have a poor track record when they rush into expensive and poorly defined projects. We have been aware of substantial border security technology needs for many years. They have been repeatedly articulated by agencies and interagency task forces. The Department should consider proceeding with acquisitions of equipment and technologies it knows are needed now and which can be deployed more quickly to assist Border Patrol officers in accomplishing their vital mission. In the meantime, Department officials can proceed more deliberately in assessing future needs, making their own decisions on border security solutions, and working with contractors on deploying those solutions cost-effectively.

Terrorist Infiltration: Recently, opponents of immigration reform have suggested that illegal immigration across the Southwestern border is a primary means for terrorists to infiltrate the U.S. In fact, there is little evidence that this is the case. The 9/11 hijackers were admitted into the U.S. on visas awarded to them at U.S. consulates. Zacarias Moussaoui, Richard Reid, and other suspected terrorists boarded flights to the United States with passports issued by countries participating in the Visa Waiver Program. The Administration's Budget for DHS contains huge increases for security improvements at our Southwestern border, but does not contain proportionate increases in the Department's much smaller initiatives to assess the risks of, and ultimately prevent, terrorist infiltrations.

The first line of defense in our effort to prevent terrorist infiltration should be at our consulates, where millions of visa applications are reviewed and granted each year. Congress has entrusted DHS with a major role in ensuring that security considerations are adequately taken into account when visa applications are considered. In Section 428 of the Homeland Security Act of 2002, Congress required that DHS station officers overseas to train consular officers and review visa applications. Congress clearly expected these deployments to be widespread; the Secretary is required to justify to Congress each year every determination he makes *not* to assign officers to a particular diplomatic post. In Section 7201 of the Intelligence Reform and Terrorism Prevention Act of 2004, DHS is required to assist in the initial training and periodic retraining of consular officers in methods needed to "detect, intercept, and disrupt terrorist travel."

The Department's response to this vital mandate has been anemic. For FY2006 the Department plans only a minimal deployment of a handful of visa security officers in a few countries. The Administration's budget proposal for FY2007 is even worse. It proposes no increase in the Budget to implement the Visa Security Program and conduct training for DHS and state personnel. The ICE Office of Intelligence, which contains the Anti-Terrorism Unit and the Human Smuggling and Alien Intelligence Unit, would also see its budget shrink. The Administration should be devoting far greater resources to interagency efforts to comprehensively assess the threat of terrorist infiltration, to develop intelligence on terrorist travel, and to better train and equip all consular and DHS officers who are in a position to detect and prevent terrorist travel. I am calling for an additional $60 million for the ICE Office of International Operations to station more visa security officers overseas and to provide thorough training to all consular officers. I also recommend an additional $30 million for the ICE Office of Intelligence and an additional $20 million for the interagency Human Smuggling and Trafficking Center.

Criminal Alien Program: The Administration's Budget would substantially increase funding for Immigration and Customs Enforcement's (ICE) internal immigration enforcement, but none of that extra money would go to the agency's institutional removal program. The Criminal Alien Program targets convicted criminals who are a much greater risk to public safety than the economic migrants who would be targeted at workplaces under the Administration's proposed budget. What's more, incarcerated criminal aliens are literally a captive population, who are easier to identify for removal and at a lower cost to the Department. According to the Department's budget justification, there are 630,000 criminal aliens serving sentences at the federal, state and local level, of whom an estimated 551,000 have not been identified for removal. Of these, 275,000 are in the country illegally. The Department should make a greater effort to deport criminal aliens, with a priority placed on convicted felons who have committed acts of violence or otherwise represent a threat to public safety. I recommend an increase of $40 million for the Criminal Alien Program.

Detention Beds and Alternatives to Detention: I support the Administration's proposed funding increase of $208 million for 6,000 detention beds, but I note again that increased spending on border security and enforcement will have little effect if not paired with comprehensive immigration reform that can channel economic migration into legal avenues and cut off incentives for hiring illegal labor. At an average price of $95 per bed per day, detaining aliens is just one component of a very expensive enforcement initiative, and no one disputes that this nation lacks the resources to apprehend, detain, and remove a sizable percentage of the nation's large undocumented population. Furthermore, non-criminal asylum seekers and other non-criminal aliens are often subjected to inhumane conditions when they are incarcerated at maximum security correctional facilities, often in the same cells as convicted criminals. Any increase in the numbers of detention beds should be matched by a corresponding increase in the Department's inspection program, and a commitment to improving conditions of detention.

With regard to the detention of families apprehended by the Department, I am deeply concerned by reports that DHS continues to separate family units in detention, including separating infants from their mothers. The Department must do its part to house families together in secure but non-penal environments such as the Burkes County facility in Pennsylvania. It is troubling that no such facility exists in the southern border where many of these families are being detained and where the Administration is proposing an increase in border enforcement. I urge that out of the proposed increase for detention beds, the necessary funds be allocated for the expansion of family-friendly detention facilities on the Southwestern border that are similar to the Burkes County facility.

Because of the high cost of detention beds, we need to aggressively pursue effective and less expensive alternatives to detention, a step Congress has been demanding for years. I support the Administration's request for increased funding for alternatives to detention. The Administration has found that, under the Intensive Supervised Appearance Program (ISAP), participants "were credited with a 94% appearance rate at immigration court proceedings." It is important to support the Administration's request for $42 million in order to expand this effective program.

Legal Orientation Program: In February 2005, the United States Commission on International Religious Freedom (USCIRF) released a congressionally authorized study on the treatment of asylum seekers in expedited removal proceedings. The USCIRF study found that the Legal Orientation Program (LOP) funded by DHS and run by the Executive Office for Immigration Review (EOIR) in the Department of Justice, as well as a public-private initiative of the Arlington asylum office to facilitate asylum seekers with finding pro bono counsel, contributes substantially to the efficiency of the removal process and reduces detention costs. Congress appropriated $2 million for LOP in FY2006, but this funding level is sufficient to provide legal orientation for only approximately 40% of the detained alien population. I therefore request that $6.5 million be provided for LOP and $1.5 million for the credible fear counseling program in order to fund the national expansion of these programs.

Aviation Security

Despite very significant improvements in aviation security since 9/11, important vulnerabilities remain. I request that an additional $752 million be provided for various aviation security programs.

Improved Checkpoint Technologies: The Administration's FY2007 Budget includes just $8.3 million to purchase, deploy and maintain emerging checkpoint technologies to make our checkpoints more effective and efficient. The Intelligence Reform and Terrorism Prevention Act of 2004 called for $250 million for expanding deployment of checkpoint portal detection systems, yet only a tiny fraction of this amount has been provided thus far. These are critical advances for our air security, and I support a funding increase of $92 million above the President's budget request ($100 million total) for improved checkpoint technologies.

In-line Explosive Detection Equipment: I remain concerned that the Administration's Budget provides no new funding for the installation of in-line explosives detection equipment. It is estimated that more than $5 billion total would be needed to install the explosives detection equipment within the checked baggage conveyor systems at approximately 60 major airports, yet only about one-fourth of that amount has been provided, and just 9 airports have received the equipment. GAO has testified that investing in the upfront costs associated with installing this equipment could provide significant savings to DHS in labor costs. The Intelligence Reform and Terrorism Prevention Act of 2004 authorized an additional $150 million for FY2007 for this program; however, I believe the accelerated deployment of this equipment will not only improve security, but also save money in the long term. Therefore, I request an additional $400 million be provided for in-line explosives detection equipment.

Air Cargo Security: Following a 9/11 Commission recommendation that steps be taken to improve air cargo security, the Intelligence Reform and Terrorism Prevention Act of 2004 included several provisions to enhance and augment existing programs. The bill authorized an additional $300 million for FY2007 for ongoing air cargo security programs. I am concerned, however, that the President's budget request only includes approximately $50 million for air cargo security. I request that an additional $250 million be included for existing air cargo security programs and research and development.

General Aviation: In June 2005, three young men climbed a fence around the Municipal Airport in Danbury, Connecticut, stole a Cessna, and flew the airplane to Westchester County, New York. While the incident occurred in Connecticut, it could just as easily have occurred at almost any of the more than 19,000 general aviation airports across the United States. General aviation security measures will likely always differ from the commercial aviation security measures put in place since 9/11, but we must do more to protect against this threat. The State of Connecticut recently completed a review of general aviation security at small airports across Connecticut. The report found that even four years after the 9/11 attacks, general aviation airports are not subject to mandatory security measures. The Transportation Security Administration (TSA) has issued guidelines for general aviation airports and airport administrators can use a TSA security assessment form to help them gauge which security measures are best suited for a particular airport. But the report found that many airports lack the employees and funds necessary to even do the assessment. This is clearly a critical first step, but I believe more must be done. I therefore advocate that the DHS budget for FY2007 include an additional $10 million for grants to general aviation airports to help supplement the costs for performing these security assessments.

Civil Rights and Liberties

The Homeland Security Act of 2002 created the position of Officer for Civil Rights and Civil Liberties within the Department of Homeland Security. The President's Fiscal Year 2007 Budget proposes continuing funding of the Office at the same FY2006 level of $13 million. The Homeland Security Civil Rights and Civil Liberties Protection Act was enacted into law as part of the Intelligence Reform and Terrorism Prevention Act of 2004. This Act significantly expands the responsibilities of this Office. In particular, while the Office was previously only charged with reviewing and assessing information concerning racial and ethnic profiling, the Act expands this mission to include religious profiling. In addition, the Office is now charged with investigating complaints, assisting the Department in the development of policies, and overseeing the Department's compliance with relevant constitutional, regulatory, and other policies. I support continued funding of this Office and request that its budget reflect the new responsibilities mandated by Congress.

Office of Policy Staffing

The Administration's budget proposal includes a request for funding to create a dedicated office within the Office of Policy to assess the vulnerabilities and risks posed by foreign investments covered by the Committee on Foreign Investment in the United States (CFIUS) review process. HSGAC has been reviewing the CFIUS process both generally and specifically as it relates to the Dubai Ports World (DP World) transaction. Chairman Collins and I have expressed our concern to DHS that possible vulnerabilities, including those raised by agencies within the Department, may not have been adequately addressed before DHS voted to approve the DP World transaction. I support the creation of this dedicated office, and I believe it should be provided with sufficient funding and staffing levels in order to help DHS better coordinate and fulfill its role within the CFIUS process.

Inspector General

I am pleased that the Administration is requesting 5 additional FTE's and $14 million in the FY2007 budget for the Office of the Inspector General (OIG). This additional funding is vitally important in helping the DHS OIG carry out its mission as an independent watchdog against waste, fraud, and abuse. However, I remain concerned that this funding is insufficient. A year ago, the OIG indicated to my staff that it lacked adequate investigative staff to respond to the number of allegations of waste, fraud, and abuse that the Office receives. Five additional FTE's does not appear to be a sufficient increase in resources to allow the OIG to provide audit coverage of all the Department's activities it considers appropriate. Furthermore, given the additional demand on the OIG to conduct oversight of Hurricane Katrina it appears that the other important investigations that the OIG has proposed may get shortchanged. Again this year, I request that the budget of the DHS OIG be increased to make it commensurate with the expanded scope of the Office's responsibilities.

<u>Privacy and Civil Liberties Oversight Board</u>

The Intelligence Reform and Terrorism Prevention Act of 2004 created a Privacy and Civil Liberties Oversight Board within the Executive Office of the President (EOP). In accordance with the 9/11 Commission's recommendations, this Act creates, for the first time, a Board that can look across the federal government and ensure that liberty concerns are appropriately considered in the policies and practices of the executive branch.

Last year, Congress appropriated $1.5 million for the Board – twice what the Administration had proposed, but still inadequate for the Board to set up a new office, hire the requisite staff and carry out its broad statutory duties. This year, the

Administration does not propose that any funding specifically designated for the Board, but would leave itself total discretion to decide how much, if any, funding designated for the EOP should be allocated to cover the Board's expenses. Instead, I believe Congress should assign to the Board its own sufficient, dedicated budget, to ensure that the Board is able to fulfill its essential mission.

The purpose of the Board is to ensure that privacy and civil liberties concerns are appropriately considered in the implementation of all laws, regulations, and policies that are related to efforts to protect the nation against terrorism. The Board is empowered to carry out its mission in two equally important ways. First, the Board is to advise policy makers, including departments, at the front end, to ensure that when executive branch officials are proposing, making or implementing policy, they appropriately consider and protect privacy and civil liberties. Second, the Board is to conduct oversight, by investigating and reviewing government actions at the back end, reviewing the implementation of particular government policies to see whether the government is acting with appropriate respect for privacy and civil liberties and adhering to applicable rules.

The Board is composed of five members including a Chairman who may be full-time. Recently, both a new Chairman and Vice Chairman were confirmed by the Senate. In addition, the legislation creates an Executive Director position and anticipates additional staff. Yet, the President's proposed Budget does not include any dedicated funding to support the activities of the Board. In comparison, the President's proposed budgets for other offices within the Executive Office of the President includes \$4 million for the Council of Economic Advisors, \$23 million for the Office of National Drug Control Policy, \$5 million for the Office of Science and Technology Policy, and \$42 million for the Office of the United States Trade Representative (USTR). In addition, the Department of Homeland Security's Officer for Civil Rights and Civil Liberties, which is charged with addressing civil liberties issues facing one department, has a proposed budget of \$13 million. Now that all Board members are in place, I request that Congress give the Board a dedicated budget that reflects its broad responsibilities, to ensure that the Board receives the funds it needs to fulfill its important mission as mandated by Congress.

Government Employee Issues

Civilian Employee Pay

For FY2006, the budget proposal calls for a pay increase of 2.2% for both civilian and military personnel. In each of the past 5 annual budget proposals, this Administration has proposed raises for civilian employees substantially below the military pay increase, but Congress wisely rejected those proposals and enacted the same increase in pay for civilian and military personnel. The Administration now claims that it has not embraced parity between civilian and military pay raises for its own sake, but that the equality in proposed pay increases, for whatever reason, is welcome. We must equally support our federal civilian and military personnel, who together work tirelessly to secure our homeland and way of life.

However, the amount of the 2.2% increment proposed by the Administration for FY2007 is inadequate. If enacted, this would constitute the smallest pay raise for federal employees in over 15 years, and would do nothing to close the gap with the private sector as measured by the Federal Employee Pay Comparability Act. Moreover, 2.2% is well below the rate of inflation, which is running at 3.7% (as measured by the 4th quarter 2005 CPI compared to a year earlier), so inflation-adjusted pay would actually decrease in 2007 for federal employees. Adequate pay is essential not only for fairness, but also for effective human-capital management. Even with statutory pay increases of 3.5% for 2005 and 3.1% for 2006, the Army and National Guard have been unable to meet their recruitment goals, and I fear these problems would only be exacerbated if the proposed 2.2% increase for 2007 were enacted. The deficient pay raise as proposed by the Administration could be very harmful at a time when the government faces critical needs to recruit and retain highly skilled and motivated civilian and military personnel to meet our national defense commitments, homeland security responsibilities, and other essential needs.

Statutory Waiver of Civil Service Protections

Like last year, the Administration's Budget for FY2006 argues that the federal government needs "tools" that consist of authority to move employees waive civil service protections and move. The Budget provides for continued implementation of authorities enacted several years ago for DHS and for the Department of Defense (DoD), and calls for implementation of major reforms government-wide. The Administration seeks enactment of its Working for America Act, proposed last year, which would extend to all agencies many of the new management powers granted at DHS and DoD.

Moreover, in this Budget the Administration has proposed a new legislative provision as an appropriations rider under which the annual pay increase, proposed this year to be 2.2%, would be not be applied reliably or uniformly but would, instead, be left to the virtually unfettered discretion of the President to decide how the extra funds would be doled out to civilian employees. Specifically, the proposed legislation states that the President "may provide" civilian pay raises "in amounts not to exceed an overall average increase" of 2.2%. There is no further statutory framework for the exercise of this authority, and the Budget explains that this authority "allows the President to set and target civilian pay raises in a manner that assists Federal agencies to better manage, develop and reward employees . . . ." (Budget, page 306.)

I am deeply troubled by the approach to personnel management promoted by the Administration. The rules that the Administration seeks to implement at DHS and DoD may undermine key employee protections that prevent workplace abuses and improve employee performance, and the critical security missions of those departments may suffer as a result. In particular, the rules impose excessive limits on collective bargaining which are not necessary to maintain the critical missions of the Departments and make changes to the appeals process that interfere with employees' rights to due process. The rules also contain unduly vague and untested pay and performance provisions, which rely on the future design and implementation by the Departments of reliable and fair processes for assessing employee performance and for ascertaining market-based pay rates – both of which are very difficult and highly controversial undertakings.

Indeed, key components of the rules at both agencies have been enjoined by courts that determined the Administration had exceeded the bounds of its statutory authority. For example, in a strongly worded opinion issued just a few days ago, Judge Emmet G. Sullivan of the U.S. District Court for the District of Columbia ruled that large portions of DoD's regulations were unlawful because, among other things, they "eviscerated collective bargaining rights" and established an appeal process for employees that "is the antithesis of fairness." *AFGE v. Rumsfeld*, Civ. No. 05-2183, Mem. Opinion (Feb. 27, 2006).

I am therefore concerned about the Administration's intention to extend such personnel authorities government-wide. Congress granted DHS and DoD extraordinary flexibility to waive civil service protections because of their unique security missions, and these Departments are undertaking an experimental revamping of their civil service systems. Their efforts so far have been highly troubling and, in many respects, unsatisfactory, and it is far from clear what the ultimate outcome of this experiment will be. We should at least wait to see how it works before we consider extending such power to other agencies through such legislation as the Working for America Act or the appropriations rider proposed in this Budget.

Promotion of High Deductible Health Plans

The Budget proposes that $3.4 billion be saved over 10 years by promoting increased use by federal employees of high deductible health plans (HDHPs) and associated health savings accounts (HSAs). Specifically, the Administration would seek legislation to facilitate Blue Cross/Blue Shield in offering a HDHP. Currently, Blue Cross/Blue Shield is limited by statute to offering two levels of benefits, which it is already doing, and the Budget proposes to authorize them to offer a HDHP as a third.

I generally support proposals that afford federal employees, and indeed any consumers of health care services, more choice and control over their health insurance options. However, I am not convinced that the Administration's proposal would yield the cost savings promised and would avoid serious unintended adverse consequences.

The Administration explicitly states that the projected cost savings are based on the assumption that "the Service Benefit Plan [Blue Cross/Blue Shield] offers a High Deductible Health Plan (HDHP) option in 2007 and that enrollees would move from a higher cost plan to this proposed HDHP option." U.S. OPM Fiscal Year 2007 Budget Briefing (Feb. 2006). These seem very large "if's," considering that Blue Cross/Blue

Shield has publicly stated that it has not decided whether it would offer such a plan, and one can only speculate whether employees would join such a plan if offered.

Moreover, the Administration's policy of promoting the use of HDHPs and HSAs as a means of lowering the soaring costs of healthcare is subject to considerable controversy. A GAO study of such plans already offered to federal employees found that enrollees tended to be relatively young, healthy, and well educated. "Federal Employees Health Benefits Program: Early Experience with a Consumer-Directed Health Plan," (GAO-06-143, November 2005). Thus, as a means of providing affordable health care to federal employees and retirees at the lower end of the income scale, or to those who face the highest healthcare costs, a plan to promote HDHPs does neither. Indeed, concerns have been raised that, by siphoning the younger and healthier enrollees out of conventional plans, the effect of promoting HDHPs may be to actually exacerbate the problem of health-care affordability for the sicker and less well educated individuals left behind.

High deductibles may also result in people getting a reduced amount of essential care – emergency care and the kind of primary and preventive care that helps people stay healthy and avoid more serious illnesses. For example, a recent study found that those with high-deductible health plans "were significantly more likely to avoid, skip, or delay health care" than those with more comprehensive insurance. P. Fronstin & S. Collins, "Early Experience With High-Deductible and Consumer-Driven Health Plans: Findings From the EBRI/Commonwealth Fund Consumerism in Health Care Survey" (EBRI Issue Brief No. 288, Dec. 2005). The challenges were greatest for individuals with health problems and those with incomes of less than $50,000.

For these reasons, I strongly believe that the budgetary impacts and the policy implications of the Administration's proposal must be thoroughly evaluated before any legislation is enacted.

Competitive Sourcing

Despite increasing evidence that public-private competitions have not proven themselves to be an efficient way to achieve taxpayer savings, the Administration continues to push a politically motivated agenda of turning over government duties to poorly supervised contractors under the guise of "competitive sourcing." These "A-76" competitions are time consuming and expensive to administer, and the rules of competition do not allow federal employees to compete fairly for their jobs. For example, administrative costs alone for one A-76 process at the Department of Commerce, eventually scrapped, cost the U.S. taxpayers $41,000 per employee. An A-76 process at Walter Reed Army Medical Center has entered its sixth year, despite the fact that the work affected, regardless of who wins, is likely to be consolidated at another facility as the result of recent base closing decisions. Time after time, the competitive sourcing initiative has resulted in bloated and wasteful spending – an ironic result for a sourcing strategy labeled as "competitive."

The Administration has provided poor guidance to agencies on the Administration's policies on competitive sourcing. While OMB technically has eliminated the unfair requirement that federal employees who win competitions are subject to another competition within five years (a requirement that is not applied to contractors), agencies continue to recompete work won by federal employees within five years or less. Also, the Administration continues to pressure agencies to meet highly unrealistic goals that result in the very forms of quotas that the Administration has disavowed on numerous occasions. For example, the National Institutes of Health was under pressure last year to contract out additional functional areas in order to meet a fixed numeric requirement of 340 positions. See "NIH Memo Hints at Goals, Set With HHS and OMB, in Contracting Out Jobs," *The Washington Post* (July 28, 2005). These types of artificial numerical targets have resulted in questionable attempts to outsource jobs critical to protecting the health and safety of the American people, including the jobs of mine safety toxicologists at the Department of Labor and dam and lock operators in the Corps of Engineers.

Government oversight of contractors continues to be wholly inadequate; yet contracting officers are stretched even thinner as a result of the Administration's push for more competitions. The savings proposed by contractors who win competitions may never be realized, as contracts often come in over-budget or descend into disputes over performance. The appeals procedure, moreover, is fundamentally unfair because federal employees or their union representatives cannot appeal the results of competitions to GAO or the courts, although contractors have those appeal rights.

Contractors provide valuable services for the federal government in many areas, and public-private competitions, when conducted fairly, can be one of several important tools in helping agencies reduce costs and become more efficient. The Administration simply has not made the case, though, that work now being performed by federal employees is performed inefficiently or ineffectively. Unfortunately, the Administration's efforts appear to be driven not by budget savings or improvement of management, but rather by an ideological pursuit of privatizing government jobs at any cost. I urge the Administration to turn its focus to improving agency performance through internal reengineerings, strengthened financial oversight, and other alternatives that do not carry the wasteful costs of the A-76 process.

<u>Federal Information Technology – Electronic Government</u>

The OMB Administrator for E-Government and Information Technology is making progress in realizing more efficient IT solutions through integrated services. A central goal of the E-Government Act of 2002, which I sponsored, was to use information technology to cut across arbitrary agency barriers. The Lines of Business initiative correctly seeks to identify duplication at federal agencies and develop shared solutions. If implemented effectively, the approach will achieve savings and simplify federal IT systems. The Administration should provide the E-Government Administrator with additional staff so that this and other E-Government initiatives can be more carefully monitored. Oversight of major IT investments also continues to be a major challenge. The E-Government Administrator has imposed better controls, but in too many cases IT projects not well understood or overseen by program managers have racked up cost overruns or have failed to meet expectations.

In other respects, the Administration's implementation of the E-Government Act has been mixed. Poor communication with Congressional appropriators led to a temporary cut-off of E-Government initiatives funded by agency transfers. Hopefully, a renewed effort to fully brief Congress on e-government programs will resolve this problem. The Administration's implementation of a provision requiring greater public access to government information has been disappointing; the recommendations of an inter-agency task force were entirely ignored, and the resulting OMB guidance does not appear to be break new ground or comply with the statutory mandate. The Act requires agencies to provide access to the regulatory process over the Internet; the website being developed by OMB and EPA has problems with its user interface that need to be addressed, although officials are to be commended for their attempts to reach out to potential users. In other respects, however, the Administration's commitment to e-government has borne fruit. Initiatives that focus on improving public access to government information and services should be a key priority, even if they are opposed by private industry.

Census Bureau's Survey of Income and Program Participation (SIPP)

I am very concerned that the Budget request calls for the elimination of the Survey of Income and Program Participation (SIPP), an important source of Census Bureau data about poverty, income, and program participation. The Census Bureau has indicated that it wants to improve the survey that is used to collect data in these vital areas, and the Budget for FY2007 provides funds for the development of the new survey, but does not provide funds for conducting the SIPP itself.

The SIPP provides information about low-income families across the nation. The SIPP provides essential information on the effectiveness of programs such as Temporary Assistance for Needy Families (TANF), Medicaid, Social Security, and unemployment insurance. Many experts have long believed that the SIPP is the nation's best source of data about poverty and income. For example, the National Academy of Sciences stated in 1995, "SIPP should become the nation's primary source of income statistics … [Other national surveys] can never be designed to provide the same extent of detail or achieve the same quality of reporting as in SIPP." The Panel on Poverty and Family Assistance of the National Research Council, National Academy of Sciences, "Measuring Poverty: A New Approach," page 11 (1995). The SIPP also tracks health insurance coverage, and provides more in-depth information than any other government survey on work-family issues, such as maternity leave.

Since the SIPP is a longitudinal survey that tracks the same families over time, the SIPP's data are richer and more detailed than other surveys. While I understand the

Census Bureau's desire to develop a new survey to overcome some of SIPP's deficiencies (most notably, the length of the survey, which has deterred some participants from responding completely), it is not acceptable that the important analysis conducted by the SIPP be halted while the program is fixed. Even with some of its issues, the SIPP compares well in terms of accuracy to other surveys. If we lose the SIPP for even one year, the continuity of data that makes the SIPP unique will be lost. I therefore believe it is essential that SIPP be funded at its FY2006 appropriated level of $33.9 million.

Government Management

Performance-Based Budgeting / Performance Assessment Rating Tool (PART)

For the fourth year in a row, the President's Budget relies on the use of the Performance Assessment Rating Tool (PART) to help inform its funding decisions for agency programs. PART is a mechanism the Administration uses each year to evaluate the effectiveness of programs in the federal government, and to help link performance to budget decisions.

I strongly support efforts to manage for results, as can be accomplished through implementation of the Government Performance and Results Act (GPRA). I am concerned, though, that PART, as the Government Accountability Office (GAO) has warned, allows OMB to substitute its judgment about appropriate goals and measures for those developed by the agency in conjunction with interested stakeholders pursuant to GPRA. Moreover, OMB may assert pressure on agencies through the PART review to achieve short-term results, which may actually conflict with agencies' efforts to set and achieve long-term strategic goals under GPRA. See GAO-04-174.

Despite the elaborate systems of charts and tables set forth in the President's proposed budget, the documentation makes clear that PART ratings do not result in automatic decisions about funding. Nor should they. Last June, OMB Deputy Director Clay Johnson conceded before a subcommittee hearing of the Committee on Homeland Security and Governmental Affairs that it is possible for a program to get a poor rating simply because the agency does what it is required to do by statute rather than what OMB would like the program to do. PART is thus a somewhat oversimplistic tool that provides a veneer of apparent objectivity to the Administration's policy decisions as to which programs to fund or eliminate.

Of the 141 programs recommended for elimination in the President's FY2007 Budget, 78 percent have not been through the PART review, begging the question why, if PART is central to the Administration's assessment of a program, elimination would be requested before a PART review. Moreover, the usefulness of PART results is called into question by the fact that some agencies we know not to be performing well received passing grades from PART. For example, in the PART analysis released with the FY2007 Budget, the disaster response and recovery programs at the Federal Emergency Management Agency (FEMA) were actually ranked as "Adequate." If the PART review process thoroughly and accurately measures agency performance, surely the review of FEMA would have uncovered the extensive management problems exposed by the response to Hurricane Katrina.

Another critical flaw of PART is that it fails to seek input from stakeholders on the performance of programs. The inability of the American public to comment on programs is odd in the context of a rating system whose alleged purpose is to assess the effectiveness of programs in delivering services to the public. The lack of stakeholder input and healthy debate on performance criteria leaves certain biases built into the PART system – biases that, for example, appear to favor programs with short-term goals that the Administration can cite in trying to show results, at the expense of programs with long-term goals, such as scientific research programs. Additionally, GAO has recently reported that Congressional staff would be more likely to use PART results to inform their deliberations if OMB consulted them early in the PART process regarding the selection and timing of programs to assess, the methodology and evidence used or to be used, and how the PART information can best be communicated and presented to meet their needs. (GAO-06-28)

The following are several of many unfortunate examples in the proposed Budget of valuable programs that the President seeks to eliminate, reduce, or underfund, either on the basis of the flawed PART analysis or without appropriate consideration of the demonstrated value of the programs.

Department of Health & Human Services – Low Income Home Energy Assistance Program (LIHEAP): The PART review categorizes LIHEAP as "Results Not Demonstrated." Although performance criteria are being developed, OMB acknowledges that developing meaningful performance criteria is a challenge because LIHEAP is a block grant program that provides the states with great flexibility.

The importance and effectiveness of LIHEAP is incontrovertible. LIHEAP assists low-income, vulnerable households with children and disabled and elderly individuals who are at risk for health problems due to insufficient home heating or cooling. The home energy burden for low income households is over four times that of non-low income households. LIHEAP serves the same low-income population that also relies on assistance with heating costs through the Weatherization Assistance Program, for which a 32% cut is proposed. Ongoing debates over LIHEAP funding highlight the unmet winter heating needs of the most impoverished. A survey of LIHEAP recipients found that 44% had been forced to skip energy payments, or pay less than the entire home energy bill over the last year; 30% reported that they had received notice or threat to disconnect their electricity or home heating fuel, and 8% reported that their electricity or home heating had actually been disconnected.

OMB is encouraging the states to rely on funding sources other than the federal budget for energy assistance. This response demonstrates a general philosophical inclination to shift expenses away from the federal government instead of promoting mechanisms to increase program effectiveness. This strategy of shifting expenses to the states is thus based on ideology, not on an evaluation using PART methodology. If anything, the Administration should be calling for LIHEAP to be funded at $5.1 billion, the full amount authorized by the Energy Policy Act.

Department of Housing and Urban Development (HUD) – Hope VI Program: The HUD HOPE VI program is once again proposed for elimination in the federal budget and OMB rated the program as "Ineffective." The Administration has been successful in cutting the funding level for the program from $149 million in FY2004 to only $99 million in FY2006, so the program is effectively decimated already; this year, the Administration proposes the *coup de grace.* It not only proposes no new funding for FY2007, but would rescind the funding for FY2006! Part of the reason, the Administration claims, for eliminating the program is that it has accomplished its mission of "demolishing 100,000 units of public housing." On the contrary, the need to address public housing improvement in Connecticut and around the nation continues apace. Recent estimates are that there is a backlog of about $20 billion in public housing improvement needs around the country. Not only is this program effective, it is badly needed and should be continued.

Department of Housing and Urban Development (HUD) – Community Development Block Grant (CDBG) Program: The Administration has this year continued its effort to reconfigure the CDBG program, and the PART analysis rather incredibly rated the program "Ineffective." Last year, the Administration proposed to remove the program from HUD, shift it to the Department of Commerce, merge it into a block grant with several other programs, and substantially cut the funding for all of them. Fortunately, Congress did not adopt the proposal. Unfortunately, the Administration was successful in attaining a substantial cut in the program of almost $500 million, to $4.1 billion. This year, the Administration has given up on its idea to transfer the program to Commerce, but it again seeks a substantial budget cut of more than 25%; it asked for a funding level of only $3.0 billion for CDBG. It also would "fold" several key categorical programs into this smaller CDBG program, including Brownfields Redevelopment, Section 108 Loan Guarantees, and Rural Housing & Economic Development.

The PART analysis concluded that the CDBG program has no clear purpose; does not address a specific problem, interest or need; and is not designed to be redundant or duplicative of other efforts. These are astounding and unjustifiable conclusions. CDBG has been one of the most successful and flexible programs of assistance to local governments the federal government has ever produced. It is continually cited by mayors and local officials in Connecticut and across the country as the model for how a federal program should work: it provides them resources with which they can make local decisions about how to improve communities. That was the original purpose of the program and should not be abandoned in favor of excessive federal oversight and control.

Department of Justice – Community Oriented Policing Services (COPS) Program: The COPS program is a very effective program administered by the

Department of Justice that provides grants to local law enforcement agencies to promote community policing and acquire technologies that help local law enforcement agencies become more efficient. The PART analysis somehow led OMB to conclude that the program was "not performing and could not demonstrate results." However, a GAO report released on June 5, 2005 found that there was evidence of a correlation between the level of funding for this program and a decrease in crime rates. Moreover, I have seen the benefits of COPS program grants throughout Connecticut where first responders have been able to add personnel and upgrade outdated technology. One of the great advantages of the COPS program is that it gives local first responders flexibility to use the money to meet their specific needs. This benefit as well as its impact on fighting crime apparently eluded the PART analysis, which has led the OMB to make an inaccurate assessment of this critical program.

Centers for Disease Control and Prevention (CDC) – State and Local Preparedness Grants: The CDC state and local preparedness grants are authorized to provide funds to states to support preparedness planning, including deployment of the Strategic National Stockpile, surveillance and epidemiology of diseases, laboratory capacity for biological and chemical agents, establishing information technology capacities, communicating health threats with the public and others, and education and workforce training. Across all 50 states, funding has decreased from $919 million in 2005 to $824 million in 2006. This year, the Administration is proposing a slight cut again to $822 million. CDC state and local preparedness grants are one of the few mechanisms available to states to plan for any hazard – whether it be a biological or chemical terrorist attack, hurricane, or pandemic flu. The Trust for America's Health (TFAH) released an issue report on public health preparedness across the nation. Their panel of experts recommended that the CDC grants program be funded at a minimum level of $950 million for public health and bioterrorism preparedness to states.

Based on PART, OMB has concluded that the "results are not demonstrated" for the CDC state and local preparedness grants. It is unclear, based on the OMB rating, which specific components of the CDC program are contributing to a "Results Not Demonstrated" rating; in fact, our nation's sub-par investment in these programs may also be responsible for a sub-par rating. Moreover, independent information directly contradicts OMB's rating. The TFAH report, along with my staff's conversations with multiple states that have received the CDC planning grants, convince me that the funds have had a positive impact on states' ability to plan for a bioterrorist attack or public health disaster.

I urge that the funding not be cut for the CDC state and local preparedness grant program. It is one of the few mechanisms states and localities have to plan for potential disasters and hazards. On the contrary, funding should be increased, with demonstration grants included to determine long-term outcomes and impacts of the program across states.

Department of Health and Human Services - Community Services Block Grant (CSBG): The CSBG is a federal block grant that delivers and coordinates programs and services to low-income Americans aimed at fighting poverty. It funds more than 1,100 agencies that are currently operating in 96% of counties in the country. In 2005, $637 million was provided to the CSBG and $630 million in 2005. However, for fiscal year 2007, no funds have been requested for the program, which received a PART rating of "results are not demonstrated." Again, it is unclear what specific components of or projects funded by CSBG have led to the rating.

Despite OMB's rating, the Department of Health and Human Services has reported that CSBG funds have resulted in over 2 million service opportunities, including the provision of public and private transportation, access to medical care and child care, establishment of community centers, funding of youth development programs, increased business opportunities for low-income Americans, and access to quality food shopping in low-income neighborhoods with limited access to quality foods. More than 100,000 low-income families have received improved housing based on CBSG funds and more than 50,000 Americans have had higher income earnings as a result of the grants. CSBG has also resulted in more than 100,000 Americans completing high school, higher education, or job retraining. Lastly, CSBG has resulted in greater private and public investments in fighting poverty, with estimates indicating that $1,486 was leveraged for every $1 in CSBG funds. That amounts to a $9.6 billion investment in American communities.

The statistics above indicate that CSBG grants have been successful and that the program should not be terminated. These grants have resulted in hundreds of thousands of low-income Americans gaining access to jobs, education, housing and medical care, among numerous other achievements. They provide integral support for states and local communities in fighting our rising rates of poverty, and it does not appear that the PART rating system has adequately captured the positive impacts of CSBG on American communities. I urge that Congress maintain funding for the CSBG grants and not terminate a program and destroy an infrastructure that has benefited millions of low-income Americans, who are already disproportionately negatively affected by the Administration's budget proposal.

Department of Education – Enhancing Education Through Technology (EETT): The President's FY2007 Budget proposes eliminating funding for the EETT program. The PART analysis concluded "Results Not Demonstrated" for this very critical program, which seeks to ensure that by the time students complete eighth grade, they are technologically literate. The program also awards grants to states and local school districts for teacher training and curriculum development, as well as other related activities. Grants are provided to state educational agencies on the basis of their proportional share of funding under Part A of Title I. states may retain up to 5 percent of their allocations for state-level activities, and must distribute one-half of the remainder by formula to eligible local educational agencies and the other half competitively to eligible local entities.

The OMB rating claims this program has not been able to develop acceptable performance goals or collected data to determine whether it is performing. However, I am not aware of any data to support this claim. Just recently the Department of Education (DOE) developed annual, long-term efficiency measures to assess the program's impact on student achievement and classroom practices. DOE expects to have its first data for these indicators available in the fall of 2006. Furthermore, the Secretary of Education is required to conduct a long-term, independent study, using scientifically based research, to ascertain the conditions and practices under which technology is effective in increasing student academic achievement. A final report with results from the study is to be submitted to Congress no later than April 6, 2006. The Secretary is also required to publish a long-range technology plan that, among other things, discusses how she/he plans to promote technology usage to increase academic achievement, use of technology to assist with systemic state reform and increase access to technology for teaching and learning. Given that none of these reports or studies is complete, the conclusions of the PART analysis are at best premature and at worst simply wrong.

National Archives and Records Administration

National Historical Publications and Records Commission (NHPRC) Grants

For the second year in a row, the Budget proposes eliminating the National Archives and Records Administration (NARA) grants program administered by the National Historical Publications and Records Commission (NHPRC). I urge that this valuable program be fully funded. The NHPRC has an important and long-standing role, supporting a wide range of activities to preserve, publish, and encourage the use of documentary sources relating to the history of the United States. The NHPRC was established by Congress in 1934 and is comprised of a 15-member body which includes the Archivist as chair, representatives of the President, the Senate, the House, the Supreme Court, and the Departments of State and Defense as well as representatives of leading professional associations of archivists and historians. The Commission's mandate is to provide assistance to state, local, and tribal governments, public and private institutions, and individuals committed to the preservation and use of America's documentary resources. The NHPRC today is the only grant-making organization in the nation whose only focus is the preservation of, and increased access to, American historical documentation.

The grant program is structured to maximize the impact of federal dollars, by requiring the grant recipient to provide matching non-federal dollars. The program also provides assistance to potential grantees and operates a system of state board and peer review of applications, which helps to ensure high-quality proposals and a low likelihood of failure. With the passage of the National Archives and Records Administration Efficiency Act of 2004 (P.L. 108-383), Congress authorized $10 million annually for the program. Given the recent reauthorization, I disagree with the Administration's proposal once again to eliminate this program.

The President's FY2006 Budget submission not only eliminates all grant funding for the NHPRC for fiscal year 2006 ($5.5 million), it also cuts $2 million from the NARA operating expenses budget for NHPRC's staff and programs. I believe this important program should be preserved, pursuant to the authorization in Public Law 108-383, and I urge that NARA's budget include an additional $2 million for operating expenses for staff and programs, and $10 million (the fully authorized amount) for grants to state, local, and tribal governments and private institutions, through the NHPRC.

Operating Expenses

The President's budget request for NARA's Operating Expenses Account in FY2007 is $289 million. This represents an increase of approximately $7.4 million over the FY2006 revised enacted sum of approximately $282 million. This is a modest increase for the agency, presumably allowing it to keep up with the rate of inflation. However, in FY2007 NARA plans to assume a new obligation: bringing the Nixon Library into the Presidential Library system. The Nixon Library is not currently part of the Presidential Library system. For the past two years, however, Nixon family members have been working with the National Archives to bring the library into the Presidential Library system. It is scheduled to join the Presidential Library system in FY2007.

Beginning with the records of President George H.W. Bush, the law has required the foundations that established, built and turned over Presidential Libraries to the National Archives also turn over an endowment to NARA which would be used to support, in part, the annual operating expenses for the Library, but Libraries for Presidents prior to George H.W. Bush are not required to establish and turn over an endowment to help offset operating expenses. NARA has determined that the Nixon Library is not required to have an endowment, and therefore NARA will have to fully support the operating expenses for the Nixon Presidential Library in FY2007. The agency estimates that it will cost approximately $3.7 million to operate and maintain the Nixon Library in FY2007. This new obligation for the NARA accounts for half of the proposed increase in the agency's Operating Expense Account, providing just slightly more than a 1.25% increase for operations and maintenance, or less than the rate of inflation. Higher energy and security costs in recent years have already stretched NARA's budget thin.

For these reasons, I urge you to provide NARA with an additional $4 million for FY2007 for its operating expenses. With this amount added, NARA's funding would include both a modest increase over its budget last year, to cover inflation, and coverage of the costs of assuming responsibility for the Nixon Library, so the agency won't be forced to cut important education and outreach programs just to keep lights on.

Abuse of Reconciliation Procedures to Authorize Arctic Refuge Drilling

The First Session of this Congress ultimately saw the failure of efforts to use the Budget Resolution as a vehicle for authorizing drilling in the Arctic National Wildlife

Refuge. Rather than repeat such an obvious insertion of extraneous matters in the budget process, I urge the Budget Committee to leave the question of Arctic Refuge drilling to the normal legislative process.

Unfortunately, the President's Budget includes revenues generated by leases to drill in the Refuge. The Budget Committee should – and must – decline to adopt this element of the President's Budget. Although such leases would generate revenue, Arctic drilling represents an exercise in substantive policy-making, as years of Senate debate have made clear. Not only would drilling result in a substantial change in the character of an otherwise nationally sanctioned wilderness area, but proponents of Arctic Refuge drilling have argued insistently that Arctic drilling would accomplish at least two policy objectives – (1) to increase domestic production of petroleum and thereby offset U.S. imports from the Middle East and other hostile regions, and (2) to stimulate the economy by allegedly producing hundreds of thousands of jobs. Revealingly, in the 107th Congress, proponents introduced legislation to authorize Arctic Refuge drilling as an amendment to a *legislative* vehicle, the Energy Policy Act of 2002, stating that the purpose of the amendment was "to create jobs for Americans, to reduce dependence on foreign sources of crude oil and energy, to strengthen the economic determination of the Inupiat Eskimos, and to promote national security." (S. Amdt. 3132 (107th Cong.))

This history demonstrates that even to its proponents, provisions authorizing Arctic Refuge drilling serve policy goals to which revenues would be "merely incidental" as that term is understood both in common parlance and in the context of the Byrd Rule banning the inclusion of extraneous material in the Budget Resolution. In fact, in 1985, during the Senate's discussion of the Byrd Rule, Senator Domenici expressed his displeasure with just this type of use of the Budget Reconciliation process. He stated, "I do not like to see committees put amendments on reconciliation that they have not been able to pass for years, or in the process of doing reconciliation just add untold numbers of amendments in order to be immune from unlimited debate." (131 Cong. Rec. 28972, Oct. 24, 1985.) Including Arctic Refuge drilling in the Budget Resolution would be an eminent example of the objectionable action that Senator Domenici was describing in 1985. No piece of environmental legislation has a longer or more intense history of controversy than that of the authorization of drilling in the Arctic Refuge, authorization that the Energy and Natural Resources Committee literally "has not been able to pass for years."

Finally, I am concerned that an Arctic drilling provision produced by the Energy and Natural Resources Committee would be extraneous because it implicates the jurisdiction of the Environment and Public Works (EPW) Committee. As the late Senator John Chafee wrote in 1991 in a letter co-signed by several other senators, "The Environment and Public Works Committee has sole jurisdiction over matters relating to the U.S. Fish and Wildlife Service, its programs and the management of fish and wildlife resources generally. The single largest responsibility of the U.S. Fish and Wildlife Service is the management of the National Wildlife Refuge System." (*Congressional Record*, Oct. 31, 1991 at S15612.) Any proposal to drill for oil in the Arctic Refuge would clearly affect its management, thereby implicating the EPW Committee's jurisdiction and making the provision extraneous under the Byrd Rule.

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I appreciate this opportunity to comment on issues of interest within the purview of the Committee on Homeland Security and Governmental Affairs.

Sincerely,

Joseph I. Lieberman
Ranking Minority Member

cc: The Honorable Susan Collins

United States Senate
COMMITTEE ON INDIAN AFFAIRS
WASHINGTON, DC 20510-6450
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March 2, 2006

The Honorable Judd Gregg
Chairman
Committee on the Budget
United States Senate
Washington, D.C. 20510

The Honorable Kent Conrad
Ranking Member
Committee on the Budget
United States Senate
Washington, D.C. 20510

Dear Chairman Gregg and Ranking Member Conrad:

This letter responds to your request for the Senate Indian Affairs Committee's views and estimates on the President's Fiscal Year 2007 budget request for Indian programs. We support the President's goals of funding programs with proven performance accountability while reducing the federal deficit. However, we disagree with many of the proposed funding cuts.

In addition, we urge the Committee's consideration of another matter before the Indian Affairs Committee. The Indian Affairs Committee will work to provide a statutory settlement of the *Cobell v. Norton* litigation involving Indian trust funds management. However, we do not yet know what the settlement amount will be for this class action involving hundreds of thousands of claimants. We request that, in the event the legislation scores, the Committee provide a reserve fund in the resolution. We will advise you of the proposed settlement figure when we arrive at it.

I. General Background Supporting the Committee's Budget Recommendations.

Native Americans, a group that includes American Indians, Alaska Natives, and Native Hawaiians, continue to confront tremendous challenges in obtaining basic services such as health care, housing, and education. In a study published last year, Harvard University researchers concluded that policy of self-governance, which encourages tribes to build and administer their own programs, is working to improve Indians' socioeconomic status.[1] We support such programs. But we must warn, as does the study, that tremendous disparities continue to exist between American Indian and Alaska Native people and the overall U.S. population. The existence of Indian gaming does not negate these disparities. Poverty of services and opportunity continues to haunt Indian peoples.

The U.S. Department of Interior identifies 561 federally-recognized tribes in the United States. For the 2000 Census, 4.3 million people identified themselves as American Indian or Alaska Native, of which 2.4 million identified themselves as only American Indian or Alaska Native. The 2000 Census observed a 25% growth in the Indian population on reservations and a 21% growth off reservations.

Funding for Indian programs falls under the United States' trust obligation to Indian tribes generally. This unique political and fiduciary relationship is grounded in the United States Constitution, treaties, federal statutes, and Supreme Court case law. The federal government's obligation also arises in part from cessions of millions of acres of land from Indian tribes to the United States in exchange for peace, protection of tribal sovereignty, and promises to provide a variety of programs and services. While the federal policy toward Indians has shifted over time, sometimes radically, for the last thirty years, both the Congress and the Administration have encouraged a policy of Indian self-determination, which encourages tribes to develop programs that best serve their members, lessens dependence on the federal government, and ensures their participation in the nation's economy.

Despite recent gains, Indians continue to rank well below the national average in measures of health, education, income, and welfare. Indicators of this disparity include the following:

Indians' Health Status Is Lower Than the Overall U.S. Population. Indians' and Alaska Natives' life expectancy is almost 4 years less than the overall U.S. population. Death rates from a variety of diseases are

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[1] American Indians on Reservations: A Databook of Socioeconomic Change Between The 1990 And 2000 Censuses, Jonathan B. Taylor and Joseph P. Kalt, January 2005; The Harvard Project on American Indian Economic Development.

astronomically higher than for the general population. For example, Indians have a 670% higher death rate from alcoholism, a 318% higher death rate from diabetes, and a 650% higher death rate from tuberculosis than the general population.

The Poverty Rate Is Higher for American Indian and Alaska Natives Than for the United States Overall. The average annual poverty rate for American Indian and Alaska Natives between 1999 and 2001 was 24.5%. The average poverty rate nationally was 11.6%. Nearly one-quarter of Native Americans live in poverty.[2]

Unemployment Is a Persistent Problem. The Bureau of Indian Affairs measured Indian unemployment at 49% of the available labor force in 2003.[3] This percentage ranges among tribes and among states. The Aroostook Band of Micmac Indians in Maine, for example, has an estimated 88% unemployment rate. The Oglala Sioux Tribe of Pine Ridge, South Dakota, has an unemployment rate of 87%.

Suicide Is Disproportionately Higher Among Indians. At a June, 2005 hearing before the Senate Committee on Indian Affairs, Surgeon General Richard Carmona testified that the suicide rate for American Indians and Alaska Natives ages 15 to 34 is three times the national average. For every suicide, he estimated there were 13 non-fatal attempts to commit suicide. Access to mental health facilities is non-existent for many tribal members.

Telephone Subscribership Is Significantly Lower Than the National Average. Telephones and the access they provide, taken for granted by most Americans, often are not available in Indian Country. A January, 2006 Government Accountability Office report, *Challenges to Assessing and Improving Telecommunications for Native Americans on Tribal Lands,*found that only 69% of American Indian households on tribal lands had telephone service.[4] Alaska Native village households had a somewhat higher subscribership of 87%. These percentages contrast to the 98% of households nationally which have telephone subscribership.

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[2] U.S. Census Bureau, "Poverty in the United States: 2001," *Current Population Reports*, September 2002, p. 7.

[3] American Indian Population and Labor Force Report 2003, p ii., Bureau of Indian Affairs, Office of Tribal Services.

[4] Percentages were based on the 2000 Census.

II. Four General Comments.

The Committee wishes to offer general comments on four issues we hope the budget resolution will accommodate:

- passage of legislation to reauthorize and amend the Indian Health Care Improvement Act;
- statutory settlement of the *Cobell v. Norton* litigation involving Indian trust funds management;
- annual adjustments to the Indian Health Service for inflation, pay costs and population growth; and
- the continued need for infrastructure development in Indian Country, including health facilities, schools, housing, and water and wastewater systems.

Each of these issues is discussed below.

A. Reauthorization of the Indian Health Care Improvement Act

The Committee requests that the budget resolution contain an allocation sufficient to cover the costs of the changes we anticipate making to the Indian Health Care Improvement Act in S.1057. The reauthorization legislation, S. 1057, will improve access to health care for Indians by streamlining bureaucracy and removing barriers to access such as cost-sharing and premiums for Medicaid.

The Congressional Budget Office (CBO) is still working on its cost estimate of S. 1057 as reported last October by this Committee; however, new provisions contained in the Indian Health Care Improvement Act Amendments of 2005 are expected to increase both discretionary and direct spending. Due to changes in S. 1057 from the predecessor bill, S. 556, introduced and reported out during the 108th Congress, the Committee anticipates the costs to be lower than the CBO cost estimate for S. 556, attached hereto. In November, 2004, CBO estimated that implementing S. 556 would increase direct spending by $238 million over the 2005-2014 time period. However, the impact of the Deficit Reduction Act of 2006 upon new direct spending for S. 1057 is unknown. When CBO completes its cost estimate of S. 1057, we will forward a copy to the Budget Committee.

B. Settlement of the *Cobell* Trust Funds Litigation

The Committee has pending before it S. 1439, legislation sponsored by Senators McCain and Dorgan which would establish a fund for a lump sum settlement of the claims for an historical accounting in the *Cobell v. Norton* litigation involving the federal government's mismanagement of individual Indian trust funds.

Settlement of the *Cobell* lawsuit has been one of our highest priorities for the 109th Congress, but we have not yet arrived at a settlement amount, or determined how, or if, the proposal will score. Settlement numbers mentioned in recent discussions with the parties are still several billions of dollars apart.

However, resolution of this matter is extremely important for Indian Country for the following reasons:

- The litigation has been pending for ten years, and resolution within the court system will likely not occur in a timely manner.
- For the last several fiscal years, the Department of the Interior has annually requested over $100 million dollars to perform an historical accounting in order to meet its legal obligations. Congressional settlement of the litigation would eliminate the need to continue an historical accounting.
- Resolution of the *Cobell* litigation without congressional action will likely leave unresolved other matters, such as funds mismanagement, leaving open the possibility of additional lawsuits against the United States.

We wanted to call this very important issue to the Budget Committee's attention, and ask that Budget Committee provide a reserve fund in the budget resolution to accommodate settlement legislation.

C. Annual Adjustments for Mandatory Increases for IHS

The FY 2007 budget request for the Indian Health Service includes increases totaling $156.7 million over the FY 2006 enacted level for pay costs, population growth, inflation and staffing requirements at new facilities – so-called "built-in" increases.

The Committee strongly supports these increases. In this respect, the Department of Health and Human Services FY 2007 budget formulation process reflects tribal comment and tribally-determined budget priorities developed and presented through the tribal consultation process. We believe that similar increases need to be included in the budget resolution and in projected budgets (the "outyears") in order to maintain current services.

D. Development of Infrastructure in Indian Country

The need for infrastructure in Indian Country - whether for schools, health centers, housing, detention facilities, courts, water and sewer systems - is dire. Thus, we oppose the Administration's proposed decreases in FY 2007 for a number of programs that provide this necessary infrastructure development in American Indian and Alaska Native communities.

In our FY 2006 "views and estimates," this Committee urged that the BIA Education Construction and IHS Health Facilities Construction programs, in particular, be resumed at previous funding levels despite the proposed "one-year moratorium" on construction. This Committee's concern is heightened this year with proposals for a longer "pause" on construction of new projects in Indian Country, and the Committee urges that the budget resolution include FY 2007 funding for infrastructure development.

Infrastructure programs in various agencies or departments are discussed below.

1. Indian Health Service

<u>Health Facilities Construction</u>

Health facilities are an integral part of Indian communities. With the health disparities and resulting impacts on tribal public safety, economies and education levels, updated health facilities are needed to improve the lives of Indians and their communities. According to the U.S. Department of Health and Human Services, Indian Health Service, *Health Care Facilities FY 2007 Planned Construction Budget* (February 11, 2005), the unmet needs were nearly $1.5 billion, with maintenance and improvement on current facilities reaching $482 million.

The FY 2006 budget request presented the idea of a "one-year pause" on Health Facilities Construction. Congress nevertheless did provide some funding to continue the construction program. In FY 2007, the President's Budget again proposes a "pause." Given the backlog for health care construction projects, this Committee urges the restoration of funding, at the FY 2006 enacted level, to continue this important program.

2. Bureau of Indian Affairs

Education Construction

The FY 2007 budget request would fund the Education Construction program, which includes Replacement School Construction, Advance Planning and Design, Employee Housing, and Facilities Improvement and Repair, at an overall level which is $49.4 million below the FY 2006 enacted level, or $157.4 million.

Since 2001, President Bush has requested and Congress has appropriated $1.6 billion in funding to begin or complete replacement of 37 schools. However, given BIA's inventory of nearly 5,000 education buildings, which, on average, are 60 years old, and the fact that one-third of the 184 BIA schools are in poor condition and in need of either replacement or significant repair, the Committee cannot support the proposed reductions to both Education Construction and School Facilities Improvement and Repair. The Committee concurs with the Administration's proposal for a new budget subactivity, Replacement Facility Construction, under which individual buildings on school campuses would be replaced when entire new education facilities are not needed.

3. Department of Housing and Urban Development

NAHASDA Block Grant Program

The Native American Housing Assistance and Self-Determination Act (NAHASDA), enacted in 1996, is the main statutory authority under which the federal government carries out its responsibility to provide housing to American Indian and Alaska Natives.

The Committee is concerned about the gradual erosion of funding for the NAHASDA block grant program over the past several years. The block grant program was funded at $654 million in FY 2004, $622 million in FY 2005, and $630 million in FY 2006. The Committee appreciates that the FY 2007 budget request, which proposes a level of $625 million, does not propose the substantial cut included in last year's request. However, because of inflationary pressures, the FY 2007 requested level will result in fewer homes being built for an Indian population that is growing and in need of safe, decent and affordable housing.

The housing needs of tribal communities are acute. Approximately 90,000 Indian and Alaska Native families are homeless or underhoused; nearly 15% of homes in tribal areas are overcrowded, compared to 5.7% of homes of the general U.S. population, according to the 2000 Census; and it is estimated that nearly 200,000 housing units are immediately needed to provide adequate housing in tribal areas. Recent NAHASDA funding levels have been inadequate to address these tremendous needs.

4. Department of Justice

Construction of Correctional Facilities in American Indian and Alaska Native Communities Discretionary Grant Program

The Construction of Correctional Facilities in American Indian and Alaska Native Communities Discretionary Grant Program is designed to support the construction of jails on tribal lands for the incarceration of offenders subject to tribal jurisdiction.

In September, 2004, the U.S. Department of Interior Office of Inspector General issued the report, *"Neither Safe Nor Secure": An Assessment of Indian Detention Facilities*, which outlined the deplorable and life-threatening conditions of Indian jails. The report noted the following: that 79% of facilities fall below minimum staffing levels on a regular basis; that poorly maintained facilities provide ample opportunity for escape; that Indian detention facilities experience unusually high rates of suicide, a trend that generally correlates with reduced staff supervision and the influence of drugs and alcohol; and that Indian Country jails have become dilapidated to the point of condemnation. The report clearly documents an ongoing crisis in Indian jails, a crisis that the Committee does not believe will be adequately addressed if the Construction of Correctional Facilities program is eliminated, as proposed, and its funding placed under the COPS three-year non-reoccurring funding scheme.

Testimony from tribal governments and tribal law enforcement agencies before this Committee have identified 15 new detention facilities that are immediately needed.

In FY 2006, $9 million was provided for Indian detention facilities, an increase of $4 million over FY 2005. The Committee recommends that the Construction of Correctional Facilities program continue to be funded separately from the Tribal COPS Program, and that an additional $27 million be identified in the FY 2007 Department of Justice budget to construct the first three new detention facilities.

5. Environmental Protection Agency

Clean Water State Revolving Fund

The EPA State and Tribal Assistance Grants program is made up of two components: infrastructure assistance and categorical grants. The Committee is concerned about the proposed FY 2007 decrease in infrastructure assistance funding under the Clean Water State Revolving Fund (CWSRF). The CWSRF helps tribes and states meet their significant infrastructure needs by funding the construction of wastewater treatment facilities and other water projects, including non-point source, storm water, and sewer overflow. The CWSRF was funded at $850 million in FY 2005 and $900 million in FY 2006; the FY2007 request, however, would decrease the fund to $678.5 million. Tribes receive 1.5% of CWSFR appropriations. The level of need in Indian Country, however, is far greater than this amount is able to address. The Indian Health Service estimated in FY 2005 that for Indian Country, it would cost more than $634 million to correct inadequate and non-compliant wastewater treatment systems or to construct systems where none currently exist.

Water for Alaska Native Villages

The Committee is concerned about the proposed decrease, from $35 million in FY 2006 to $14.8 million requested for FY 2007, for Alaska Native villages. The State and Tribal Assistance Grants program's infrastructure assistance program component provides for construction of wastewater and drinking water facilities to address serious sanitation problems. The Indian Health Service estimated in FY 2005 that it would cost more that $26 million just to address the worst deficiencies in Alaska Native villages which have either inadequate and non-compliant wastewater treatment systems or which lack safe water supply and sewage disposal systems.

6. Department of Agriculture

Rural Community Advancement Program

The Rural Community Advancement Program provides community facilities loans and grants to tribes for water and waste disposal projects. Of that total amount, there is an amount for community facilities grants to tribal colleges. The Committee is concerned about the proposed decrease, from $25 million in both FY 2005 and FY 2006, of which $4.5 million in both fiscal years was for grants to tribal colleges, to $9 million requested for FY 2007, with no amount provided for grants to tribal colleges.

III. Other Committee Recommendations on Specific Programs

What follows is this Committee's recommendations on several proposed increases and decreases to other specific programs which serve Indian people.

A. Bureau of Indian Affairs

Roads Maintenance

The Indian Country transportation system includes 24,500 miles of Bureau of Indian Affairs-owned roads and 777 BIA-owned bridges, and an additional 24,000 miles of roads and 3,617 bridges for which the BIA is obligated to provide maintenance activities. The Roads Maintenance program provides maintenance and repairs not eligible for funding under the Highway Trust Fund. The Committee has received significant evidence of the extremely poor, even dangerous, conditions that exist on roads and bridges throughout Indian Country, and has received no evidence to suggest that those conditions have been addressed adequately. Therefore, the Committee opposes the Administration's proposed $2 million decrease in funding for FY 2007, and recommends that the program be funded at no less than the FY 2006 enacted level of $27.4 million.

Contract Support Costs

The Committee appreciates the Administration's request for an increase of $19 million over the FY 2006 enacted level for BIA Contract Support Costs, which we understand will enable indirect costs to be funded at 100% for contracting tribes. Contract Support Costs cover administrative expenses, such as for financial management or personnel systems, incurred by Indian tribes as a result of assuming the operation of tribal programs. Indian Country has made Contract Support Costs a high funding priority, and the Committee is pleased with the FY 2007 requested level.

Welfare Assistance

The budget request includes a decrease of $11 million for the BIA welfare assistance program. This program provides general financial assistance for Indians who have no access to Temporary Assistance to Needy Families (TANF) assistance, do not meet TANF eligibility requirements, or have exceeded the time limit for TANF services. Funding under this program may also be used for burial assistance and assistance for those with children, including short-term homemaker services, and adoption or guardianship subsidies. The Committee is not aware that there is any anticipated decrease in the demand for welfare assistance and urges restoration of funds for these basic services.

Johnson O'Malley

The Administration proposes to eliminate the Johnson O'Malley assistance grants program, which was funded at $16.4 million in FY 2006. This program provides assistance to Indian tribes and public schools for basic educational needs of Indian children, such as school supplies, nominal clothing subsidies, transportation, and afterschool programs that provide tutoring and counseling. The program administrators at the local schools may also serve as liaisons between the Indian parents or students and school administrators.

Although the Administration has suggested that similar programs are available through the Department of Education, none have been specifically identified. The Committee recommends restoration of funding for this culturally-relevant program for Indian students.

Education Management

The Administration is proposing a $9 million increase over FY 2006 for BIA Education Management, of which $2.5 million is requested to realign education offices in the field and in headquarters to a more centrally coordinated organization, and place senior executives in education line office positions. While this Committee is sensitive to BIA's need for senior managers to oversee education and other programs, we want to insure foremost that there are sufficient resources to meet basic student needs.

Law Enforcement

BIA Law Enforcement would receive a $4.5 million increase. $2.7 million of this increase is proposed for staffing at new detention facilities. $1.8 million is for BIA law enforcement officers and equipment to be allocated at locations with the most serious crime. Indian Country public safety has been a particular priority of the tribes in the past few years, and the Committee strongly recommends that additional funding be provided for law enforcement and related justice programs. Support for this requested increase is particularly important given the expiration of funding for 759 of 1,800 new tribal law enforcement officers hired since 1999 under the COPS Program. Funding for these 759 positions will expire at the end of 2006.

Indian Energy Development

The Committee is pleased that the FY 2007 budget requests $2 million in new funds for implementation of Indian energy resource development, as outlined in the Energy Policy Act of 2005. Of this total, $1.4 million would be for grants to tribes for energy development activities, and $600,000 for BIA oversight, including approval of tribal energy resource agreements and technical assistance. We support this requested FY 2007 funding.

United Tribes Technical College (UTTC) and Crownpoint Institute of Technology

The Committee is disturbed that, as the Administration proposed in the FY 2006 budget request, funding is eliminated in FY 2007 for the United Tribes Technical College (UTTC) and Crownpoint Institute of Technology. UTTC and Crownpoint have demonstrated high levels of success in educating Indian students. The Committee urges that funding for these two institutions be restored to the FY 2006 enacted level, plus the cost of inflation.

Indian Land Consolidation Program

The Committee strongly supports the proposed increase for the Indian Land Consolidation program of approximately $25.4 million over the FY 2006 enacted level, or $59.5 million. This program allows the Department of the Interior to consolidate ownership of highly fractionated Indian lands by purchasing fractional land interests from individual Indian landowners and restoring them to tribal ownership. The requested level of funds will enable the acquisition program to expand by nearly two times the number of small, fractionated interests estimated to be acquired in FY 2006. The purchase of fractionated interests, which is an important part of the Department's trust reform efforts, will not only restore lands to tribal ownership, but also reduce record-keeping and otherwise unavoidable expenses required in administering tens of thousands of small fractional interests in land. The purchase of these interests will also reduce the number of individual estates subject to probate by the Department of Interior.

B. Department of Education

Indian Education Programs

The Committee notes that FY 2007 funding for Indian education programs at the Department of Education has remained the same or is proposed for slight decreases. These programs fund such activities and services as public school programs for Indian children; supplemental education programs for Native Hawaiian and Alaska Native children; operation and improvement of tribally-controlled post-secondary vocational and technical institutions; and improvement and expansion of Tribal College capacity and the capacity of Alaska Native and Native Hawaiian serving post-secondary institutions.

Unfortunately, the proposed FY 2007 funding levels do not consider the growing American Indian and Alaska Native population, inflation costs or other factors unique to the education of Indian students. Because of this, the proposed funding levels for Indian education programs are disappointing.

33% of the American Indian and Alaska Native population is under the age of 18. According to the Department of Education, Indian students are below the national average on national math, reading, and science assessments and lag behind most other races in these subject areas. Many of the schools educating Indian children are not meeting adequate yearly progress (AYP), as required by the No Child Left Behind. Only 30% of BIA and tribal schools meet AYP, compared with 70% for the states. Indian students also have higher rates of absenteeism, suspension, and expulsion than their non-Indian peers. 11.4% of American Indian and Alaska Native students received special education services in 2002.

As the Administration has acknowledged, most American Indian and Alaska Native students attend schools in small towns and rural areas. These schools face increased challenges in meeting the requirements of the No Child Left Behind Act, ranging from the difficulties of recruiting and retaining highly qualified teachers to work in rural areas, to higher transportation costs to cover gasoline and vehicle maintenance and repair. Despite the challenges facing

Indian students and schools, the President's FY 2007 budget proposal does not include an adjustment for inflation or population growth. Thus, funding for the growing Indian population will actually decrease.

The Committee also objects to the proposed elimination of various Department of Education programs, such as Even Start, Safe and Drug-Free Schools and Communities, and other programs that fund valuable programs and services to schools educating Indian children.

C. Indian Health Service

Health Care Facilities Construction

The IHS Health Care Facilities Construction program funds the construction of health facilities, including the initial equipment, that provide direct health care services for American Indians and Alaska Natives. This program designs and builds health care facilities and staff housing according to a priority system based on needs of the IHS and Indian tribes.

Despite a continuing backlog of critically needed health care facilities, as noted above, the FY 2007 budget request of $17.7 million is a decrease of $20.1 million from the enacted FY 2006 level of $37.8 million, and a decrease of $70.9 million from the FY 2005 enacted level. The FY 2007 budget request will provide funding to complete one project. No additional planning funds are requested to address the remaining projects on the IHS 5-Year Priority Construction List or other unmet needs.

Given the tremendous need, the Committee is troubled that the one-year moratorium on IHS facility construction established by the Administration during FY 2006 is proposed to be effectively extended into FY 2007. We recommend that funding be restored to the FY 2006 enacted level.

Urban Indian Health Program

The Committee opposes the proposed elimination of the Urban Indian Health Program, which was funded at $32.7 million in FY 2006. The 2000 census indicated that as much as 66% of the American Indian and Alaska Native population lives in urban areas. The 34 urban Indian organizations serve 430,000 eligible Indian users at 41 sites throughout the U.S., and provide health services such as dental, pharmaceutical, vision, alcohol or mental health treatment, suicide prevention and family wellness.

The budget request stated that this program duplicates other services available, primarily from community health centers. However, no evaluation or evidence has been provided to support this contention, or to examine the impacts of eliminating funding for this program. The Committee is concerned that by eliminating funding, access to health care will not be available and the health levels of these Indians will be eroded. The Committee recommends that funding be restored to the FY 2006 enacted level.

Contract Support Costs

As noted under the BIA section above, the Committee similarly supports the Administration's requested increase for IHS Contract Support Costs of $5.6 million over the FY 2006 enacted level. The Committee notes, however, that, in contrast to BIA, even with this increase, IHS will not fully fund tribes' actual contract support costs. We support funding to do this.

American Indian/Alaska Native Youth Suicide Prevention Initiative

The FY 2007 budget request includes $3 million in new funding for a collaborative program between the Indian Health Service and the Substance Abuse and Mental Health Services Administration focused on American Indian and Alaska Native youth suicide prevention.

Addressing Indian youth suicide prevention, intervention, and treatment has been a priority issue before this Committee. We strongly support the request for this new program.

Uniform Financial Management System

The Committee notes that the Administration has proposed an increase of $11 million to fund a Uniform Financial Management System (UFMS) for the IHS. While the Committee does not object to funding to enhance the agency's management systems, we are concerned that this requested increase may be proposed at the expense of direct health care services to Indians - such as Health Facilities Construction and the Urban Indian Health Program - and note also that tribal management systems assisted by contract support costs should be supported.

D. Department of Housing and Urban Development

NAHASDA Technical Assistance and Training

Technical assistance and training have been key components of making the Native American Housing Assistance and Self-Determination Act (NAHASDA) as successful as it has been over the past decade. By far the major provider of technical assistance and training to the Native community is the National American Indian Housing Council (NAIHC), a 32-year-old consortium of more than 460 tribes and Alaska Native villages that provides assistance to tribal housing authorities and tribally-designated housing entities. Training and technical assistance are effective tools in maintaining compliance with statutory or regulatory requirements, and in addressing new issues facing the tribally-designated housing entities, such as identification and remediation of methamphetamine use in tribal housing.

In FY 2005, the NAIHC received $4.6 million to provide technical assistance and training; that amount was reduced to $2 million in FY 2006. The FY 2007 budget proposes to eliminate federal support for these much-needed activities. The Committee supports continued funding for the Council to provide technical assistance and training at the current level.

E. Department of Justice

In addition to the Construction of Correctional Facilities in American Indian and Alaska Native Communities Discretionary Grant Program, discussed above, the Department of Justice has historically supported tribal police services, courts, legal representation, and juvenile and behavioral health programs through four programs:

- the Tribal Courts Assistance Program, which supports the development, implementation, enhancement and continuing operation of tribal justice systems;

- the Indian Alcohol and Substance Abuse Demonstration Program, which is designed to reduce crimes associated with the distribution and abuse of alcohol and controlled substances in tribal communities by mobilizing these communities to implement or enhance innovative, collaborative efforts to address public safety issues related to alcohol and substance abuse;

- the Tribal COPS Program, which includes hiring and training of new law enforcement officers, training of existing forces, purchasing of basic standard issue equipment, technology and vehicles; and

- the Tribal Youth Program, which provides grants to tribes to improve tribal juvenile justice systems and develop and implement culturally-sensitive delinquency prevention programs, alcohol and substance abuse prevention programs, and interventions for tribal youth. The Mental Health Initiative and Comprehensive Indian Resources for Community and Law Enforcement (CIRCLE) Project are part of the Tribal Youth Program.

The Committee has received significant testimony from Indian tribes and tribal law enforcement agencies that funding for law enforcement and justice systems is one of the highest priorities for Indian tribes again in FY 2007, as tribal law enforcement is often the only law enforcement service available in Indian Country. Indian tribes have broad civil jurisdiction, and criminal jurisdiction for offenses committed by Indians on Indian land, and they rely on tribal judicial systems to maintain law and order.

For FY 2007, the Administration proposes to eliminate the Tribal Court Assistance, Indian Alcohol and Substance Abuse, and Tribal Youth programs, and have those programs funded instead through the Tribal Community Oriented Policing Services (COPS) program at a level of $31 million. This represents a 33 percent reduction in funding from the FY 2006 enacted level. The Committee strongly opposes the recommendation to abolish the Tribal Court Assistance, Indian Alcohol and Substance Abuse, and Tribal Youth programs and to move all tribal activities into COPS, which could subject these important programs to the COPS program's three-year non-reoccurring funding scheme.

The Committee recommends that the FY 2007 funding levels for these programs be increased or maintained at the FY 2006 level as follows: Tribal Courts Assistance Program to be funded at no less than $8 million; Indian Alcohol and Substance Abuse Demonstration Program to be funded at no less than $5 million; Tribal COPS Program to be funded as requested at $31 million; and Tribal Youth Program to be funded at no less than $10 million.

F. Department of Agriculture

Tribal Land Acquisition Loans

Within the Farm Service Agency, the Tribal Land Acquisition Loans program provides loans to tribes that do not have adequate funds to acquire lands or interest in lands within the tribe's reservation or Alaska Native community. The Committee supports the proposed FY 2007 request of $4 million, which is double the FY 2006 level of $2 million. This program will complement efforts of the Department of the Interior to consolidate ownership of highly fractionated Indian lands through purchase, restoring these parcels to tribal ownership.

The Committee on Indian Affairs appreciates the opportunity to give our views on the FY 2007 budget request, and looks forward to continuing to work with you to ensure that programs that serve American Indians and Alaska Natives are adequately funded.

Sincerely,

John McCain
Chairman

Byron L. Dorgan
Vice Chairman

CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

November 30, 2004

S. 556
Indian Health Care Improvement Act Amendments of 2004

As reported by the Senate Committee on Indian Affairs on November 16, 2004

SUMMARY

S. 556 would authorize the appropriation of such sums as necessary through 2015 for the Indian Health Care Improvement Act, the primary authorizing legislation for the Indian Health Service (IHS). The bill also contains specific authorizations for loans and loan guarantees for urban Indian organizations and a commission on Indian health care. In addition, the bill also would affect direct spending, primarily through provisions that would make it easier for IHS to enter into capital leases and make changes to the Medicaid program.

CBO estimates that implementing S. 556 would cost $2.4 billion in 2005 and $31.8 billion over the 2005-2014 period, assuming appropriation of the necessary amounts. We also estimate that enacting the bill would increase direct spending by $8 million in 2005, by $69 million over the 2005-2009 period, and by $238 million over the 2005-2014 period.

S. 556 would preempt state licensing laws in certain cases, and this preemption would be an intergovernmental mandate as defined in the Unfunded Mandates Reform Act (UMRA); however, CBO estimates that the costs of that mandate would be small and would not approach the threshold established in UMRA ($60 million in 2004, adjusted annually for inflation). Other provisions of the bill would establish new or expand existing programs for Indian health care. It also would place new requirements on Medicaid and the State Children's Health Insurance Program (SCHIP) that would result in additional spending of about $35 million over the 2005-2009 period. This bill contains no private-sector mandates as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 556 is shown in Table 1. The costs of this legislation fall within budget function 550 (health).

TABLE 1. ESTIMATED BUDGETARY EFFECTS OF S. 556

	By Fiscal Year, in Millions of Dollars									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CHANGES IN SPENDING SUBJECT TO APPROPRIATION										
Estimated Authorization Level	2,977	3,026	3,093	3,165	3,243	3,321	3,401	3,484	3,569	3,657
Estimated Outlays	2,353	2,843	2,995	3,131	3,212	3,289	3,368	3,450	3,535	3,621
CHANGES IN DIRECT SPENDING										
Estimated Budget Authority	7	42	90	44	46	96	49	51	104	54
Estimated Outlays	8	12	13	15	21	24	28	36	38	43

BASIS OF ESTIMATE

For the purpose of this estimate, CBO assumes that S. 556 would be enacted near the start of calendar year 2005 and that the authorized amounts will be appropriated for each fiscal year.

Spending Subject to Appropriation

The estimated effects of S. 556 on spending subject to appropriation are shown in Table 2. IHS programs were authorized for 2004 by the Department of the Interior and Related Agencies Appropriations Act, 2004 (Public Law 108-108).

Existing Indian Health Service Activities. S. 556 would authorize the appropriation of such sums as necessary for the Indian Health Service through 2015. The agency's responsibilities under the bill would be broadly similar to those in current law. CBO's estimate of the authorized level for IHS programs is the appropriated amount for 2004 adjusted for inflation in later years. The estimated outlays reflect CBO's current assumptions about spending patterns for IHS activities. (The pending omnibus appropriation act, H.R. 4818, would provide $2.985 billion in funding for IHS activities in fiscal year 2005).

TABLE 2. ESTIMATED EFFECTS OF S. 556 ON DISCRETIONARY SPENDING

	By Fiscal Year, in Millions of Dollars										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Spending Under Current Law[a]											
Budget Authority	2,921	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	2,909	605	159	71	5	0	0	0	0	0	0
Proposed Changes:											
Existing Indian Health Service Activities											
Estimated Authorization Level	0	2,973	3,025	3,092	3,165	3,243	3,321	3,401	3,484	3,569	3,657
Estimated Outlays	0	2,352	2,841	2,994	3,131	3,212	3,289	3,368	3,450	3,535	3,621
Loan Guarantees for Urban Indian Organizations											
Estimated Authorization Level	0	*	1	1	0	0	0	0	0	0	0
Estimated Outlays	0	*	*	*	*	*	*	0	0	0	0
Commission on Indian Health Care Entitlement											
Authorization Level	0	4	0	0	0	0	0	0	0	0	0
Estimated Outlays	0	1	2	1	0	0	0	0	0	0	0
Total Changes in Spending Subject to Appropriation											
Estimated Authorization Level	0	2,977	3,026	3,093	3,165	3,243	3,321	3,401	3,484	3,569	3,657
Estimated Outlays	0	2,353	2,843	2,995	3,131	3,212	3,289	3,368	3,450	3,535	3,621
Spending Under S. 556											
Estimated Authorization Level[a]	2,921	2,977	3,026	3,093	3,165	3,243	3,321	3,401	3,484	3,569	3,657
Estimated Outlays	2,909	2,958	3,002	3,066	3,136	3,212	3,289	3,368	3,450	3,535	3,621

NOTE: * = Less than $500,000.

a. The 2004 level is the amount appropriated for that year. The pending omnibus appropriation act (H.R. 4818) would provide $2.985 billion in funding for IHS activities in fiscal year 2005.

Loan Guarantees for Urban Indian Organizations. Section 509 of the bill would establish a loan guarantee program for urban Indian organizations. Under this new program, the federal government would provide loans or loan guarantees, with a term of up to 25 years, for construction or renovation by urban Indian organizations. The bill would not require any guarantee fees to be charged to the organizations and would not limit the percent of the loan that would be insured by the federal government. CBO therefore assumes that IHS would insure up to 100 percent of the loan value and that borrowers would not be charged any guarantee fees.

The new loan program would be considered a discretionary federal credit program and would require appropriation to establish a limit on the total value of outstanding loans and loan guarantees and to provide a credit subsidy for the cost of such loans and loan guarantees. Based on discussions with officials from the National Council of Urban Indian Health, CBO estimates that the total value of loans and loan guarantees would be $30 million. Using the Small Business Administration's 7(a) general business loan program as a guide, CBO assumes that, like small businesses, the default rate for loans made to urban Indian organizations would be about 10 percent and that recoveries on such loans would be about 50 percent. Using those assumptions, CBO estimates that the subsidy rate for the new loan program would be 5 percent, and that establishing the loan program would cost about $2 million over the next five years, assuming appropriation of the necessary amounts.

Commission on Indian Health Care Entitlement. Section 815 would authorize the appropriation of $4 million for a commission that would study establishing a legal entitlement for Indians to receive health care services. The members of the commission would have to be appointed within five months of the bill's enactment and would be required to submit a final report to the Congress no later than 18 months after that. Assuming the appropriation of the authorized amount, CBO estimates that implementing this provision would cost $1 million in 2005, $2 million in 2006, and $1 million in 2007.

New Hospital for Fort Berthold Indian Reservation. S. 556 contains a provision that would authorize the appropriation of $20 million for the construction of a new hospital on the Fort Berthold Indian Reservation in North Dakota. CBO estimates that this provision would have no effect on spending because it is also contained in a separate piece of legislation (S. 1146, the Three Affiliated Tribes Health Facility Compensation Act) that the Congress recently cleared.

Direct Spending

S. 556 contains several provisions, primarily related to leasing by IHS and the Medicaid program, that would affect direct spending. The bill's estimated effects on direct spending are shown in Table 3. Overall, CBO estimates that enacting the bill would increase direct spending by $8 million in 2005 and $238 million over the 2005-2014 period.

The effects of each provision are discussed in more detail below. IHS-funded health programs are commonly divided into three groups: those operated directly by the Indian Health Service, those operated by tribes and tribal organizations under self-governance agreements, and those operated by urban Indian organizations. For this estimate, they are referred to collectively as Indian health programs.

TABLE 3. ESTIMATED EFFECTS OF S. 556 ON DIRECT SPENDING

	By Fiscal Year, in Millions of Dollars									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Spending on Health Facilities										
Estimated Budget Authority	0	31	78	32	32	82	33	34	86	35
Estimated Outlays	0	0	0	2	7	9	12	18	20	23
Consultation with Indian Health Programs										
Estimated Budget Authority	*	*	1	1	1	1	1	1	1	1
Estimated Outlays	*	*	1	1	1	1	1	1	1	1
Exempt Indians from Cost Sharing										
Medicaid										
Estimated Budget Authority	3	5	5	5	6	6	7	8	8	9
Estimated Outlays	3	5	5	5	6	6	7	8	8	9
SCHIP										
Budget Authority	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	1	1	1	1	*	*	*	*	*	*
Exempt Indians from Premiums										
Medicaid										
Estimated Budget Authority	2	3	3	3	3	3	3	3	3	3
Estimated Outlays	2	3	3	3	3	3	3	3	3	3
SCHIP										
Budget Authority	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	*	*	*	*	*	*	*	*	*	*
Medicaid Interaction with SCHIP										
Estimated Budget Authority	*	*	*	*	1	1	1	1	1	1
Estimated Outlays	*	*	*	*	1	1	1	1	1	1
Medicaid Managed Care Provisions										
Estimated Budget Authority	1	2	3	3	3	4	4	4	5	5
Estimated Outlays	1	2	3	3	3	4	4	4	5	5
Scholarship and Loan Repayment Recovery Fund										
Estimated Budget Authority	*	*	*	*	*	*	*	*	*	*
Estimated Outlays	*	*	*	*	*	*	*	*	*	*
Total Changes in Direct Spending										
Estimated Budget Authority	7	42	90	44	46	96	49	51	104	54
Estimated Outlays	8	12	13	15	21	24	28	36	38	43

NOTES: Components may not sum to totals because of rounding. SCHIP is the State Children's Health Insurance Program.

* = Costs or savings of less than $500,000.

Spending on Health Facilities. IHS already has the authority to enter into leases, contracts, or other agreements with tribes or tribal organizations that have title to, a leasehold interest in, or a beneficial interest in facilities that would be used by IHS to deliver health care services. Section 308 of the bill would require that all such arrangements be treated as operating leases for the purposes of the Balanced Budget and Emergency Deficit Control Act.

Under the bill, CBO anticipates that IHS would enter into arrangements that should be treated as capital leases because those arrangements would effectively allow IHS to acquire new buildings. Consistent with government rules for accounting for obligations, the full cost of those leases should be recorded in the budget as new budget authority at the time the lease agreements are signed. That budget authority—estimated to be about $440 million over the 2005-2014 period—is determined by calculating the discounted present value of the anticipated lease payments. Spending of that budget authority would occur over the term of the various leases (that is, outlays would significantly lag behind the budget authority).

For this estimate, CBO assumed that IHS would begin signing new capital leases starting in 2006. Based on information from IHS, we anticipate that those leases would be used for a variety of construction projects, including inpatient hospitals, outpatient hospitals, and staff quarters. We assume that IHS would not begin to make lease payments until 2008; payments in that year would total $2 million and then rise gradually to $23 million by 2014. Both the level of spending that might occur under the bill and the types of projects that might be financed are uncertain, and IHS spending may be more or less than the amounts CBO has estimated.

Consultation with Indian Health Programs. Section 409 would encourage state Medicaid programs to consult regularly with Indian health programs on outstanding Medicaid issues by allowing states to receive federal matching funds for the cost of those consultations. Those costs would be treated as an administrative expense under Medicaid and divided equally between the federal government and the states. CBO anticipates that a small number of states would take advantage of this provision, increasing federal Medicaid spending by about $200,000 in 2005 and by $7 million over the 2005-2014 period.

Exempt Indians from Cost Sharing. Section 412 would prohibit Medicaid and SCHIP from charging cost sharing to Indians for services provided directly or upon referral by Indian health programs. The provision also would require that payments by Medicaid and SCHIP for services provided directly by those programs could not be reduced by the amount of cost sharing that Indians otherwise would pay.

Medicaid. CBO anticipates that this provision's budgetary effect would stem primarily from eliminating cost sharing for referral services. Current law already prohibits Indian health programs from charging cost sharing to Indians who use their services. In addition, Medicaid pays almost all facilities operated by IHS and tribes based on an all-inclusive rate that is not reduced to account for any cost sharing that Indians would otherwise have to pay.

Using Medicaid administrative data, CBO estimates that about 225,000 Indians are Medicaid recipients who also use IHS, and that federal Medicaid spending on affected services would be about $400 per person annually in 2005. The amount of affected spending would be relatively low because Medicaid already prohibits cost sharing in many instances, such as long-term care services, emergency services, and all services for children and pregnant women. For the affected spending, CBO assumes that cost sharing paid by individuals equals 2 percent of total spending—Medicaid law limits cost sharing to nominal amounts—and that eliminating cost sharing would increase total spending by about 5 percent as individuals consume more services. Overall, CBO estimates that the provision would increase federal Medicaid spending by $3 million in 2005 and by $62 million over the 2005-2014 period.

State Children's Health Insurance Program. SCHIP regulations already prohibit states from charging cost sharing to Indian children enrolled in the program. As a result, the provision's impact on SCHIP spending reflects higher payments to Indian health programs and the use of additional referral services by adult enrollees that some states cover in waiver programs. CBO estimates that the additional spending would total $1 million in 2005 and $5 million over the 2005-2014 period. The provision's effects would be limited in later years because total funding for the program is capped.

Exempt Indians from Premiums. Section 412 also would exempt Indians from paying any premiums under Medicaid or SCHIP. Based on information from the Government Accountability Office on the limited extent to which states charge premiums in those programs and Medicaid administrative data, CBO estimated that this provision would affect about 5,000 Medicaid recipients, and that the loss of premium payments from those individuals would raise federal Medicaid spending by $2 million in 2005 and by $29 million over the next 10 years.

CBO also estimates that this provision would affect federal SCHIP spending by less than $500,000 annually. As noted above, Indian children do not pay premiums under SCHIP, so the provision would affect only adult recipients.

Medicaid Interaction with SCHIP. The changes in SCHIP spending outlined above also would lead to slightly higher Medicaid spending. Total funding for SCHIP is limited by statute, and CBO anticipates that many states will experience funding shortfalls over the 10-year projection period. CBO also assumes that states will partly offset those funding shortfalls by expanding Medicaid eligibility, which would allow states to continue receive federal matching funds, albeit at a less-favorable matching rate. Since S. 556 would increase spending in SCHIP, it also would increase the extent to which states use Medicaid funds to offset funding shortfalls in SCHIP. CBO estimates that this interaction would raise federal Medicaid spending by less than $500,000 in 2005 and by about $5 million over the 2005-2014 period.

Medicaid Managed Care Provisions. Section 413 contains three provisions that would affect Medicaid spending on services provided in managed care settings.

Pay Indian Health Programs at Preferred Provider Rates. States that rely on managed care organizations (MCOs) to provide care to Medicaid beneficiaries and have an IHS presence commonly require MCOs to include Indian health programs in their networks or otherwise allow access to services provided by those programs. In other instances, states pay Indian health programs directly for services provided to Indians enrolled in managed care. Although Indian health programs are generally eligible for Medicaid reimbursement from MCOs, they may not be paid at the same rates as preferred providers. S. 556 would require that managed care organizations pay Indian health programs at least the rate paid to preferred providers. As an alternative, state Medicaid programs could pay the increased amounts directly to Indian health programs.

Under current law, about 200,000 Indians on Medicaid receive health care services through MCOs. Based on Medicaid administrative data, CBO estimates that about a third of Indians in Medicaid managed care also use Indian Health providers, mainly for primary care services. Assuming that a third of those enrollees use non-preferred providers, CBO estimates that providers serving about 23,000 Indians would receive rate increases by 2009. Based on administrative spending data for Indians in managed care and assuming that rates under the bill would be 20 percent higher than under current law, CBO estimates that the bill would increase payments to providers of about $150 per year in 2009, some of which would be paid through managed care plans and the balance directly by the states. Assuming the regular Medicaid match rate for plan spending and a 100 percent match rate for direct payments to facilities operated by IHS and tribes, CBO estimates that the bill would increase federal Medicaid payments by less than $1 million in 2005 and by about $16 million over the 2005-2014 period.

Submission of Claims. The bill also would prohibit MCOs from requiring enrollees to submit claims as a condition of payment to contracting Indian health programs. CBO anticipates that Indian health programs would be able to bill more, raising federal Medicaid spending by less than $1 million in 2005 and by $5 million over the 2005-2014 period.

Require States to Contract with Indian Health Programs. Finally, S. 556 would require states to enter into agreements with MCOs that are run by an Indian health program. CBO anticipates that the provision would increase the number of Indians who receive care from MCOs. Because payments to those MCOs would be reimbursed at a 100 percent federal matching rate (instead of the regular matching rate), CBO estimates that this provision would increase federal Medicaid spending by less than $1 million in 2005 and by $13 million over the 2005-2014 period.

Scholarship and Loan Repayment Recovery Fund. Section 111 would allow the Secretary of Health and Human Services to spend amounts collected for breach of contract from recipients of certain IHS scholarships. Under current law, those funds are deposited in the Treasury and not spent. Because the Secretary's ability to spend those funds would not be subject to appropriation, the provision would increase direct spending. Based on historical information from IHS, CBO estimated that the provision would increase spending by about $150,000 in 2005 and by $3 million over the 2005-2014 period.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

Intergovernmental Mandates

S. 556 would preempt state licensing laws in cases where a health care professional is licensed in one state but is performing services in another state under a funding agreement in a tribal health program. This preemption would be an intergovernmental mandate as defined in UMRA; however, CBO estimates that the loss of any licensing fees resulting from the mandate would be small and would not approach the threshold established in UMRA ($60 million in 2004, adjusted annually for inflation).

Other Impacts

S. 556 would reauthorize and expand grant and assistance programs available to Indian tribes, tribal organizations, and urban Indian organizations for a range of health care programs, including prevention, treatment, and ongoing care. The bill also would allow IHS and tribal entities to share facilities, and it would authorize joint ventures between IHS and Indian tribes or tribal organizations for the construction and operation of health facilities. The bill would authorize funding for a variety of health services including hospice care, long-term care, public health services, traditional Indian health care, and home and community-based services.

The bill would prohibit states from charging cost sharing or premiums in the Medicaid or SCHIP programs to Indians who receive services or benefits through an Indian health program. The bill also would require states that operate managed care systems within their Medicaid programs to enter into agreements with Indian health programs that operate managed care systems. CBO estimates that these requirements would result in additional spending by states of about $35 million over the 2005-2009 period. Some tribal entities, particularly those operating managed care systems, may realize some savings as a result of these provisions.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

This bill contains no private-sector mandates as defined in UMRA.

PREVIOUS CBO ESTIMATE

On November 30, 2004, CBO transmitted a cost estimate for H.R. 2440, the Indian Health Care Improvement Act Amendments of 2004, as reported by the House Committee on Resources on November 19, 2004. The language in the two bills is almost identical, and CBO estimates that their budgetary effects would be the same.

ESTIMATE PREPARED BY:

Federal Costs: Eric Rollins
Impact on State, Local, and Tribal Governments: Leo Lex
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ESTIMATE APPROVED BY:

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United States Senate

COMMITTEE ON THE JUDICIARY

WASHINGTON, DC 20510-6275

March 2, 2006

The Honorable Judd Gregg
Chairman
Committee on the Budget
United States Senate
Washington, D.C. 20510

The Honorable Kent Conrad
Ranking Member
Committee on the Budget
United States Senate
Washington, D.C. 20510

Dear Chairman Gregg and Senator Conrad:

As Chairman and Ranking Member of the Judiciary Committee, we thank you for this opportunity to express our views pursuant to Section 301(d) of the Congressional Budget Act concerning Fiscal Year (FY) 2007 funding for programs within the Judiciary Committee's authorizing jurisdiction.

The Administration's priorities this year include important programs of the Department of Justice (DOJ) and relevant components of the Department of Homeland Security. While we recognize that these departments must make counterterrorism activities their highest priority, we would like to ensure that traditional law enforcement duties are not neglected. Concomitant with the duty to review and authorize activities for these departments is a duty to ensure adequate resources for their essential functions. The requests that we are making, which are discussed in greater detail below, reflect this commitment and we urge they be given careful consideration.

The President has requested $20.8 billion in total direct discretionary budget authority for the DOJ for FY 2007, which is a decrease from $21.1 billion enacted in FY 2006. This decrease results largely from the President's request of $1.228 billion in state and local assistance funding in FY 2007, a 51 percent decrease when compared to the FY 2006 level of $2.537 billion. The DOJ is entrusted with the critical duty of enforcing our Nation's laws, as well as protecting the interests of the United States and its people from growing threats of terrorism and transnational crime. Additionally, one of the Department's key duties is providing assistance and advice to state and local law enforcement. Therefore, to put our requests in context, we generally agree with most of the funding levels the President has requested in FY 2007 for the DOJ, especially for national programs, but we are deeply concerned by the cuts to state and local programs. Our views letter initially demonstrates our support for, and some concerns regarding, state and local funding and then addresses our view of national programs and agency funding.

Project Safe Neighborhoods (PSN)

Violent gun crime and trafficking continue to be significant law enforcement problems throughout the Nation. We support the Administration's commitment to getting gun criminals off the streets through the PSN initiative. PSN, announced by the President and Attorney General in 2001, is a comprehensive strategy that brings together federal, state, and local agencies to reduce gun crime in our communities. Working with DOJ, each community tailors the program to target local gun violence problems. The President's FY 2007 Budget includes $22.1 million in enhancements and $162.9 million in state and local directed resources. The President's request includes $16.0 million for ATF to deploy 15 Violent Crime Impact Teams and $6.1 million for the United States Attorneys' gang prosecutions. Also, most important to us, the President's request includes on the state and local level: $58.523 million for State and Local Gun Violence Programs; $992,000 for Project ChildSafe; $14.879 million for Gang Training and Technical Assistance; $49.348 million for Weed and Seed; and $39.180 million for the National Criminal History Improvement Program. We fully support the Administration's requested funding for PSN and urge that this program be fully funded at the President's FY 2007 level.

Byrne Justice Assistance Grants (JAG) and Juvenile Accountability Incentive Block Grants (JAIBG)

In the FY 2007 President's Budget proposal, both the JAG and JAIBG grant programs have been eliminated. As Chairman and Ranking Member of the Judiciary Committee, we oppose the elimination of longstanding programs that many of our local communities rely upon. The Violence Against Women and Department of Justice Reauthorization Act of 2005 (Public Law 109-162) consolidates the Byrne grant program with the LLEBG grant program and authorizes $1.095 billion to be appropriated in 2006 "and such sums as may be necessary for each of the fiscal years 2007 through 2009." We strongly urge that these programs be funded at their FY 2006 authorization level in FY 2007.

Youth Violence Reduction Demonstration Grant Program

Sec. 1199 of H.R. 3042 requires the Attorney General to make up to 5 grants for the purpose of carrying out Youth Violence Demonstration Projects to reduce juvenile violence, homicides, and recidivism among high-risk populations. The provision authorizes $50 million for fiscal year 2007 and such sums as necessary for fiscal years 2008 through 2009. It caps Youth Violence Demonstration Project award amounts at $15 million per fiscal year. It also sets forth the following requirements of grantees: 1) a program strategy targeting areas with the highest incidence of violence and homicides; 2) outcome measures and specific objective indicia of performance to assess the effectiveness of a program; and 3) a plan for evaluation by an independent third party.

This section also requires that at least one recipient of a grant under this section be a city with a population exceeding 1 million and a juvenile homicide rate increase of at least 35 percent over the past calendar year and no less than one recipient must be a non-metropolitan county with per capita arrest rates of juveniles for serious violent offenses that exceed the national average for non-metropolitan counties by at least 5 percent. We strongly urge this authorization be fully funded.

Community Oriented Policing Services (COPS)

The Community Oriented Policing Services (COPS) Program is a resounding success. Since 1995, COPS has awarded $11.5 billion in grants to law enforcement agencies, putting more than 118,000 new law enforcement officers on the streets in over 13,000 communities in all 50 states. Violent crime in this country has declined 25 percent in the past decade. Community policing and the outstanding work of so many law enforcement officers have played a vital role in our crime control efforts.

As it has attempted in previous years, the Administration proposes to reduce funding for COPS initiatives. The FY 2007 budget proposal aims to cut COPS funding by $161.2 million. Enactment of this budget would mean the elimination of COPS grants for the COPS Law Enforcement Technology Program and the Reduce Gang Violence Program, as well as drastic reductions in equipment and support staff grants on which state and local law enforcement agencies heavily rely to carry out their crime-fighting duties. Some of the state and local programs proposed to be cut include grants to upgrade criminal records, a DNA initiative, an offender re-entry program, and a matching program for bulletproof vests.

The President also seeks to reduce by $23.3 million, or 37 percent, COPS Methamphetamine Enforcement and Clean-Up for state and local law enforcement programs to combat methamphetamine production and distribution, to target drug "hot spots," and to remove and dispose of hazardous materials at clandestine methamphetamine labs. We strongly oppose these reductions in COPS.

Crimes Victims Fund

We respectfully request that you oppose proposals to rescind all amounts remaining in the Crime Victims Fund ("the Fund") at the end of FY 2007, and permit those amounts to remain in the fund for use as authorized by the Victims of Crime Act (VOCA), Public Law 98-473.

Since its enactment more than twenty years ago, VOCA has been the principal means by which the Federal government has supported essential services for crime victims. VOCA created the Fund so that fines, forfeitures, and assessments paid by Federal criminal offenders--not taxpayers--generate the revenue used for grants to state crime victim compensation programs, direct victim assistance services and services to victims of Federal crimes. Congress intended that these funds be held in trust to carry out these important purposes.

More than 4,400 agencies nationwide provide critical services to nearly four million victims of domestic violence, sexual assault, child abuse, drunk driving, elder abuse and all other types of crime annually. These agencies rely upon VOCA grants to aid victims in paying for medical care, mental health counseling, lost wages and support, and funeral and burial costs through state crime victim compensation programs that supplement state-funded benefits with VOCA grants.

In FY 2000, Congress began limiting the amount of Fund deposits that could be obligated each year. This was in response to fluctuations in Fund deposits in order to "ensure that a stable level of funding will remain available for these programs in future years." That same year, Congress amended the law to ensure all receipts remain in the Fund for obligation in future fiscal years. These steps created a balance in the Fund for use in years when deposits fell below the annual cap. These balances have been needed three times in the past six years to meet annual Fund obligations enabling VOCA to honor the pledge Congress made to sustain critical victim services. These services are essential to numerous victims' assistance programs in every state. Every state has programs that would be affected or discontinued if this rescission is allowed to stand.

Last year, the Senate was able to block a similar proposal by adopting an amendment to the FY 2006 Senate Budget Resolution supporting the retention of all amounts deposited into the Fund for uses authorized under the VOCA statute. We urge you to refrain from adopting the President's rescission proposal and to continue the retention of all deposits in the Crime Victims Fund. Rescission of this vital funding source would leave zero dollars available at the beginning of FY 2008 and would create a disastrous situation for providers of victims' services.

Bulletproof Vest Partnership

The Bulletproof Vest Partnership (BVP) Grant Program plays a vital role in distributing lifesaving bulletproof vests to law enforcement officers serving in the front lines nationwide. However, the President's FY 2007 budget proposes to drastically reduce funding of this program by almost $20 million, which is approximately a 67 percent cut. The BVP Program was reauthorized as part of the Violence Against Women and Department of Justice Reauthorization Act of 2005 (Public Law 109-162). That law authorizes $50 million per year through FY 2009 for this successful program that protects the lives of State and local law enforcement officers. Indeed, the BVP is so successful that since 1999 it has provided law enforcement officers in 11,500 jurisdictions nationwide with nearly 500,000 new bulletproof vests.

Compounding the usual funding demand for help to purchase vests, concerns from the law enforcement community over the effectiveness of body armor surfaced nearly two years ago when a Pennsylvania police officer was shot and critically wounded through his relatively new Zylon-based body armor vest. In August 2005, DOJ announced that test results indicate that used Zylon-containing body armor vests may not provide the intended level of ballistic resistance. Unfortunately, an estimated 200,000

Zylon-based vests have been purchased – many with BVP funds – and now need to be replaced. The Justice Department has adopted new interim requirements for its body armor compliance testing program and also provided an additional $10 million to the $23.6 million already available in FY 2005 to law enforcement through BVP grants to assist agencies in their replacement of Zylon-based body armor vests.

Across our nation, law enforcement agencies are struggling over how to find the funds necessary to replace defective vests that are less than five years old with ones that will actually stop bullets and save lives. Vests cost between $500 and $1,000 each, depending on the style. The extra $10 million released by the Justice Department, while appreciated, is less than we feel is necessary. Therefore, we strongly urge the Committee to provide the authorized amount of $50 million for FY 2007.

High Intensity Drug Trafficking Areas Program (HIDTA)

In the FY 2007 President's Budget, resources for HIDTA have been realigned under the DOJ as a separate activity within the Organized Crime Drug Enforcement Task Force (OCDETF), and the requested amount of $207.6 million is down from the FY 2006 enacted level of $225 million. Our largest concern is the relocation of the HIDTA program from the Office of National Drug Control Policy (ONDCP), where it had been placed by Congress, into the OCDETF program. We are also concerned that this shift has been linked to a reduction of nearly $18 million in HIDTA funds. The HIDTA program started in 1990 with five designated HIDTAs and has since grown to 28. This transfer of the HIDTA program from ONDCP to the Justice Department appears to have been undertaken with little or no consultation with Congress. Among other things, it is unclear whether the mission and purpose of the HIDTA program is consistent with the case-driven organization of the OCDETF program. Accordingly, we are concerned whether the proposed program transfer and budget reduction are consistent with our shared goal of fully integrating federal, state, and local agencies in the fight against illegal drugs. For this reason, we cannot support this proposed change without further justification and congressional fact-finding.

State Criminal Alien Assistance Program (SCAAP)

Enacted as part of the Violent Crime Control and Law Enforcement Act of 1994, the SCAAP reimburses states and localities that incur costs for incarcerating undocumented criminal aliens. Funding for SCAAP has been appropriated by Congress annually since 1995. These awards cover only a portion of the costs that state and localities must incur to house undocumented criminal aliens. The program is administered by the Office of Justice Programs' Bureau of Justice Assistance. For FY 2004, Congress appropriated $296.8 million, of which $281.6 million was awarded to the states. In FY 2005, Congress appropriated $301 million. In FY 2006, Congress enacted $399.828 million. As in the FY 2006 proposal, the Administration proposed eliminating the entire program again in FY 2007.

For the past several years, we have been troubled by the Administration's proposal to eliminate SCAAP, leaving state and local governments to cover the additional expenses for illegal alien incarceration. The increasing number of illegal aliens in the United States - estimated in the millions, coupled with the fact that a percentage of these aliens commit felonies while present in our country, causes many of our state and local governments to spend part of their already-scarce resources on the prosecution and incarceration of these criminal aliens. The SCAAP program was initially established because of the overriding principle that protecting the nation's borders from illegal immigration is the responsibility of the federal government. States and localities have no other option but to house these individuals, and, without necessary federal funding, this is very similar to an unfunded mandate. Thus, states will be forced to relocate monies from other areas. Cutting this program will significantly impair our ability to prosecute and remove criminal aliens. Last year the Senate passed the State Criminal Alien Assistance Program Reauthorization Act of 2005. If this bill is enacted, $850 million would be authorized to be expended on SCAAP. We believe the program should be funded to at least the FY 2006 enacted level to assist states and local jurisdictions. Should the Senate-passed reauthorization be enacted, we believe that the program should be funded at its full authorized level.

Regional Information Sharing System (RISS)

RISS serves as an invaluable tool to federal, state and local law enforcement agencies by providing much-needed criminal intelligence and investigative support services. It has built a reputation as one of the most effective and efficient means developed to combat multi-jurisdictional criminal activity, such as narcotics trafficking and gang activity. Without RISS, most law enforcement officers would not have access to newly developed crime-fighting technologies and would be hindered in their intelligence-gathering efforts.

We must ensure that RISS can continue current services, meet increased membership support needs for terrorism investigations and prosecutions, increase intelligence analysis capabilities and add staff to support the increasing numbers of RISS members. Therefore, we support the Administration's request that the RISS program be funded at $53.8 million.

Justice For All Act

The Justice For All Act reflects years of hard work and is an important piece of legislation that stands to improve the quality of justice for all Americans. We support full funding of all the programs authorized by the Justice For All Act, including, for FY 2007: $5,000,000 for enhancement of the Victim Notification System, as authorized in section 103; $28,500,000 for the other victims' programs authorized in section 103; $151,000,000 for the Debbie Smith DNA Backlog Grant Program, as authorized in section 202; $102,100,000 for the other DNA programs authorized in sections 303-308; $5,000,000 for the Kirk Bloodsworth Post-Conviction DNA Testing Grant Program, as authorized in section 412; and $75,000,000 for the Capital Representation and Capital

Prosecution Improvement Grants, as authorized in section 426. We also support full funding of the Paul Coverdell Forensic Sciences Improvement Grant Program, as expanded by section 311 of the Justice for All Act.

The Justice For All Act represents a strong bipartisan consensus on how to best help crime victims, maximize the use of forensic DNA evidence, and reduce the risk of error in capital cases. This legislative achievement was an important step toward improving our criminal justice system and deserves necessary funding. Therefore, we recommend full funding for the Justice For All Act and certainly no less than the total funding levels the President has proposed for improvements to the criminal justice system, such as funding for forensic DNA technology and competent counsel, be secured for the Justice For All Act and its carefully crafted, bipartisan programs.

Violence Against Women Act

The Violence Against Women Act was reauthorized when the President signed into law the Violence Against Women and Department of Justice Reauthorization Act of 2005 (Public Law 109-162) on January 5, 2006. This important legislation built upon the Violence Against Women Act of 1994 (Public Law 103-322) and the Violence Against Women Act of 2000 (Public Law 106-386). Grants available through VAWA aid law enforcement officers and prosecutors, help stem domestic violence and child abuse, and establish training programs for victim advocates and counselors, among other critical services.

The Violence Against Women and Department of Justice Reauthorization Act of 2005 (Public Law 109-162) authorized $1 billion for programs administered by the DOJ and the Department of Health and Human Services (HHS) to aid domestic violence victims and survivors. In his budget proposal for FY07, the President requested a total of $546.2 million in funding for VAWA programs. The request includes $368.8 million for DOJ-administered VAWA programs, which is $311.2 million less than authorized in the law. For programs administered by HHS, the President requested $177.3 million, which is $142.8 million less than authorized.

VAWA programs and services have the potential to prevent violence and to change the lives of victims. We feel that this law, which has enjoyed broad bipartisan support, deserves full funding at the authorized levels.

Protecting Civil Rights

The Department of Justice plays a vital role in keeping the country safe and secure, but the increased security needs required to protect America against terrorism are matched by increased demands for effective and prompt enforcement of our civil rights. After the September 11, 2001, terrorist attacks, the President spoke eloquently against racially, ethnically, and religiously motivated violence. We support an increase in funding for the Civil Rights Division and an increased focus on the core mission of the Division to safeguard civil rights, including the prosecution of hate crimes, deterrence of the victimization of migrant workers, combating police misconduct, fighting housing and employment discrimination, eliminating discrimination against persons with disabilities, guarding voting rights, protecting victims of trafficking, and protecting fundamental opportunities.

We wish to note that the section of the Administration's Budget Message on the Department of Justice, "Focusing on the Nation's Priorities," does not mention the enforcement of the Nation's civil rights laws. DOJ's Civil Rights Division is the chief federal body charged with enforcing U.S. civil rights laws. Information available to Congress and in recent news reports underscores this decline in the number of traditional civil rights cases filed by the Division Administration, particularly in the important area of voting rights; a disturbing attrition of experienced attorneys from the Division, and an increasing diversion of the Division's resources to non-civil rights issues.

The proposed budget this year contains a significant decline in pending civil rights matters, showing 5,668 matters pending at the beginning of 2005, an estimated 5,502 in 2006, and 4,457 estimated in 2007. This compares with the FY 2005 budget which showed 9,678 pending matters at the beginning of 2003 and 8,860 estimated 2005 matters, compared to the 5,668 actually pending at the start of 2005. Thus in the beginning of 2007, there are about half the number of pending matters as there were at the beginning of 2003. This could have significant negative implications over time with respect to our civil rights laws.

Drug Courts

We commend and support the President's request for $69,186,000 for the Drug Courts program, even though the authorized for appropriations level in the Violence Against Women and Department of Justice Reauthorization Act of 2005 (Public Law 109-162) was $70 million. Drug courts provide an important opportunity for communities to reduce drug abuse by providing incentives for low-level drug offenders to obtain effective treatment. Congress should support the program by restoring it to an appropriate funding level after the severe cuts the program experienced in FY 2005 and 2006.

Cybercrime

A recent report by the Department of Justice, Office of Inspector General found that identity theft, one of the most common forms of cybercrime, is a major concern among state and local law enforcement agencies. There is a critical need for the federal government to take a leading role in establishing a national strategy to combat identity theft. The internet challenges us because of how rapidly it changes the old way of doing things. In doing so, it can disturb the existing balance of legislation and regulation. It creates new markets while it threatens existing ones. It facilitates the protection of certain civil liberties, but it also gives new and powerful tools to those who would threaten those liberties.

In general, we have responded carefully and thoughtfully to those advances. We want to let new technologies reach their potential without prejudgment. Often we have found that a new technology that seemed to change an entire sector of the economy actually required little or no new regulation. Only where absolutely necessary have we stepped in to regulate. Congress and the Administration must continue to work together to meet these new challenges while preserving the benefits of the new Internet era. We urge the Committee to fully fund any initiatives aimed at fighting cybercrime, particularly those undertaken by the electronic crimes task forces of the United States Secret Service.

Boys and Girls Clubs of America

The Administration calls for a $25 million, or 30 percent, cut in Boys and Girls Clubs of America funding in the FY 2007 budget proposal, slashing it from $85 million to $60 million.

Across the nation, Boys and Girls Clubs are a proven and growing success in promoting leadership and supporting our children. Congress has authorized and appropriated a consistently rising level of funding for the Boys and Girls Clubs of America in recent years because of their proven role in discouraging youth gangs, drug abuse and youth violence. The President's budget reduces funding for Boys and Girls Clubs by $25 million and completely ignores the five-year authorization for the Boys and Girls Club grant program enacted by Congress and signed by the President in October 2004. Public Law 108-344 authorizes Justice grants to the Boys and Girls Clubs of America to help establish 1,500 additional Boys and Girls Clubs across the nation with the goal of having 5,000 Boys and Girls Clubs in operation by January 1, 2011.

We therefore request that the Budget Committee continue strong support and provide for at least $80 million for Boys and Girls Clubs within the DOJ budget for state and local law enforcement assistance.

Federal Bureau of Investigation (FBI)

While we support many of the increases in the FBI proposed budget, we remain concerned that some of these resources will not be used effectively and efficiently. The FBI's acknowledged failures in planning and managing a key component of an important information technology (IT) project – Trilogy – have resulted in the waste of $170 million taxpayer dollars. Trilogy's successor, the Sentinel program, is already behind schedule and $197 million has already been committed to this new IT program. This is unacceptable and we cannot countenance such misuse of taxpayer funds or that other important projects will likely suffer as a result. It is also unclear whether the FBI has taken the necessary steps to solidify its IT goals and plans for achieving them. We must ensure that the Department's technological capabilities keep pace. To do so requires an emphasis not just on providing funds, but also on effective use and implementation. We would hope that the latter will not be neglected.

Judicial Security

We are pleased to see that the Administration has taken the initiative to support Judicial Security in order to ensure the safety of judicial officials, courtroom participants, the public, and U.S. Marshals Service personnel. We believe that the budget should support efforts to increase protections not just for the federal judiciary, but for witnesses and victims of crime. We intend to continue working together to pass the "Court Security Improvement Act of 2005," S. 1968, which we jointly introduced. We are especially pleased to see that $1 million has been requested to provide continued monitoring of alarm systems in judicial residences and we fully support this request.

Immigration and Border Security

We were pleased to see an increase in the budget for the Executive Office for Immigration Review (EOIR) of the Department of Justice, from $211 million dollars in FY 2006 to $227 million in the President's budget for FY 2007. EOIR funds the 52 immigration courts and the Board of Immigration Appeals. The EOIR has made modest progress toward reducing the backlog of immigration cases in recent years and an increase in funds may assist it in continuing this positive trend.

Heightened immigration enforcement activities pursued by the Department of Homeland Security have contributed to a sharp rise in immigration cases. By FY 2007, the caseload is expected to rise to 23,000 cases, or 155 cases per attorney in the Office of Immigration Litigation (OIL). Therefore, we support fully funding the President's request to increase litigators and support staff within the OIL.

Also, the President's budget contains $4 million for additional personnel for the Law Enforcement Service Center of the Department of Homeland Security. These funds will be designated to provide assistance to state and local enforcement officials. We urge full funding of this important and highly regarded service. Finally, in light of the current crises surrounding illegal immigration and border security, we would like any border security initiatives to receive full funding.

Drug Enforcement Administration (DEA)

In the FY 2007 President's Budget there has been $4.0 million requested to establish a National Security Section within the DEA's Intelligence Program to ensure standards and procedures for intelligence sharing. Because of the importance to provide all the agencies involved in combating crime within our country and abroad with the necessary resources and tools to share information and protect this Nation, we fully support the Administration's request.

Internet Crimes Against Children (ICAC) and AMBER Alerts

The ICAC program helps state and local law enforcement agencies develop an effective response to cyber enticement and child pornography cases. This help encompasses forensic and investigative components, training and technical assistance, victim services, and community education. Numerous task forces have been established throughout the Nation. The President's Budget for FY 2007 requests $15.4 million, over the FY 2006 enacted level of $14.3 million, which we fully support.

The AMBER Alert program is a voluntary partnership between law enforcement agencies and broadcasters to activate an urgent public bulletin in the most serious child abduction cases. The Office of Justice Programs oversees activities targeted toward assisting state and local officials with developing and enhancing AMBER plans, and promoting statewide and regional coordination among plans. States and communities across the country are provided training and technical assistance to strengthen the AMBER Alert System. The President's Budget for FY 2007 requests $5 million, over the FY 2006 enacted level of $4.9 million, which we fully support.

Secret Service

Cyber and identity crime investigations conducted by the Secret Service are essential to protecting our Nation's financial and telecommunications infrastructure. We request that up to $25.0 million be provided for financial infrastructure protection programs.

The funding is needed to support the highly successful operations of the Secret Service's Electronic Crimes Task Force (ECTF) initiative – an initiative that has attracted broad, bipartisan support from Congress since passage of the USA PATRIOT Act of 2001. Financial fraud and identity crimes committed both domestically and abroad, continue to plague our Nation's critical financial infrastructure. The most effective means of combating organized criminal elements and the criminal abuses of technology, both in the U.S. and abroad, is through the use of the Secret Service's ECTFs. The ECTFs are a proven, resounding success, creating groundbreaking partnerships between federal law enforcement, their local police and prosecutorial partners, and the private sector and academia. These task forces, strategically placed throughout the country, have become the primary conduit for cooperation between the federal government and the private sector in the prevention, detection and investigation of electronic crimes.

We would also propose additional funding for the Secret Service for electronic crimes investigative training. Such training is imperative for the basic investigations of computers and electronic crimes, in advanced network intrusions, and in the forensic examination and preservation of digital evidence.

The funding should also be directed at electronic investigative operations. Technological advances offer domestic and transnational criminals new avenues to exploit our financial infrastructure vulnerabilities. Identity crime, credit card fraud and bank fraud are now being routinely committed on the Internet. Through its investigations, the Secret Service identifies systemic weaknesses in the financial, telecommunications, and other critical infrastructures. The information gathered will provide private industry and the public the ability to identify vulnerabilities and prevent or minimize future attacks.

Finally, the funding should be directed at programs to collect and analyze criminal intelligence. The Secret Service serves as a central repository for the collection of data related to identity theft, credit card fraud, bank fraud, and telecommunications fraud. Developing technologies and trends in the financial payment industry provide information that may be used to enhance the Secret Service's capabilities to prevent and mitigate attacks against the financial and telecommunications infrastructures.

Copyright Royalty Board (CRB) and the Copyright Royalty Judges

The Copyright Royalty and Distribution Reform Act replaced copyright arbitration royalty panels with a new Copyright Royalty Board (CRB), and provided as well for the appointment of three Copyright Royalty Judges to the CRB. Those three judges have recently been sworn into office. The CRB will take over the adjudication of royalty rates for compulsory licenses under the Copyright Act, conducting proceedings that, for example, set rates to be paid by entities ranging from cable companies to webcasters for their use of copyrighted content as they deliver video and music programming. The CRB is also involved in adjudicating disputes about how these payments are distributed to copyright holders.

Because the benefits of compulsory licensing flow almost exclusively to the licensees and the public, we believe the cost of administering the licenses should not be paid exclusively by the copyright holders. The law creating the CRB made clear that funding was to be made out of public funds and not out of the Copyright Office account (17 U.S.C. 803(e)(1)(B)). Thus, to implement that provision, we urge that the CRB receive full and mandatory funding, in order to permit this important work to be accomplished. Thus, the Committee would request that the budget resolution contain mandatory funding to fund the CRB at: $1,300,000 for FY 2007; $1,350,000 for FY 2008; $1,400,000 for FY 2009; $1,450,000 for FY2010 and $1,500,000 for FY 2011. Note that mandatory funding for the CRB at $1,300,000 per year for fiscal years 2006 through 2010 was passed by the full Senate late last year in section 8004 of S. 1932 but the provision was dropped in Conference. The allocation of funds by your Committee for this purpose would provide the funding needed for the Senate and the House to pass legislation based on the text of section 8004 (of S. 1932, as passed by the Senate) except with annual increases in funding of $50,000 per year, starting with $1,300,000 for FY 2007 (instead of starting in FY 2006); and ending in FY 2011.

The Federal Judicial System

The Committee recognizes the Judiciary's essential role in providing justice to all citizens and the ever increasing workload and additional responsibilities thrust upon the Judiciary. The Committee understands that while the Judiciary has no control over the number of cases that are filed in the Courts, it must handle each case filed and has no flexibility in how quickly it must handle many of these cases. The Judiciary's workload is heavily influenced by national policies initiated in the Executive and Legislative Branches.

The Administration has requested an appropriation of $6,260,494,000 for fiscal year 2007. These funds when combined with non-appropriated funds (such as fees) represent a 6.5 percent increase in overall available funding when compared to the previous fiscal year. The requested appropriation will allow the Judiciary to restore the staff lost during the course of fiscal years 2004 and 2005 and will provide some additional resources to address workload growth resulting primarily from increased immigration enforcement efforts. Appellate, criminal, bankruptcy, probation and pretrial services caseloads have all seen double digit increases since fiscal year 2000, yet over that same period funded court staff levels have declined 4 percent. Filings of criminal cases increased 12 percent. The courts had over 113,000 felons under supervised release, and filings in the courts of appeals increased 22 percent.

In fiscal year 2004, due to budget constraints, the Judiciary was forced to reduce its staffing levels by 1,350 position. This equates to six percent of the staff in the clerks, probation and pretrial services offices that were on-board at the beginning of fiscal year 2004. In fiscal year 2005, additional positions were left vacant due to the uncertainty surrounding the fiscal year 2006 congressional budget outlook. The financial outlook for the courts was markedly improved in fiscal year 2006, and it is critical that this continue. Therefore, we support the Administration's request that the Judiciary receive its full funding request in fiscal year 2007.

* * * * * *

Thank you again for allowing us to share our views and estimates for FY 2007. We look forward to working closely with you on this matter and other issues.

Sincerely,

Arlen Specter
Chairman

Patrick Leahy
Ranking Member

United States Senate
COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP
WASHINGTON, DC 20510-6350

March 2, 2006

The Honorable Judd Gregg
Chairman
Committee on the Budget
United States Senate
Washington, DC 20510

The Honorable Kent Conrad
Ranking Member
Committee on the Budget
United States Senate
Washington, DC 20510

Dear Judd and Kent:

As Chair of the Senate Committee on Small Business and Entrepreneurship, I submit the following views and estimates on the President's Fiscal Year 2007 budget request for the Small Business Administration (SBA) and other matters under the Committee's jurisdiction, as directed by §301(d) of the Congressional Budget Act.

Small businesses are the engines that drive our nation's economy, creating nearly three-quarters of all new jobs and generating 50 percent of our gross domestic product. As a result of SBA's lending and technical assistance programs, over 4.5 million jobs were created or retained since 1999. Considering that the SBA's budget represents less than 3/100th of a percent of the total federal budget, there should be no doubt that we must create a favorable climate for our 25 million small businesses to grow and thrive by investing in one of the few Federal resources that generates American jobs.

The centerpiece of the Committee's agenda this year will be consideration of legislation to reauthorize several SBA programs that are set to expire September 30, 2006. The reauthorization and funding of these programs is vital to the continued success and growth of the economy and the small business community.

The Administration has proposed a budget for the SBA of $624 million for Fiscal Year 2007. Excluding the Disaster Loan program, this represents a 25 percent reduction in the agency's core loan and technical assistance programs over the last six years. Moreover, this signifies an astounding 37 percent reduction in SBA's overall budget since 2001. The time has come to provide the SBA with the necessary funding its programs need to reach their full potential and help entrepreneurs reach the American dream of owning a successful small business.

Affordable Health Insurance. Small businesses face a crisis when it comes to securing quality, affordable health insurance. Health insurance premiums have increased at double digit percentage levels in four of the past five years, and small businesses are trapped in dysfunctional small group markets that are dominated by a handful of insurance carriers offering few coverage options. To address this crisis, I have introduced the Small Business Health Fairness Act (S. 406), which would allow small businesses to pool together through Association Health Plans (AHPs) -- also known as Small Business Health Plans -- to purchase health insurance with the same advantages the larger businesses and unions currently enjoy under Federal law at a very minimal cost. I encourage the Budget Committee to establish an appropriate budget allocation to accommodate small business health care legislation, including tax incentives to both: (1) incentivize small businesses to offer health insurance to their employees; and (2) inject more competition into dysfunctional small group markets.

Small Business Tax Simplification. In order to help maintain an environment where small businesses can grow and prosper it is essential that small businesses are provided relief from the complex and burdensome tax code. I support the President's proposal to increase and make permanent small business (Section 179) expensing and have introduced legislation, S. 1523 and S.2287, that would implement these proposals.

In order to promote small business development, the gross receipts threshold should be increased from $5 million to $10 million for taxpayers that will qualify for cash method accounting as provided in S. 543 as well as allowing small partnerships and S Corporations to elect a taxable year other than the calendar year. I believe that these tax relief and simplification measures would go a long way to reducing the burden on small businesses in complying with the tax code and urge the Budget Committee to accommodate these proposals.

Increase in Fees. The SBA has artificially reduced its request to Congress by $7 million by proposing to impose new fees on small businesses. These fees would have to be created by Congress through new legislation. The pertinent programs, the 7(a) and 504 Business Loan Programs and the Small Business Investment Company Program, are already zero-subsidy programs, receiving no appropriations to support their loan guarantees, and are funded entirely by fees charged to small businesses and to the lenders that participate in the programs. These new fees will pose a significant burden on the small businesses that will have to individually subsidize the SBA's administrative costs (in addition to the taxes they already pay). Congress created the SBA's loan programs to assist small businesses that cannot obtain sufficient financing elsewhere, and it is illogical to subject these same small businesses to additional fees, over and above those fees needed to pay for their own loan guarantees. Therefore, this fee increase must be rejected and I request that the SBA's budget allocation be increased by $7 million, to render these fee increases unnecessary.

Disaster Program. The Administration has proposed that Congress amend the Federal Disaster Loan program so that borrowers would pay a higher interest rate after the first five years, rather than the current practice of providing a lower fixed rate for the entire loan period of a disaster loan. The Administration estimates that the SBA's appropriations could be reduced by $41 million by charging disaster victims these higher rates. Because disaster loans have a maximum term of thirty years, borrowers may encounter many years of higher interest rates as a result of this proposed change. Putting a greater burden on disaster victims is not a policy that Congress should adopt.

Microloan Program. The SBA has stated that the Microloan program should be terminated and the program's loans approved through the 7(a) program instead. Microloan borrowers, however, have unique credit qualities, collateral, and financing needs that are significantly different from the 7(a) program. If the Microloan program is terminated, these borrowers will find it difficult or even impossible to secure financing to fund their new or established small businesses.

The Microloan program is a small, efficient, cost-effective program that is an important source of financing for entrepreneurs who have no other available options. Therefore, I request the Microloan program be funded at $2 million and the Microloan Technical Assistance program at $15 million.

SCORE. SCORE is a volunteer-based small business assistance network that is both cost-efficient and effective. By utilizing a cadre of over 11,000 experienced volunteers, SCORE provides expert training to hundreds of thousands of entrepreneurs and small business owners each year at low or no-cost. Over 42 years, SCORE volunteers have served over 7 million clients and in FY2005 donated 1.3 million hours of volunteer service and assisted over 403,000 clients.

After four years of requesting level funding at $5 million this is the first year the SBA has requested less for SCORE – $4.95 million. This would hinder the program from expanding and updating its scope of services. Consequently, I recommend that SCORE funding for FY2007 be increased to $7 million so that SCORE can adequately meet the needs of small business.

Small Business Development Center (SBDC) Program. The SBDC program is the SBA's largest and most extensive technical assistance program, with more than 1,100 service delivery points nationwide. Since its inception, the SBDC program has served almost ten million clients, including new business start-ups, struggling firms, and firms seeking to grow and expand. The SBDC program is a tremendous bargain for taxpayers, returning $2.66 in Federal tax revenues for every dollar spent. In addition, in 2004, SBDCs' training and counseling helped create or retain 155,160 jobs; generated almost $6.1 billion in new sales; and saved an additional $5.8 billion in sales.

SBDCs have exceeded the SBA's goals, reaching more customers and providing higher levels of service. In FY 2005, SBDCs experienced the impact of four years of level funding, which resulted in a reduction in counselors. Additionally, this was the first year SBDCs counseled and trained fewer clients for fewer hours than the year before. The SBA proposes to decrease funding for SBDCs to $87 million. However, the SBDC funding must be increased in order to account for costs, inflation and to expand their services.

Procurement Center Representatives (PCRs). Small business contractors save taxpayers' dollars and provide innovative solutions for the government's needs. In FY2003, small business contractors used federal contracts to create over 490,000 jobs. Bundling of government contracts continues to be a major barrier for small businesses. The SBA polices contract bundling practices through its Procurement Center Representatives (PCRs), who are placed at major federal procurement centers to review proposed acquisition plans and advocate for more competition in contracting.

Earlier this year, the SBA Inspector General found that small businesses lost approximately $380 million in contracting opportunities because the SBA failed to fully fund its PCR positions. The SBA's PCR staffing levels have been woefully inadequate. The SBA proposes to maintain its FY2006 staffing level of only 56 PCR slots, which would leave approximately 100 of the top procurement centers without dedicated PCR coverage. Therefore, I request the appropriate amount of funding to the Salaries and Expenses account to hire 100 more PCRs.

Historically Underutilized Business Zone (HUBZone) Program. The HUBZone program, which gives contracting preferences to firms in economically distressed areas, is a vital tool of urban and rural development. The program has delivered significant Federal contracting opportunities to the areas that need them the most. However, the Federal government has consistently failed to meet the HUBZone statutory prime contracting goal every year. Therefore, I request that the HUBZone program be funded at its full authorization of $10 million.

7(j) Procurement Technical Assistance Program. The 7(j) Program is intended to provide procurement technical assistance and training to small disadvantaged firms and owners of firms located in economically distressed areas. The SBA's budget proposes to place all 7(j) funding under Executive Direction, which would limit Congressional oversight. I recommend funding of $2.5 million for the program, to increase program access and assure accountability.

SBIR/STTR Technical Assistance Grants (Federal & State Partnership and Rural Outreach). The Federal and State Technology Partnership program (FAST) provides technical assistance to small businesses that compete for government grants and contracts under the Small Business Innovation Research (SBIR) and the Small Business Technology Transfer (STTR) programs. FAST is a competitive grants program that allows each state to provide services that support the SBIR and STTR programs. In the 2000 SBIR Reauthorization Act, Congress created the FAST program to strengthen the technological competitiveness of small business concerns in all 50 states. At that time, Congress also extended the SBIR Rural Outreach Grant Program ("ROP"), which provides certain states, with relatively low participation in the SBIR and STTR programs, an opportunity to receive grants to support statewide efforts to increase their participation levels in the programs.

In testimony before the House Small Business Committee in May 2003, the SBA explained that, "Participating agencies in the SBIR and STTR Programs have reported a significant increase in the number of proposals received for their current solicitations, which we believe is attributable to outreach and training provided by FAST and Rural Outreach grant recipients." Given the proven success of these programs, I ask that you fund FAST at $3 million and the ROP account at $1 million.

Women's Business Centers (WBCs). The success of women-owned firms is undeniable. In 2004, they generated almost $2.5 trillion in revenues and employed more than 19 million workers, making them the fastest growing segment of today's economy. The SBA has estimated that in FY 2004, the Women's Business Center program provided counseling and training to 144,316 clients. However, the SBA proposes to decrease funding for the WBC program, after four years of level funding at $12.5 million. According to the SBA, in 2003, WBCs helped create or retain 6,500 jobs and generate $235 billion in revenue. Given these results, I recommend the WBC program funding for FY 2007 be increased to $16.5 million.

Veterans Business Development Program. From September 2001 to December 2005, over 480,000 National Guard and Reserve personnel have been mobilized in support of current operations. Thirty-five percent of Guard and Reserve members work for small businesses or are self-employed. The SBA's Office of Veterans' Business Development (OVBD) has made a concerted effort to reach out to small businesses affected by National Guard and Reserve force call-ups, but given the sheer numbers of Guard and Reserve personnel mobilized, their resources have been stretched thin. The OVBD has been required to broaden its delivery of services, as directed by Executive Order 13360, to provide procurement training programs for service-disabled veterans. Therefore, to stem the effects of Guard and Reservist deployments on small businesses and to better assist service-disabled veterans, we respectfully request $1.5 million for the OVBD.

Thank you for the opportunity to comment on programs within the Committee's jurisdiction. I look forward to working with you to develop a budget resolution that is cognizant of both the Administration's agenda and the need for strong small business programs that help to create jobs. If you have any questions about this letter, please contact me directly or have your staff contact Wes Coulam, my Staff Director on the Committee, at (202) 224-5175.

Sincerely,

Olympia Snowe

OLYMPIA J. SNOWE
Chair

United States Senate
COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP
WASHINGTON, DC 20510-6350

March 2, 2006

The Honorable Judd Gregg
Chairman
Committee on the Budget
United States Senate
Washington, D.C. 20510

The Honorable Kent Conrad
Ranking Member
Committee on the Budget
United States Senate
Washington, D.C. 20510

Dear Judd and Kent:

As the Ranking Democratic Member of the Committee on Small Business and Entrepreneurship, I submit the following views and estimates on the President's FY2007 budget request for the Small Business Administration (SBA or Agency) and other matters under the Committee's jurisdiction in compliance with section 301(d) of the Congressional Budget Act. I thank you for considering the Committee's views as you prepare the FY2007 budget.

FY2007 Budget Request Overview

The President has requested $624 million for the SBA's FY2007 budget. According to the SBA, taking into account adjustments for disaster loan funding and Congressional earmarks, the President's request is $17 million less than funding available in FY2006. When put into context, if adopted, the FY2007 budget would mean that the SBA has been cut 41 percent, maintaining its status as the federal agency that has been cut the most since President Bush took office.

To realize those cuts over the years, the President has made the SBA's loans and venture capital more expensive by raising the fees on borrowers and lenders; has caused credit rationing and the shut down of the SBA's largest loan program because of inadequate funding and lack of oversight; has reduced counseling to businesses; has been lax in its oversight of federal contracting, causing small businesses to lose billions out of the $300 billion in federal contracts; and has mismanaged the disaster loan program, which was on the brink of being shut down twice last month, with 130,000 Gulf Coast business owners and homeowners still waiting for their loan applications to be processed.

The President's FY2007 budget request will only exacerbate the past problems as the SBA tries to meet the needs of the country's small businesses. Specifically, the FY2007 budget would eliminate the SBA's microloan programs; cut the Women's Business Centers and the Small Business Development Centers after five years of flat-funding; fold four critical programs into the Agency's operating budget by eliminating their line-item funding, which will prevent Congress and the public from viewing the amount of funds spent on these initiatives that serve under-represented groups in our communities; impose a new fee on borrowers seeking loans and venture capital from the SBA; and increase the interest rates that borrowers pay for disaster loans. These cuts and proposals are unwarranted, and I respectfully request that as you prepare the FY2007 budget resolution, you consider restoring $150.1 million[1] to the SBA, bringing total available funds to $774.1 million.

Business Loans Program Account

There are several problems with the President's proposals for the SBA's loan and venture capital programs. One of the most controversial is a proposal to impose a new fee on borrowers seeking capital through the SBA's 7(a) and 504 Loan Guarantee programs, which are for working capital as well as property and heavy equipment, and through the Small Business Investment Company (SBIC) venture capital program. Specifically, borrowers would pay a fee on deals of more than $1 million to cover the SBA's administrative costs. According to the SBA, 7(a) borrowers would pay $625 more per loan, 504 borrowers would pay $1,625 more per loan, and companies that get an SBIC investment would pay an additional $45,000. Nationwide, that would impact 3 percent of all 7(a) borrowers, 15 percent of all 504 borrowers, and the majority of all SBIC investments. The SBA estimates that this would generate $7 million for the federal government. Considering the fact that these programs already operate at a zero subsidy, and that the fees keeping the program at zero subsidy are already excessive, amounting to more than $1 billion in overpayments,[2] it is unreasonable to impose a new fee and set a precedent of charging borrowers and lenders for the SBA's administrative costs. The SBA has never charged borrowers or lenders fees to cover administrative fees, and we should not start now. I therefore recommend that the Budget Committee reject this proposal and restore $7 million to the SBA's budget for FY2007.

Another controversial proposal would eliminate the SBA Microloan program, and all assistance to micro-entrepreneurs. This is the third year in a row that the President has recommended eliminating the SBA's microloan programs, and I continue to strongly oppose this idea. Once again, the SBA contends that eliminating the Microloan program is warranted because it is excessively expensive relative to the SBA's other loan programs and because microloan borrowers can be served through the SBA's 7(a) Community Express Loan program. The SBA's argument has shifted over the years, from contending these borrowers could be served by the general 7(a) loan program, then the 7(a) Express program, and now the 7(a) Community Express Loan program. In spite of the fact that the SBA has never validated these claims, the comparison, in general, to any of these programs, continues to be overly simplistic. While both the Microloan and 7(a) Community Express programs do make small loans, they do not serve the same type of borrower. The SBA's microloans reach borrowers with average credit scores of

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[1] Including $7 million to offset the proposed 7a/504/SBIC administrative fee on small business borrowers; $1.4 million to leverage $20 million in program level for Microloans; $17 million in program level for Microloan technical assistance; $15 million for PRIME; $24 million for the New Markets Venture Capital program; $41 million in order to offset the cost of not raising disaster loan interest rates; $23 million to increase funding for SBDCs from $87.1 million to $110 million; $4.7 million to increase funding for WBCs from $11.8 million to $16.5 million; $1.5 million to increase funding for the 7(j) technical Assistance Program from $1.5 million to $3 million; $3.5 million to increase funding for the USEACs to $5 million from the $1.5 million they were directed to spend by Congress in FY2006; $2 million to increase funding for SCORE from $4.95 million to $7 million; and $10 million for Procurement Center Representatives.

[2] President's budget, "Table 8. – Loan Guarantees: Subsidy Reestimates" and GAO report (GAO-01-1095R), "Small Business Administration Section 7(a) General Business Loans Credit Subsidy Estimates."

550 and representatives of the 7(a) lending community and banks have told the Committee that they will not make loans with such low credit scores.

As for cost, the Microloan and Microloan Technical Assistance programs are not expensive. In conjunction, they are a great investment and have brought great returns to our taxpayers in local communities. Since its inception in 1992, the Microloan program has had only two total losses and creates one job for every $1,800 loaned, compared to the SBA's other loan programs which create one job for every $33,000 loaned. Further, more than any other SBA credit program, microloans disproportionately benefit women and minorities and rural businesses.

Percent of Number of Loans – FY2005			
Group	**Microloans**	**7(a) Loans**	**504 Loans**
Women	45.59%	25%	15%
African Americans	21.42%	7%	2%
Hispanic	21.06%	8%	8%
Rural	38.16%	20%	26%

For these reasons, I oppose the President's recommendation and respectfully request that the FY2007 Budget Resolution include $1.4 million to leverage $20 million in program level for Microloans, and $17 million in program level for Microloan Technical Assistance.

For the sixth year in a row, the SBA's FY2007 budget proposes eliminating the PRIME (Program for Investment in Micro-entrepreneurs) program. Unlike any other SBA program, the PRIME program provides highly in-depth and intensive, one-on-one business counseling and training, and is targeted to help very low-income families. With the poverty rate continuing to increase, the need for PRIME assistance is now greater than ever. While access to credit is vital to micro-entrepreneurs, for low-income individuals there is often a severe gap between their business experience and the experience needed to be deemed credit-worthy. Receiving PRIME technical assistance can fill that gap and help them become successful in business. In addition to need, the PRIME program is a good return on the investment. The International Labor Organization estimates that the return on investment in micro-enterprise development (through programs such as PRIME and the Women's Business Centers) ranges from $2.06 to $2.72 for every $1 invested. In commenting on the importance of micro-enterprise development, the SBA's current Administrator Hector Barreto has said: "The PRIME program was created to help the smallest of small businesses. These are entrepreneurs at the most basic stage of starting a business and who typically require the greatest amount of committed service and guidance. In order to succeed, they require training, and technical assistance that must be accessible." I respectfully request that the FY2007 Budget Resolution provide $15 million for the PRIME program.

As with years past, I oppose the President's zero subsidy for the SBA's largest loan program, known as the 7(a) Loan Guaranty Program. This is the fourth time the President has proposed eliminating all funding for these loans, contending it brings stability to the program and saves taxpayers $100 million. These arguments are misleading for many reasons, the most obvious being that the SBA realized this so-called savings by shifting the cost of the program to the borrowers and lenders by reducing the types of loans offered and by raising program fees. To borrowers and lenders, this "savings" is a tax. The stability argument is misleading because it blames the appropriators and continuing resolutions for the instability in the program instead of accepting responsibility for requesting too little money or unrealistic program levels. In reality, Congress met or exceeded the President's requests in each year – FY2002, FY2003, FY2004, FY2005, and FY2006. The instability in the program was caused by the Administration because it dismissed the loan demands estimated by the oversight Committee and industry and refused to request sufficient funding in the budget, or proposed failed funding schemes to avoid requesting a realistic amount.

Last, if the business community is going to pay the entire subsidy cost for the SBA's credit programs through fees, program levels should be sufficiently high to enable the SBA to back the maximum amount of loans, as estimated possible by the industry, along with a cushion in order to avoid credit rationing or shutdowns. For FY2007, instead of $17.5 billion in program level for the 7(a) Loan Guaranty Program, I recommend $18 billion. And for the 504 Loan Guaranty Program, instead of $7.5 billion, I recommend a program level of $8 billion.

Important to the scope of financing that the SBA offers small businesses is the New Markets Venture Capital program. For the sixth year in a row, the President seeks no funding for this program. As with years past, I respectfully request that you consider restoring the funding for the New Markets Venture Capital (NMVC) program that was rescinded in the FY 2003 Omnibus Appropriations Act Conference Report: $10.5 million for guaranteed debentures, and $13.75 million in grants for NMVC technical assistance. The NMVC program was part of a broad bipartisan initiative agreed to by Speaker Hastert and then-President Bill Clinton to stimulate investment in low-income urban and rural communities. The other elements of that agreement included in the Community Renewal Tax Relief Act were New Markets Tax Credits, additional empowerment zones, and a new program – Community Renewal Zones. The goal of the legislation was to test a number of different approaches to poverty alleviation to better understand what works the best. With the exception of the NMVC program, all of the other programs are going forward. The NMVC program should also be given a fair chance to demonstrate its potential for success.

<u>The Disaster Loans Program Account</u>

I strongly urge the Budget Committee to oppose the President's proposal to raise the cost of disaster loans on borrowers. One of the most important SBA services available to Americans is the SBA's disaster loan program. This program provides low-interest loans to small businesses, homeowners and renters who, after a disaster, need to rebuild or replace personal property, or who need working capital for their businesses to make ends meet until operations return to normal. Currently, for borrowers with no access to other credit, disaster loans are available at fixed interest rates, capped at four percent. To "contain costs," the President proposes to change rates in FY2007 by eliminating the fixed rate, eliminating the interest rate cap, and moving to "graduated interest rates." According to the budget request, rates during the first five years of a loan would be deeply discounted, but in the remaining years of the loan the rates would increase, tied to a "comparable-maturity Treasury instrument." When the Committee met with the SBA to get an explanation of the budget and the various proposals, the SBA could not explain exactly how this would impact the borrowers. The SBA only seemed to know that this would save the Agency an estimated $41 million.

This disaster loan program has historically worked extremely well, and so it has been a great frustration to members of the oversight Committee and victims of the Gulf hurricanes that in the last six months the SBA has been unable to process loans with a sense of urgency, has been neglectful in its oversight of spending, and has tried to hide its funding problems from the Committee. To illustrate some of the problems, twice during the month of February, the disaster loan program was on the brink of running out of funding, and six months after the hurricanes made landfall, more than 130,000 applicants are still waiting for decisions on their loans.

While there are many changes needed to the SBA's disaster loan program in order to better serve the business owners and families who rely on this source of capital after a disaster, and we all support reasonable proposals to reduce spending, raising fees on disaster loan victims is not the answer. I oppose raising fees on disaster loans and ask the Budget Committee to increase the SBA's budget by $41 million in order to offset the cost of not adopting this proposal.

Salaries and Expenses Account – Counseling and Contracting Assistance

In general, the funding requests for the SBA's counseling and contracting assistance programs remain insufficient to meet the needs of small businesses seeking help and weaken the power of matching federal grants necessary to raise non-federal money.

The President's FY2007 budget request reduces funding for the Small Business Development Centers (SBDCs) to $87.1 million, an amount that is inadequate to serve the small businesses that seek counseling from the SBDCs. The request for this year is almost $1 million less than what was requested and appropriated last year, which will exacerbate the negative effects of virtual flat-funding since 2001. The reduced purchasing power of this funding pattern has amounted to a more than 20-percent cut for the SBDCs in New Hampshire and North Dakota from their peak funding levels. The New Hampshire and North Dakota SBDCs are responsible for creating or retaining nearly 1,000 jobs in each state, and the insufficient funding for the past several years has limited their reach. I respectfully request a level of $110 million in the FY2007 Budget Resolution. With this additional funding, it is estimated that the SBDCs could create or save nearly 200,000 additional jobs nationwide and generate $292 million in federal tax dollars.

Similar to the SBDCs, the Women's Business Centers (WBCs) need more than the President has proposed for FY2007. Nearly half of all privately-held U.S. firms are women-owned and, as of 2004, minority women owned an estimated 1.4 million privately held firms in the United States, employed nearly 1.3 million people, and injected our economy with $147 billion in sales. Between 1997 and 2004, the number of women-owned businesses in the United States has grown at more than double the rate of all businesses. Despite the dramatic growth in women-owned businesses, the funding for the Women's Business Centers program still does not reflect the increased demand for WBC services. For the past five years, the Women's Business Centers have been flat-funded and their purchasing power has declined because their funding level has not kept up with inflation. The President's FY2007 budget cuts the funding for the Women's Business Centers to $11.8 million, $461,000 less than the appropriated level for FY2006. When taking into account inflation, the Women's Business Centers should be funded at a minimum of $14 million. However, to meet the current commitments and to continue to expand the program to meet demand in areas currently not served, I respectfully request the FY2007 Budget Resolution include $16.5 million for the Women's Business Centers.

The President has proposed flat-funding the 7(j) Technical Assistance Program. This program provides management training and business counseling to small disadvantaged businesses, such as those operating in areas of high unemployment or firms owned by low-income individuals. This essential training includes accounting and marketing services, feasibility studies, marketing/presentation analyses and advertising expertise, loan packaging, proposal/bid preparation, and industry-specific technical assistance. This program has been reduced from $3.6 million in 2000 to its current level of less than $1.5 million. By providing targeted technical assistance, the 7(j) program uses a comparably small amount of funds to have a significant return in the success rate of companies participating in SBA contracting assistance programs such as the HUBZone program and the 8(a) Business Development program. To serve these businesses, I request a funding level of $3 million for FY2007.

The U.S. Export Assistance Centers (USEACs) operate in partnership with several federal agencies, including the SBA, in more than 100 locations across the country. The USEACs provide small and medium-sized businesses with trade loan assistance and export-related marketing advice. Trade is a major component of the U.S. economy, and record-high trade deficits reinforce the need to encourage the growth of trade among small and medium-sized businesses. However, for the past several years the SBA has received insufficient funding to hire employees to assist entrepreneurs at the USEAC hub locations. For that reason, I request the SBA receive $5 million to fund its USEAC program. That amount will fund 20 SBA employees at USEAC hubs, provide for a sufficient travel budget that is necessary for counselors within their regions, and allow for the expansion of the program, which is particularly necessary when the country is experiencing record trade deficits.

The SBA's SCORE program is a training and counseling program that relies heavily on a team of retired business executives who volunteer their time to assist entrepreneurs, both online and in-person. SCORE has assisted more than 7.2 million entrepreneurs since its creation, and provided over 400,000 services in FY 2005 alone. Yet, SCORE has been virtually level-funded since 2000. Again in FY 2007, the President's budget requests just $5 million for the program. I respectfully request that this amount be raised to the maximum authorized level of $7 million so that SCORE counselors can increase the number of entrepreneurs they assist.

The Small Business Administration currently has only 43 full-time Procurement Center Representatives (PCR) to review more than $300 billion in federal contracts awarded annually throughout the United States. These PCRs are to be assigned to major procurement centers and are responsible for creating contracting opportunities for small and local firms as well as reviewing potentially bundled federal contracts. This shortage of staff makes it virtually impossible for them to be effective in advocating on behalf of small businesses with respect to prime contracting opportunities. In May 2005, the Inspector General of the SBA released a report stating that contrary to the requirements in the Small Business Act (13 CFR § 125.2 (b)(1)) and an October 2002 Executive Order on Contract Bundling, more than 87 percent of the potentially bundled contracts reported to the SBA were not reviewed, costing small businesses over $384 million. The IG further stated that one of the main reasons for the lack of oversight is the shortage in the number of PCRs available to perform the analysis. Given the need, I request $10 million in additional funding for FY2007 in order to hire 100 more PCRs.

Overall, the funding proposals in the President's FY2007 budget request are not fiscally responsible and will not foster the growth of small businesses and our economy. As I stated previously, the President's FY2007 budget request is a $17 million cut from FY2006. Raising fees, inadequately funding programs, flat-funding programs, and creating roadblocks to minorities that depend on programs such as microloans to help them start their business are not the solutions to bringing jobs and economic growth to our communities.

Thank you for the opportunity to comment on the FY2007 budget request as it affects programs within the Committee's jurisdiction, and thank you for your past support of small business assistance. I look forward to your continued support and to working with you to develop this portion of the Budget Resolution for FY2007 so that it has reasonable funding of $774.1 million for the Small Business Administration.

Sincerely,

John F. Kerry

John F. Kerry
Ranking Member

United States Senate

COMMITTEE ON VETERANS' AFFAIRS
WASHINGTON, DC 20510

March 2, 2006

The Honorable Judd Gregg
Chairman
The Honorable Kent Conrad
Ranking Member
Committee on the Budget
United States Senate
Washington, DC 20510

Dear Judd and Kent:

Pursuant to Section 301(d) of the Congressional Budget Act of 1974, I, as Chairman of the Committee on Veterans' Affairs (hereinafter, "Committee"), submit this report to the Committee on the Budget on the proposed fiscal year 2007 (hereinafter, "FY07") budget for Function 700 (Veterans' Benefits and Services) programs.

Your staff requested that Congressional Budget Office (hereinafter, "CBO") estimates be used in presenting this report. There were difficulties that precluded me from doing so. I was informed that CBO's revised estimate of the President's FY07 budget request would not be available before your requested deadline for submission of this report. Those revised estimates are essential in that they reflect the impact of key policy proposals included in the President's budget. Without those estimates, I would have to present a portion of this report using CBO numbers and another portion using the Administration's numbers. To avoid that confusion, this letter will use only the Administration's numbers. Once CBO's revised estimates are available, my staff can then make the appropriate adjustments upon your request.

SUMMARY

Function 700 is comprised of budget authority and outlays associated with four entities under the jurisdiction of the Committee: the Department of Veterans Affairs; the Department of Labor's Veterans' Employment and Training Service; the American Battle Monuments Commission; and the United States Court of Appeals for Veterans Claims.

- The President requests total VA appropriations in FY07, including collections, of $79.892 billion, $41.362 billion for mandatory programs and $38.530 billion for discretionary programs. The $38.530 billion request for discretionary programs is comprised of $2.833 billion in expected medical care collections and $35.697 billion in general revenue appropriations. I do not recommend increases beyond those requested by the President for either mandatory or discretionary programs. Furthermore, I agree with the President that discretionary spending from general revenue appropriations be limited to $35.697 billion.

- The President requests $224.9 million for the Department of Labor's Veterans' Employment and Training Service programs and services. At this time, I will not object to that level of funding.

- The United States Court of Appeals for Veterans Claims requests $19.79 million. At this time, I will not object to that level of funding.

- The President requests $40.738 million for the American Battle Monuments Commission. I have no objection to that level of funding.

DISCUSSION

I. MANDATORY PROGRAMS

Within Function 700, only VA programs contain mandatory account appropriations. The President's request for FY07 is $41.362 billion in appropriations and $42.050 billion in total mandatory budget authority.

Since fiscal year 1996, VA mandatory account spending has nearly doubled. The bulk of the accelerated spending is attributable to growth in the Compensation and Pension (hereinafter, "C&P") account. The C&P account funds disability compensation payments for veterans with service-connected disabilities; compensation payments to surviving spouses and dependents of veterans who die as a result of service-related conditions; pension payments to disabled or elderly wartime veterans; pension payments to needy spouses of wartime veterans; and payment of certain burial-related expenses.

The primary drivers of C&P account growth are the total number of veterans in receipt of disability compensation and the average amount of compensation payment per veteran. VA estimates that 2.87 million veterans will be in receipt of disability compensation in FY07, a 10% increase in just two years and a 24% increase since fiscal year 2001. As a point of comparison, overall growth in the compensation roles was 5% between fiscal years 1991 and 2001.

VA projects that average compensation payments to veterans will continue to increase due to a variety of factors: 1) More veterans filing disability claims (primarily Gulf War era and Vietnam-era veterans); 2) More veterans filing and being granted service-connection for multiple disabilities (the number of veterans filing for at least eight or more disabilities has doubled in five years); 3) Increases in average disability ratings (as veterans age, their disabilities worsen and they may be granted increased disability ratings); 4) Increases in Individual Unemployability and Post-Traumatic Stress Disorder (hereinafter, "PTSD") claims; 5) Cost-of-living adjustments; and 6) More military retirees filing for disability compensation spurred by new laws allowing partial concurrent receipt of military retired pay and VA disability pay (according to VA's budget, 45% of the nation's 1.8 million military retirees are now receiving VA disability compensation).

CBO estimates a lower rate of growth for C&P spending than does the Administration. The key difference between the Administration and CBO's estimates is the lower accession rate of veterans being added to the disability compensation roles. Whereas VA projects 10% growth in the caseload from fiscal years 2005 to 2007, CBO projects only 5% growth. A focus of the Committee this year will be to understand the factors that have driven the growth in both the disability compensation roles and actual expenditures, and the implications this growth may have on future budget submissions.

II. DISCRETIONARY PROGRAMS

A. VA Medical Care

The President requests $34.295 billion for medical care in FY07. The President's request is comprised of a combination of general revenue appropriation ($31.462 billion) and medical care collections ($2.833 billion). I support both the President's total medical care request and the sources from which he proposes to obtain requested dollars.

Before I provide my views on the President's request for medical care, I feel it is necessary to explain what "medical care" is in order to ensure accuracy. There is no longer a single VA "medical care" appropriation account as in prior years. Beginning with fiscal year 2004 appropriations, Congress divided the medical care account into three separate health-related accounts: medical services (including amounts transferred to medical services from medical collections), medical administration, and medical facilities. It is the sum of these three accounts I refer to when using the term "medical care."

VA is a national leader in the delivery of high-quality health care. Its reputation has driven demand for its services from veterans across the country. Of VA's 7.6 million enrollees, roughly 5.3 million will use VA's system in FY07, an increase in the number of users since fiscal year 2001 of over one million. Couple the demand for VA care with an aging population, and veterans with complex care needs arising from service-related injuries, and it is not surprising that there is tension between demand for health services and available resources.

Assuming enactment of the President's request, VA medical care will have increased by 69% since fiscal year 2001. If the President's increase for FY07 is any barometer for out-year increases, and assuming current enrollment eligibility policy continues, VA's medical care budget will need to double nearly every six years. Additionally, the President's request assumes that VA's patient base will remain relatively stable in FY07. Should VA's estimates on frequency of health care use per patient be too low, or should a higher number of enrolled patients actually use the system, resource demands will be greater than those assumed in the President's request. That said, VA's submission of quarterly reports (now a requirement of law) on its finances, workload, and performance measures will serve as an additional check to ensure its budget, when executed, is sufficient.

For the fifth year in a row the President has proposed to finance a portion of his medical care budget by enacting revenue-generating policy proposals. The first of his FY07 proposals is to levy an annual $250 enrollment fee on Priority 7 and 8 veterans; the second is to charge priority 7 and 8 veterans $15 for a 30-day supply of prescription medication; and the third is to cease waiving indebtedness of 1st party co-payments under certain circumstances. If these proposals (or other proposals with similar effect) are not enacted, an additional $795 million in general revenue appropriation would be needed (assuming there is no change in enrollment eligibility policy).

During a time of high deficits and restrained spending in every account unrelated to national security, the President's proposal to shift a small portion of the cost of funding record growth in VA's budget onto lower priority veterans is reasonable. I have no objection to the proposals he has chosen, but I am not necessarily wed to them. Should there be another combination of fee proposals that results in an avoided appropriation of $795 million, I will take them under consideration. But my bottom line is this: I recommend the Budget Committee support the President's requested level of medical care spending, both in the amount of general revenue appropriation requested ($31.462 billion) and in the amount of medical collections assumed ($2.833 billion).

The President's budget for medical care contains numerous other funding initiatives that I support and which are vital to veterans, particularly the 2% of VA's patient population who participated in Operations Iraqi Freedom or Enduring Freedom (hereinafter, "OIF/OEF"). Assumed in the request are increases for prosthetic and sensory aids, treatment of serious mental illness, treatment of PTSD, and other programs to support Gulf War and OIF/OEF veterans. Care for returnees of the Global War on Terror must remain VA's highest priority.

One area of particular focus of mine and the Committee is VA's homeless veterans programs. The President requests an additional $44 million in funding for treatment costs associated with homeless veterans and an additional $20 million for other programs to assist homeless veterans. In particular, I commend the request for a 16% increase in Homeless Grant and Per Diem funding. In the coming year I am committed to reviewing this and other specialized homeless programs to ensure that they are providing the necessary services to help homeless veterans resume self-sufficient and independent lives.

B. Medical Research

The President's budget proposes a $13 million reduction in the Medical and Prosthetic Research account in FY07. VA projects that $399 million in appropriations will be leveraged with other federal (and to a lesser degree, non-federal) resources to yield an overall increase in allocations for research. However, this may be an unrealistic assessment given that the Administration's budget does not move to increase funding for the National Institutes of Health, the Centers for Disease Control and Prevention, and other agencies associated with biomedical research.

One research priority that VA has identified for the coming fiscal year focuses on returning OIF/OEF veterans. Many of these veterans have sustained traumatic brain or spinal cord injuries, often in conjunction with sensory loss and loss of limbs. It is essential that research be conducted to guide treatment and rehabilitation for these individuals with polytraumatic injuries. Now in particular, VA must invest in research to guide evidence-based treatments for the future. In pursuit of this goal, I propose that VA's Medical and Prosthetic Research be increased by $30 million over the Administration's budget and $17 million over the fiscal year 2006 level.

C. Information Technology

The President requests $1.257 billion for information technology (hereinafter, "IT") under a separate IT account as directed in Public Law 109-114. This amount is intended to facilitate VA's transition to full implementation of the Federated IT Management System by VA's June 2008 target date.

The Committee held a hearing in October 2005 to examine VA's plan to re-organize its IT management system. The Committee will continue to closely monitor this process to ensure that this new accounting system maintains the proper balance between budget control in the Office of the Chief Information Officer and operational flexibility vested with the individual VA administrations.

D. General Operating Expenses

The President requests $1.635 billion in general operating expenses in FY07, $1.322 billion for the Veterans Benefits Administration (hereinafter, "VBA") and $313 million for General Administration. Included in the total is $154 million in appropriations that will be transferred to the General Operating Expense account for administration of VA's housing programs.

Veterans Benefits Administration

Including transferred appropriations for administration of VBA's housing programs, $1.322 billion is requested for VBA. This funding request will support a staffing increase of 173 Full Time Equivalent employees (hereinafter, "FTE") over fiscal year 2006. The budget request provides a blueprint of how FTE for each of VBA's programs is expected to be allocated. It is a blueprint only; actual FTE will be allocated according to workload demands as they arise.

a) Compensation and Pension Service

The President requests funding to support 9,445 FTE to administer VBA's compensation and pension claims workload. That FTE level would represent the largest staffing level for the Compensation and Pension (hereinafter, "C&P") Service in over two decades. It is important to note that, with the exception of some routine pension claims work, there is no distinction between the employees who develop and adjudicate disability compensation claims and disability pension claims. Therefore, for any "apples to apples" comparison of staffing levels over the years, combining FTE totals for these two programs is necessary.

Workload within the C&P Service can be broken down into one of two categories, the first involving claims or actions which require a disability rating decision (or "rating-related" action), and the second involving claims or actions where no such decision is needed. The claims involving a disability determination are, without question, the most complicated and time-consuming aspect of VBA's work. Decisions involving disability determinations can mean critical financial assistance for veterans whose earnings are impaired by disability, and can provide the basis for a host of ancillary benefits. Therefore, timely and accurate decisions on disability claims are essential.

The disability and pension claims workload has been steadily increasing since fiscal year 2000, a year in which VBA received the fewest claims (579,000) of any of the last ten years. In the five years preceding fiscal year 2000, the number of claims filed averaged 688,000. In fiscal year 2006, VA expects it will receive just over 910,000 claims, a 57% increase since fiscal year 2000, and 33% above the fiscal years 1995 to 1999 average. The number of claims received does not present a full picture of the work required to adjudicate each claim. As previously mentioned, the number of claims filed with at least eight or more claimed disabilities has doubled in five years; Congress has mandated additional procedural requirements; and claimed disabilities are more complex than in prior years.

Among the 910,000 claims VBA expects to receive in fiscal year 2006, 98,000 are anticipated in response to specialized outreach to veterans in six states, as directed by section 228 of Public Law 109-114. The Congressionally-mandated outreach was premised on the fact that veterans residing in those six states receive the lowest average annual disability payments when compared to other states, and the assumption that deficiencies in VA's decision-making on their claims was to blame. Prior to the enactment of the mandated outreach provision, there was little to no public analysis about the validity of the provision's premise or the policy and workload implications that it would have. VA expects the influx of the 98,000 claims to have a nationwide impact on performance. There is an expected 20% increase in the claims backlog; claims will remain pending at regional offices awaiting a decision by an extra 28 days, on average; and the time it takes to process claims will slacken by an average of 20 days. I will work with the Administration and the sponsors of the provision mandating this outreach (which has yet to occur) to see if there is common ground that can be reached that rests on a sounder policy footing and that does not delay claims filed by veterans in states other than the six targeted for special outreach.

For FY07, VA expects it will receive roughly 828,000 claims, 43% more than were filed in fiscal year 2000 and 20% more than the five year, pre-2000 average. As previously mentioned, the President requests resources to support a C&P FTE level of 9,445. Assuming the President's request is enacted, C&P FTE will have increased by 36% since fiscal year 1997; for direct staffing only, i.e., field staff who perform the day-to-day claims work, FTE will have increased by 52% since 1997. The staffing levels proposed by the President for FY07 are necessary to continue VBA's progress to reduce the claims backlog and improve the accuracy and timeliness of its decisions.

b) Education Service

The President requests funding to support 930 FTE for the Education Service. This funding level would allow an increase of 46 FTE over the estimated fiscal year 2006 FTE level, including an additional 34 direct FTE. During fiscal years 2001 to 2003, the timeliness of VA's decisions on original education claims and supplemental education claims improved remarkably. Since fiscal year 2004, however, there has been a deterioration of that improvement. With an expected increase in FTE during fiscal year 2006 and the requested increase for FY07, the Education Service should be able to regain that lost ground and approach its strategic targets for timeliness.

c) Vocational Rehabilitation and Employment Service

The President requests $149.342 million for the Vocational Rehabilitation and Employment (VR&E) program. This funding level would support an increase of 130 FTE over the estimated FTE level for FY06. Currently, the VR&E program is implementing a new Five-Track Employment Model, consistent with recommendations made by the 2004 Vocational Rehabilitation and Employment Task Force. The additional FTE in FY07 will allow VR&E to further implement that new model by utilizing an increased number of Employment Coordinators and contracting specialists.

d) Loan Guaranty Service

One of the little-heralded success stories in all of government is VA's loan guaranty service. It provides an example of how leveraging technology, streamlining operations, and reliance on private sector partners can help make a government-run program more efficient and effective. In the last decade alone, FTE devoted to VA's housing program has been slashed – from 2,254 FTE in fiscal year 1997 to 971 FTE proposed in the upcoming fiscal year. Despite these FTE losses, service to veterans has improved.

The President proposes FY07 funding to support 971 FTE, a reduction of 17 over fiscal year 2006. While there is no reason to expect degraded performance with yet another loss of FTE proposed, I will closely monitor performance. In particular, I will watch the default rate on VA-guaranteed loans and whether staffing is sufficient to intercede on behalf of veteran borrowers.

e) Insurance Service

For FY07, the President proposes funding to support 503 FTE for VA's Insurance Service, a 15 FTE increase over fiscal year 2006.

VA's Insurance Service is a perennial leader in timely, accurate, and professional service to beneficiaries of its insurance programs. The American Customer Satisfaction Index scored the Insurance Service well above all of its private sector competitors in customer satisfaction. I expect with the resources requested in this budget that the Insurance Service will maintain its usual outstanding performance.

General Administration

For FY07, the President's budget recommends a $313 million appropriation for the administration of the offices of the Secretary, six Assistant Secretaries, two Appellate Boards, and the Office of General Counsel. I support this level of funding.

The funding level proposed for the Board of Veterans' Appeals (hereinafter, "BVA") would support 444 FTE. From fiscal year 2004 to 2005, the BVA's appeals resolution time increased substantially, from 529 days to 622 days, and the BVA cycle time also increased. With an expected increase in FTE during FY06 and the requested funding to maintain an increased staffing level during FY07, the BVA should be able to improve its performance and approach its strategic target for cycle time. Because BVA supports one of VA's primary missions of providing veterans with timely and accurate disability claims decisions, the Committee will closely monitor its performance.

E. Major Construction

The President requests $399 million for major construction projects in FY07. Included in that request is $307 million to continue funding projects related to VA's Capital Asset Realignment for Enhanced Services (CARES). Assuming this amount is enacted, total CARES-related funding will stand at $3 billion to date.

VA has already begun several major projects for which completion costs are not reflected in the budget request. However, the Committee will need to authorize all CARES-related construction that occurs after September 30, 2006, even if construction is already underway. The Committee will soon receive a list from VA detailing all CARES projects requiring Congressional authorization.

F. Minor Construction

The President requests $198 million for minor construction. This account supports critical upkeep of VA's facilities all across the United States. With over 150 hospitals currently in operation, this funding level would support just over $1 million for each hospital's minor construction needs. I believe this request is too low. I support an increase above the President's request of $19 million for a total FY07 funding level of $217 million. As I will describe below, I recommend that this funding come from recommended reductions in the State Extended Care Facility grant program.

G. State Extended Care Facility Grants

The President requests $85 million in FY07 for State Extended Care Facility grants. There are two main purposes of this grant funding. The first is to help states build or acquire new nursing home facilities. The second is to help states maintain the highest life and safety code standards in existing facilities.

I support a funding level for this grant program sufficient to fulfill the Federal government's commitment to states with already-established nursing facilities that are in need of life and safety upgrades. However, I believe a suspension of grant funding for the purpose of establishing new nursing facilities is, at this time, in order.

Long-term care services in America are rapidly moving from institutional settings, such as state home beds, to home and community-based programs that care for needy individuals in their own towns close to their families and loved ones. VA's own long-term care program is moving in that direction.

Today, there are approximately 20,000 institutional beds in the State Home system. In fiscal year 2006 VA will pay a *per diem* of $63.40 for each veteran who occupies one of those beds. As a result, this year alone, VA will spend $557 million on *per diem* payments which are drawn directly from the medical services portion of individual VA hospital budgets. Each additional construction project brings hundreds of new beds on line that will also have to be supported with VA *per diem* payments in subsequent years. This, in turn, drives the medical services funding needs even higher and contributes to the accelerated growth of VA's overall budget.

For this reason, and because I believe VA and the states must focus more attention, not less, on community-based services, I recommend an FY07 funding level of $36 million. My recommendation will support every life and safety grant project VA has identified as needing full funding in FY07. Again, I reiterate, I recommend that the budget support funding in this account that addresses facilities in need of life and safety upgrades only.

There is a $49 million difference between my recommended funding level and the President's. I propose that $30 million of that difference be devoted to augmenting the

Medical and Prosthetic Research account bringing its FY07 total to $429 million (see page 4). I recommend that the remaining $19 million be transferred to the Minor Construction account, bringing its FY07 total up to $217 million (see page 8).

H. State Cemetery Grants

The President requests $32 million for the state cemetery grant program. According to VA officials, the $32 million in annual appropriation for this program has been sufficient to cover nearly all approved applications from states for cemetery expansion, construction, or improvement. Unfunded projects are first in line for funding in subsequent fiscal years. Therefore, at this time, the $32 million funding level is sufficient.

I. Inspector General

The President requests $69.5 million in FY07 for the VA Office of the Inspector General (hereinafter, "IG"). That funding level would result in a reduction of 27 FTE over fiscal year 2006 levels.

Ordinarily, a staffing reduction in the Inspector General's office might raise concerns given that it is tasked with guarding against waste, fraud, and abuse in one of the Federal government's largest agencies. However, VA IG funding has increased by 126% since 1998, and the current fiscal year represents the highest FTE level on record for the IG in at least a decade. Viewed in this context, a 27 FTE reduction is less troublesome than would otherwise be the case.

J. National Cemetery Administration

The President proposes an appropriation of $160.733 million for the National Cemetery Administration (hereinafter, "NCA"). This funding level will support operational expenses related to 107,300 total expected interments at NCA cemeteries and the maintenance of over 2.8 million graves.

Through a combination of funding in this account and funds from minor construction, the President proposes $28 million for the National Shrine Commitment, an initiative to address nearly $280 million worth of one-time cemetery repair projects identified in a 2002, Congressionally-mandated report. Assuming continued funding of $28 million annually for Shrine Commitment repairs, all repairs stand to be completed by 2012 according to VA officials.

K. The Veterans' Employment and Training Service

The President requests $224.887 million to fund the Department of Labor's Veterans' Employment and Training Service (hereinafter, "VETS"), a 1.3% increase over the amount appropriated for fiscal year 2006. Nearly 72% of the requested funds – $161.218 million – will be used to fund two employment programs for veterans: The Disabled Veterans' Outreach Program and the Local Veterans' Employment Representative program. In February 2006, the Committee held a hearing to examine the effectiveness of those programs. In sum, the Committee learned that there are no reliable data demonstrating that these programs are effective in helping veterans find quality jobs. In addition, statistics suggest that these programs are not targeting services to those veterans most in need, such as recently-separated veterans. During this session, the Committee will continue to examine whether veterans would benefit from fundamental changes in how these funds are used, especially since VA's Vocational Rehabilitation and Employment program targets a similar cohort of veterans for employment assistance. However, at this time, I support the Administration's funding request for VETS because it is restrained and responsible. I do not recommend funding beyond the requested level.

L. The United States Court of Appeals for Veterans Claims

For FY07, the United States Court of Appeals for Veterans Claims (hereinafter, "Court") requests $19.790 million, of which $1.260 million will be available for the purpose of providing *pro bono* representation. The Court's request includes $900,000 to continue two special initiatives: The implementation of an electronic case-filing system and the study and planning stages for a Veterans Courthouse and Justice Center.

Since fiscal year 1998, the Court's budget has more than doubled. I recently expressed to the Court my concern that, despite increases in its budget and the size of each judge's staff over the last several years, productivity has not improved. In fact, the Court currently has approximately 5,200 cases pending and over 20% of those have been pending for more than one year. I have been assured by the Chief Judge that the Court is in the process of assessing other measures that may help to improve case management and reduce the backlog. Accordingly, at this time, I will not object to the Court's funding request. However, while the appropriations process unfolds, I will continue to examine whether the current staffing levels are the most appropriate and cost-effective means of dealing with the Court's increasing workload.

M. The American Battle Monuments Commission

The President requests $40.738 million for the American Battle Monuments Commission (hereinafter, "ABMC"). This amount is comprised of $35.838 million to fund salaries and expenses and $4.9 million to offset losses stemming from currency fluctuations in European and Mediterranean regions where ABMC cemeteries are located. The President's request will support an additional 13 FTE to begin operational staffing of the Normandy Interpretive Center upon its completion in June 2007. I support the President's request.

Sincerely,

Larry E. Craig
Chairman

United States Senate
COMMITTEE ON VETERANS' AFFAIRS
WASHINGTON, DC 20510

March 2, 2006

The Honorable Judd Gregg
Chairman
The Honorable Kent Conrad
Ranking Member
Committee on the Budget
United States Senate
Washington, DC 20510

Dear Chairman Gregg and Senator Conrad:

Pursuant to Section 301(d) of the Congressional Budget Act of 1974, the Democratic Members and Senator Jeffords of the Committee on Veterans' Affairs (hereinafter the "Undersigned Members") hereby report to the Committee on the Budget their views and estimates on the fiscal year 2007 (hereinafter, "FY07") budget for Function 700 (Veterans' Benefits and Services) and for Function 500 (Education, Training, Employment, and Social Services) programs within the Committee's jurisdiction. This letter responds to the Committee's obligation to provide recommendations on veterans' programs within its jurisdiction, albeit from the perspective of the Undersigned Members.

I. SUMMARY

The Department of Veterans Affairs (VA) requires, at a minimum, $3.45 billion in additional funding in FY07 to support its medical care operations. Our requested medical services increase is $1.49 billion over the Administration's request.

Once again, the Administration's proposed budget includes a number of legislative proposals designed to generate additional savings and revenue. The Undersigned Members unanimously reject each of the legislative proposals – the increase in prescription drug copayments from $8 to $15 for "middle-income" veterans; the annual enrollment fee of $250 for "middle-income" veterans; and eliminating the practice of offsetting VA first-party copayment debts with collections from insurance companies.

With respect to benefits, we disagree with the amount requested for staff at the Veterans Benefits Administration for compensation and pension, and at the Board of Veterans' Appeals. We also recommend additional funding for the Department of Labor's Veterans' Employment and Training Service. In addition, we believe it is time to provide non-service connected pension for Filipino veterans who served alongside American troops during World War II.

The projections for discretionary account spending in the outyears are disturbing. The

VA health care system would be decimated should the Administration's budget for future years become a reality. It is our view that veterans, who have sacrificed for this country, are carrying a disproportionate share of the burden to balance the Federal budget. We believe that the Government can be fiscally responsible and reduce the Federal deficit and debt, and still fulfill our commitment to our Nation's veterans. The cost of war must include the costs of caring for servicemembers when they return home.

II. DISCRETIONARY ACCOUNT SPENDING

A. Proposed Medical Services

While we generally agree with the Administration on the level of funding required to support VA health care, we differ on the amount that needs to come from actual appropriated dollars, relative to the amount that can be garnered directly from veterans in the form of new fees and increased copayments, or "saved" by the use of less than concrete efficiencies.

Prescription Drug Copayment Increase for Priority 7 and 8 Veterans: The Undersigned Members oppose the Administration's increase to this copayment from $8 to $15, for a projected savings of $355 million from increased revenue and decreased enrollment of these categories of veterans. In large measure, Priority 7 and 8 veterans – earning as little as $26,902 – cannot afford to pay almost double for needed prescription drugs.

$250 Enrollment Fee for Priority 7 and 8 Veterans: The Undersigned Members oppose the Administration's new enrollment fee of $250, for a projected savings of $410 million from increased revenue and decreased enrollment of these categories of veterans. Again, this proposal is targeted at "middle-income" veterans, and we believe it is an unacceptable financing mechanism.

Offset of First-Party Debt: The Undersigned Members of the Committee oppose a change in law which would eliminate the practice of offsetting or reducing VA first-party copayment debts with recoveries from insurance companies. Presumably, many of these veterans were drawn to VA because of low-cost prescription drugs. Yet, in most cases, acquiring these drugs requires visits to a specialty care provider. The vast majority of these veterans are elderly and on a fixed income. They are not "high-income" by any local economic standard but are certainly over the "means test" threshold. While the current primary care copayment of $15 is in line with most private insurance companies, VA's specialty care copayment is $50 per visit. The amount is high enough to be an instant disincentive to seeking medical care in VA. VA estimates this change would yield $31 million in increased collections.

Efficiencies: The Administration is estimating cumulative efficiencies of $1.1 billion in FY07, which results in an additional $138 million in efficiencies for the medical services account. At the request of the Committee's Ranking Member, the General Accounting Office performed an audit of VA's management efficiency savings claimed for FYs03-06. GAO reported VA lacked a methodology for making these assumptions and found that the Department could not support its own estimates. VA has termed these efficiencies as "clinical" rather than "management" this year, but regardless of their classification, they should not be used to offset increased appropriations until such time as they are verifiable.

1. Current Services (+$892 million)

Payroll inflation, increases in the costs of goods, and other "uncontrollables" dictate funding increases of at least $892 million in FY07 simply to maintain the level of current services. VA's medical care payroll costs will increase by $458 million in FY07 due to non-optional cost-of-living and within-grade salary and wage adjustments, as well as increases in government-paid Social Security, health insurance, retirement, and other benefits. The cost of inflation and rate changes for goods and services (including pharmaceuticals) dictates the need for an additional $434 million in funding in FY07.

We are concerned that the Administration has not adequately budgeted for enough physicians and nurses to meet the increased demand for veterans seeking VA medical care in FY07. The number of physicians, Registered Nurses, Licensed Practical Nurses, Licensed Vocational Nurses, and Nursing Assistants in the Medical Services account has remained nearly flat since the FY05 budget submission. Although the FY07 budget shows a net increase of 100 Physicians (12,337 to12,437), there has been no increase in the number of Registered Nurses, Licensed Practical Nurses, Licensed Vocational Nurses, and Nursing Assistants. VA should make the establishment of a national nurse staffing standard a high priority and budget funds accordingly to accelerate the completion.

2. Rescinding the Ban on Priority 8 Veterans (+$706 million)

VA has seen a substantial increase in enrollment, especially in the number of "middle-income" veterans – those whose financial means are above the HUD geographical low-income threshold for their respective counties. In January 2003, the Administration halted enrollment for Priority 8 veterans.

The Administration's request for FY07 assumes the enrollment ban on Priority 8 veterans will continue. The Undersigned Members estimate that new resources of $706 million are needed to restore access for these veterans.[1] We believe veterans needing VA care should not be prohibited from enrolling in the system. Indeed, adequate appropriated funding should be provided to VA so that all veterans have access to VA services. Additionally, many of these veterans bring health care coverage with them and continue to pay copayments for care and drugs, so, in effect, they actually bring revenue into the system, offsetting the cost of their care. We can think of no other health care system which discourages insured patients from seeking care.

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[1]241,876 Priority 8 veterans have been turned away thus far, at an average per user cost of $2,921.

The Undersigned Members believe it is important to note that this cost estimate would be reduced if the ban was actually rescinded, due to the fact that the Priority 8 veterans who would come into the system would bring their third-party insurance with them, in addition to paying copayments for their care and prescription drugs. Both of these factors would generate revenue that would offset VA's obligations.

3. Demand Changes (+$1.726 billion)

In large measure, we support the Administration's estimated cost for demand and case mix changes for all veterans' priorities ($1.495 billion). It is abundantly clear that veterans are relying heavily upon VA for pharmaceuticals. In addition, older veterans present for care with debilitating and chronic conditions requiring a higher – and more expensive – level of care.

We would also like to address the issue of returning servicemembers, as we believe the Administration is once again underestimating demand. VA has estimated that any potential workload from OIF/OEF will be negligible relative to the overall number of new enrollees each year. Such veterans cost VA $232 million to treat in FY05, and ultimately required an increase of that same amount in FY06 for a total funding level of $464 million.

We believe that VA should keep their level of funding for treating these veterans in FY07 consistent with the current fiscal year, as these returning servicemembers are entitled to a two-year "automatic" window of eligibility for VA care upon their separation from service (Public Law 105-368). As such, we recommend a total funding level of $696 million for treating OIF/OEF veterans under current law, for an increase of $231.7 million over FY06.

4. New Initiatives (+$123 million)

The Undersigned Members of the Committee accept the Administration's proposed new initiatives. While we support each of these initiatives, we believe that more can and should be done – especially in the areas of readjustment counseling and rehabilitative care. The first is critically important for returning OIF/OEF servicemembers; the second is a lifeline for veterans of all ages.

Vet Centers. As the War on Terrorism continues, the number of veterans seeking readjustment counseling and related mental health services through Vet Centers will continue to grow. Experts predict that as many as 30 percent of those returning servicemembers may need some kind of mental health treatment – from basic readjustment counseling to care for debilitating PTSD. Furthermore, a recent study published in the Journal of the American Medical Association reported that 35 percent of Iraq veterans received mental health care during their first year home. Despite increases in the number of veterans coming for care to Vet Centers, the budget for the program has remained relatively stagnant. We note that legislation to authorize $180 million in funding for Vet Centers passed the full Senate last December. We therefore recommend that Vet Centers receive a funding increase of $81 million above FY06 to meet that end.

Rehabilitation. The Administration is projecting a decrease in the average daily census for its residential rehabilitation care program. We believe that the rate of spending for this account should maintain the same rate of growth as in previous years. Rehabilitative care programs offer a full range of rehabilitation services in a supportive environment, with minimal medical care. We recommend an increase of $42 million for this program.

Our overall views on medical spending are summarized in the chart below:

Current Services	
Salary and wage adjustments and increases in benefits	$458 million
Inflation and rate changes for goods and services	$434 million
Subtotal Current Services	**$892 million**
Restoring Enrollment to Priority 8 Veterans	**$706 million**
Demand	
Administration's Estimate for Demand	$1.495 billion
OEF/OIF Workload	$231 million
Subtotal Demand	**$1.726 billion**
New Initiatives	
Vet Centers (Readjustment Counseling)	$81 million
Rehabilitative Care	$42 million
Subtotal New Initiatives	**$123 million**
Total New Funding Needed for FY07	**$3.45 billion**

B. Proposed Discretionary Spending for FY08-FY11

The Administration's proposed budget for discretionary spending in the near term lays out a financial path which would devastate VA health care. The cuts over five years would total $10.3 billion, including $789 million in FY08; $2.33 billion in FY09; $4.033 billion in FY10; and $4.94 billion in FY11.

We are fully cognizant that the proposed budget contains assumptions about future years. Nevertheless, we view the current strategy as one which gives in the first year and cuts heavily thereafter. Veterans groups know and understand that a frozen appropriation coupled with cuts in other programs will translate into a reduction of services and benefits. Any budget resolution must reverse these cuts in the future years.

C. Medical and Prosthetic Research

The Administration's proposed FY07 budget for the direct costs of VA research is $399 million, representing a $13 million cut from the current year level of $412 million. This sum is insufficient to sustain current research initiatives or to provide the program growth necessary to attract and retain quality clinical staff; rather, it would result in the direct loss of 96 projects and 286 FTE. We believe that an additional $35.7 million to the Administration's proposal is required to sustain the current VA research and development program commitments and cover inflationary cost increases associated with these commitments. This will ensure that VA is able to continue addressing the special needs of our country's veterans, and enable VA to continue to recruit and retain the highest quality physicians. Therefore, we recommend a total funding level of at least $434.7 million to maintain current services and avoid any personnel or project cuts.

D. Grants for State Extended Care Facilities (SECF)

The Administration is proposing a funding level of $85 million in FY07 for the SECF Grant program, the exact same amount that VA estimates it will spend on the program in the current fiscal year. The Undersigned Members believe that this program should receive a slightly higher level of funding, as it is a cost-effective and successful long-term care program.

SECF's provide long-term care services to over 27,000 veterans in 119 locations across 47 States and Puerto Rico. Construction matching grants are awarded both for new construction in States with the highest needs as defined by P.L. 106-117, and for repair, renovation, or expansion of existing State Homes. Federal construction grants fund up to 65% of the cost of construction, with States contributing at least 35% of the total cost. In FY06, the Administration proposed zeroing-out the funding for the construction grant program from $104.3 million in FY05. Congress rejected this proposal, although the final appropriation level was reduced by $19.3 million to $85 million.

With construction costs rising, and at least $237 million in pending SECF construction grant requests already approved by States, the Undersigned Members recommend that FY07 funding for SECF Construction Grants be increased from the FY05 baseline to account for inflation costs (current annual CPI index of 4%, accounting for $4.2 million of the increase), then by $19.3 million to restore the cut in FY06; for a total FY07 funding request of $127.8 million. This amounts to a net $23.8 million increase above the Administration's FY07 request of $85 million.

E. Compensation and Pension Service

VA anticipates an end-of-fiscal year 2007 pending workload of 396,834 receipts. Despite this projected inventory, the Administration's budget would cut direct compensation staff by 149. We do not believe that VA can manage this increased workload without additional staff.

VA has stated that caseload from the Vietnam and Gulf War eras is increasing rapidly and that this trend is expected to continue through the budget year.

Additionally, the best indicator of new claims activity is the size of the active duty force. Over 616,000 veterans of the Gulf War era are in receipt of benefits from VA. More than one million servicemembers have deployed in support of Operations Enduring and Iraqi Freedom. Therefore, we can expect a large number of new claims as a result of these ongoing conflicts. These new veterans deserve to have their claims rated timely and accurately.

We recommend an additional 200 FTE for direct compensation work. This number would help to reduce the expected end-of-fiscal year 2007 backlog. We ask for an additional $17.1 million to accomplish this goal.

F. Vocational Rehabilitation and Employment

We support the provision in the budget that increases staffing by 130 FTE over the FY 2006 level for VR&E to fully implement the Employment Coordinator position for the Job Resource Labs.

The additional FTE will aid in the implementation of the Five-Track Employment Model, which was suggested in the Department's April 2004 Vocational Rehabilitation and Employment Task Force report.

Additionally, VR&E's workload is expected to increase 2.5 percent in 2007 as a result of the VBA-wide effort to increase outreach activities to separating servicemembers. VR&E expects more veterans to utilize their services as the number of wounded veterans from Operations Enduring and Iraqi Freedom increases. We will monitor staffing needs at VR&E to ensure that our disabled veterans are receiving the assistance necessary to enable them to become employable and maintain that employment, or achieve, to the maximum extent practicable, independent living.

G. Insurance

VA's insurance division is continually recognized for its excellent, professional service provided to veterans, active duty servicemembers, and their beneficiaries. We support the Administration's request for this division.

H. Housing

Housing is one of the best-run VA divisions. VA helps veterans and active duty personnel purchase and retain homes in recognition of their service.

However, we take note of the decrease of 17 FTE and will monitor whether Housing is able to continue its high standard of service given that VA expects more eligibles to take advantage of the loan guaranty as interest rates continue to rise. Additionally, VA anticipates defaults and foreclosures to increase consistent with the high volume of loans guaranteed in 2002 and 2003.

We applaud VA's efforts to assist veterans with foreclosure avoidance. We look forward to obtaining statistics on active duty military personnel and veterans who could not have purchased homes but for VA assistance.

I. Board of Veterans' Appeals

The Board of Veterans' Appeals (BVA) is responsible for making final Departmental decisions on behalf of the Secretary for the thousands of claims for veterans' benefits presented for appellate review.

There is a glaring problem with BVA's appeal resolution time despite its decrease from 622 days in 2005 to 600 days in 2007. The numbers are not expected to improve to the strategic target of 365 days (from receipt of the Notice of Disagreement to rendering of final decision) in the near future. While the Administration's request of $55,309,000 would support 444 FTE, we recommend BVA be provided with 25 more employees at $2,875,000 above the Administration's budget to reduce the backlog at BVA and decrease the average days pending.

J. Education

We support the Administration's request of $90.1 million in discretionary funding for educational assistance administered by VA. The proposal calls for an increase of 46 FTE over the fiscal year 2006 level for a total of 930 FTE for fiscal year 2007. Education claims rose by 35 percent between fiscal year 2002 and 2004. We believe the additional FTE will increase the timeliness of education claims' processing.

K. Office of the Inspector General

The work of the VA Office of Inspector General (OIG) has made significant contributions to management effectiveness throughout VA. Its independent oversight of VA's programs and activities has resulted in a return on investment over the last three years of $128 for every $1 spent. Given the diverse and complex nature of VA's significant and important mission, the VA could effectively utilize $10 million over the Administration's request to improve service to our Nation's veterans. We recommend that $4.3 million be used to support 20 additional FTE in the Fugitive Felon Program, and $5.7 million be utilized to support 51 FTE that would expand OIG oversight.

In the Fugitive Felon Program to date, using about 17 FTE, the VA OIG identified $218.2 million in estimated erroneous payments, $237.3 million in estimated cost avoidance, and 1159 arrests– including 73 VA employees. We estimate that the additional $4.3 million and 20 FTE could result in cost avoidance reaching $209.6 million and 1100 arrests per year, as law enforcement agencies issue an estimated 2 million new felony warrants a year.

These 51 FTE would support additional auditors, healthcare inspectors, and criminal investigators to focus on enhanced quality and safety of health care including issues of credentialing and privileging, identity theft to obtain medical care, and drug diversion; and systemic audits to improve financial management controls, information technology security, claims processing timeliness and accuracy, and procurement practices.

L. Department of Labor, Veterans' Employment and Training

VA estimates that one in three homeless Americans has served their country in the Armed Services.

Congress established the Homeless Veterans' Reintegration Program (HVRP) in 1987 amid concerns that the number of homeless veterans has risen steadily since the Vietnam War. HVRP provides competitive grants to community-based organizations to offer outreach, job placement, and supportive services to homeless veterans. Homelessness presents a high barrier to employment, and homeless reintegration programs help break down that barrier with specialized support unavailable through other programs. HVRP also offers specialized support to compliment its employment services for many veterans who have been turned away from other programs because of substance abuse and post-traumatic stress disorder.

The Department of Labor estimates that 16,250 homeless veterans will be served through HVRP at its fiscal year 2006 appropriated level of $21.78 million, nearly the same amount requested in the fiscal year 2007 request. This figure represents just 4 percent of the overall homeless veteran population, which VA estimates to be more than 400,000 over the course of a year. While the fiscal year 2006 appropriation was the most received by HVRP in any fiscal year, it funds the program at only 44 percent of the authorized level. An appropriation at the authorized level of $50 million would enable HVRP grantees to reach an estimated 36,820 homeless veterans. Therefore, we request an additional $28 million for HVRP.

We additionally recognize that VETS would benefit from an additional $12 million for Veterans Workforce Investment Grants (VWIP) and the National Veterans' Training Institute (NVTI). Give the unemployment rate for young veterans, VWIP should continue to expand its efforts to target recently separated veterans. Those involved in the delivery of services to veterans must be adequately trained. We expect that with additional funding, NVTI will develop new courses based on the Jobs for Veterans Act.

III. MANDATORY ACCOUNT SPENDING

We support the budget request of $42.1 billion for entitlement programs, and request an additional $106 million for non-service connected pension for Filipinos who served alongside U.S. servicemembers during World War II.

This Administration's requested increase in mandatory funds provides for a 2.6 percent cost of living adjustment in 2006. A 2.6 percent increase is the expected increase estimated in the Consumer Price Index and is the same increase expected for Social Security benefits. Other than the cost-of-living increase, there were no other legislative proposals for this mandatory account in the President's budget.

IV. CLOSING

We thank the Budget Committee for its attention to the Undersigned Members' views and estimates of the Administration's fiscal year 2007 budget, and we look forward to working with the Committee in crafting a budget for VA that truly meets the needs of our nation's veterans.

Sincerely,

DANIEL K. AKAKA
Ranking Member

PATTY MURRAY

JOHN D. ROCKEFELLER IV

JAMES M. JEFFORDS

BARACK OBAMA

KEN SALAZAR

cc: The Honorable Larry Craig